

# China Modern Dairy Holdings Ltd.

## 中国现代牧业控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1117)



## 2013 Results Announcement



现代牧业

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## Company Overview

# China Modern Dairy-- The Largest Dairy Farming Company in China

## Company Overview



The largest dairy farming company in China and the first listed company focused on dairy cow breeding



Advanced breeding and feeding techniques and facilities



Stringent standards on quality assurance and comprehensive quality control



Industrialized free-stall dairy farming business model and standardized operational procedures and farm design, realizing sustainable economies of scale



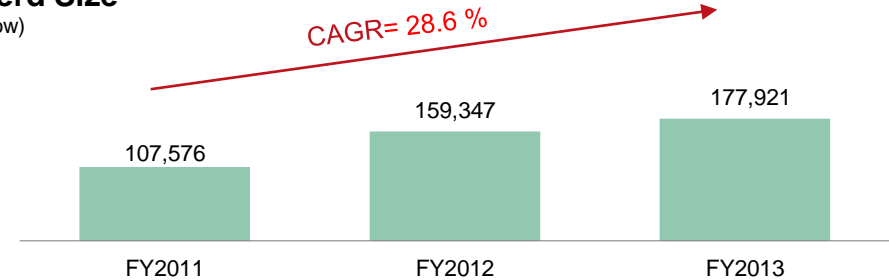
Eco-friendly production, achieving environmental conservation and operation cost reduction



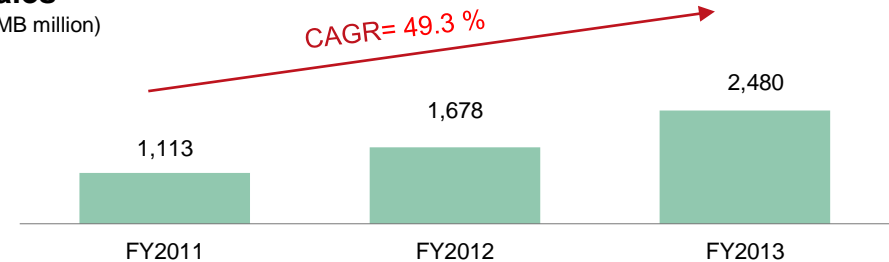
Keep providing highest-quality raw milk in China as a solution to the quality crisis faced by the raw milk industry

## Outstanding Performance

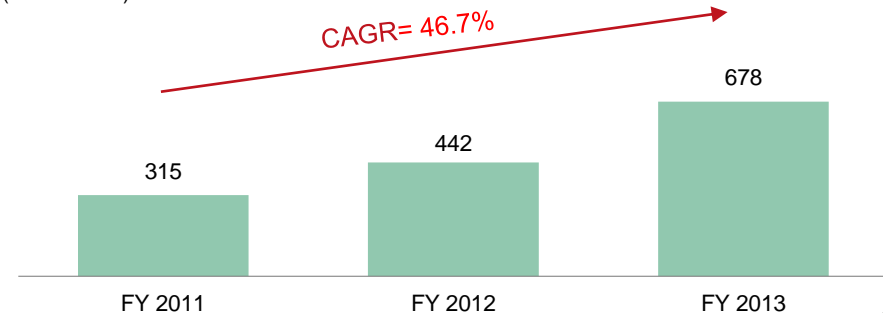
**Herd Size**  
(Cow)



**Sales**  
(RMB million)



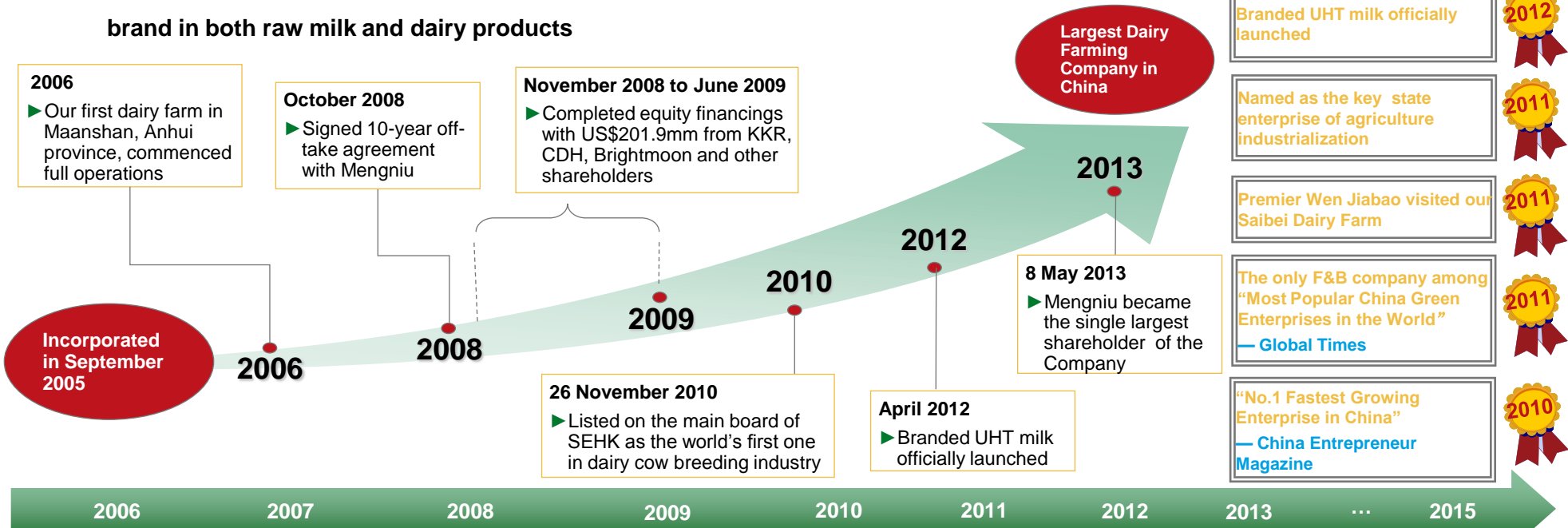
**Cash EBITDA**  
(RMB million)



# Our History and Vision

## China Modern Dairy's Mission and Vision

- ❑ To positively respond to Central File No.1, to keep developing breeding and genetic engineering and further expand the scale of standardized farming for livestock and aquaculture
- ❑ To become the world's most advanced farm operator while remain environmentally friendly
- ❑ To produce the highest-quality milk in the world with scientific breeding and feeding
- ❑ To provide the most reliable and safest source of dairy milk with best-in-class management practices and technology
- ❑ To build the full industry chain from breeding and feeding to processing and to establish China's No.1 brand in both raw milk and dairy products





## Latest Development

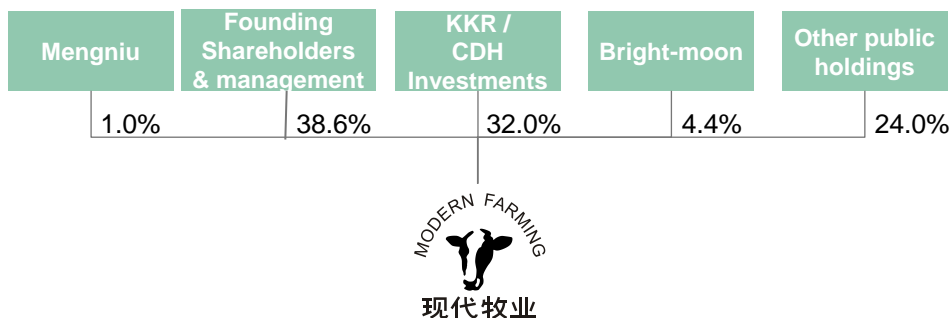


# Mengniu Increased Stake in China Modern Dairy

## Mengniu Increased its Stake in China Modern Dairy and Became the Single Largest Shareholder

- ▶ On 8 May 2013, China Mengniu Dairy Co. (“Mengniu”, 2319.HK) and China Modern Dairy Holdings Ltd. (“Modern Dairy”, 1117.HK) announced that Mengniu increased its stake in Modern Dairy from 1% to 28%, becoming Modern Dairy’s single largest shareholder
- ▶ Mengniu raised its stake through acquiring shares of Modern Dairy held by Advanced Dairy Company Ltd. and Crystal Dairy Holdings Ltd. (controlled by private-equity firms KKR and CDH Investments) at the purchase price of about HKD2.45 per Share with the total amount of around US\$410 million

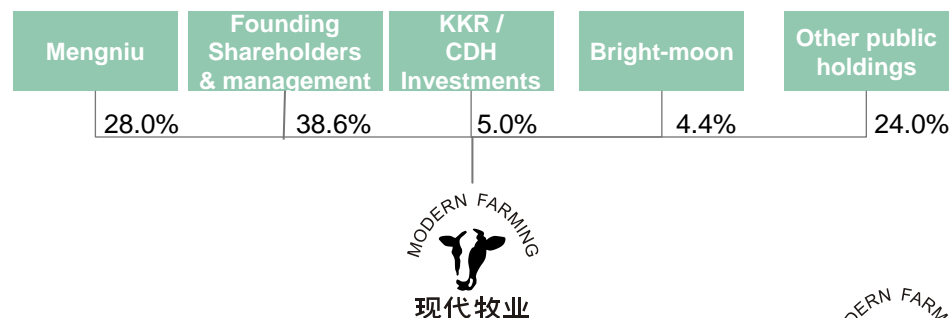
## Shareholder Structure before Transaction



## New Board Members

Name	Position	Experience
<b>YU Xubo</b>	Chairman and Non-executive Director	<ul style="list-style-type: none"> <li>• President of COFCO Corporation, Director of COFCO (Hong Kong) Limited and Chairman of both COFCO Meat Investment Company Limited and COFCO Coca-Cola Beverages Limited, Executive Director and Chairman of China Agri-Industries Holdings Limited and Non-executive Director and Chairman of China Foods Limited and Non-executive Director and Vice-Chairman of China Mengniu Dairy Company Limited</li> <li>• Bachelor 's degree in Economics from the University of International Business and Economics in Beijing and Executive Master of Business Administration degree from China Europe International Business School</li> </ul>
<b>DING Sheng</b>	Non-executive Director	<ul style="list-style-type: none"> <li>• Executive Director of China Mengniu Dairy Company Limited</li> <li>• Senior engineer, graduated from Inner Mongolia Light Industry Institute majoring in dairy products techniques</li> </ul>
<b>LIU Fuchun</b>	Independent Non-executive Director	<ul style="list-style-type: none"> <li>• Acted as Executive Director and President of COFCO and served in various departments in COFCO</li> <li>• Senior commerce specialist, graduated from the Beijing Foreign Trade Institute</li> </ul>
<b>KANG Yan</b>	Independent Non-executive Director	<ul style="list-style-type: none"> <li>• Qualified practicing attorney in China and currently a Partner of Haiwen &amp; Partners</li> <li>• Graduated from the Renmin University of China</li> </ul>

## Shareholder Structure after Transaction



# Further Strengthen the Win-Win Cooperation with Mengniu

## Strategic Partnership

### For China Modern Dairy

✓ Strengthen its win-win cooperation with Mengniu

✓ Maintain its stable raw milk sales

### For Mengniu

✓ Secure its long-term premium milk supply in large volumes

✓ Enhance its brand image, rebuild the consumer confidence by providing “safe + trustworthy milk”

## Mutual Benefits

### To enhance corporate governance

- ✓ Modern Dairy's management remains the same
- ✓ The near Board members from Mengniu are and will contribute to strategies rather than daily business operations
- ✓ KKR and CDH still reserve one board seat respectively. Interests of all small and public shareholders will be represented by Board of Directors

### To insist on development strategy

- ✓ To insist on its long-term strategic cooperation agreement with Mengniu
- ✓ To further enhance its milk yield, milk quality and operation efficiency
- ✓ Strive to develop the sales of its self-owned branded UHT milk

### To Strengthen Competitiveness

- ✓ To enhance the cooperation with Mengniu in regards to raw milk sales
- ✓ To fully leverage resources and platform of Mengniu and COFCO
- ✓ To further of cooperation bared on mutual benefits



# 2013 Results Highlights

**2013 Cash EBITDA increased by 53% compared to last year  
Net Profit excluding changes in fair value increased by 38%**

	FY2013	FY2012	Change
	Rmb'000	Rmb'000	%
<b>Sales of raw milk produced</b>	<b>2,480,561</b>	<b>1,677,615</b>	<b>47.9%</b>
<b>Cash EBITDA<sup>(1)</sup></b>	<b>677,797</b>	<b>442,091</b>	<b>53.3%</b>
<b>Cash EBITDA margin</b>	<b>27.3%</b>	<b>26.4%</b>	<b>0.9%</b>
<b>Gains or loss from changes in fair value</b>	<b>-38,599</b>	<b>131,481</b>	<b>-129.4%</b>
<b>Net profit</b>	<b>341,996</b>	<b>407,308</b>	<b>-16.0%</b>
<b>Net profit excluding changes in fair value</b>	<b>380,595</b>	<b>275,827</b>	<b>38.0%</b>
<b>Basic earnings per share (RMB cent)</b>	<b>6.74 cent</b>	<b>8.30 cent</b>	<b>-18.8%</b>

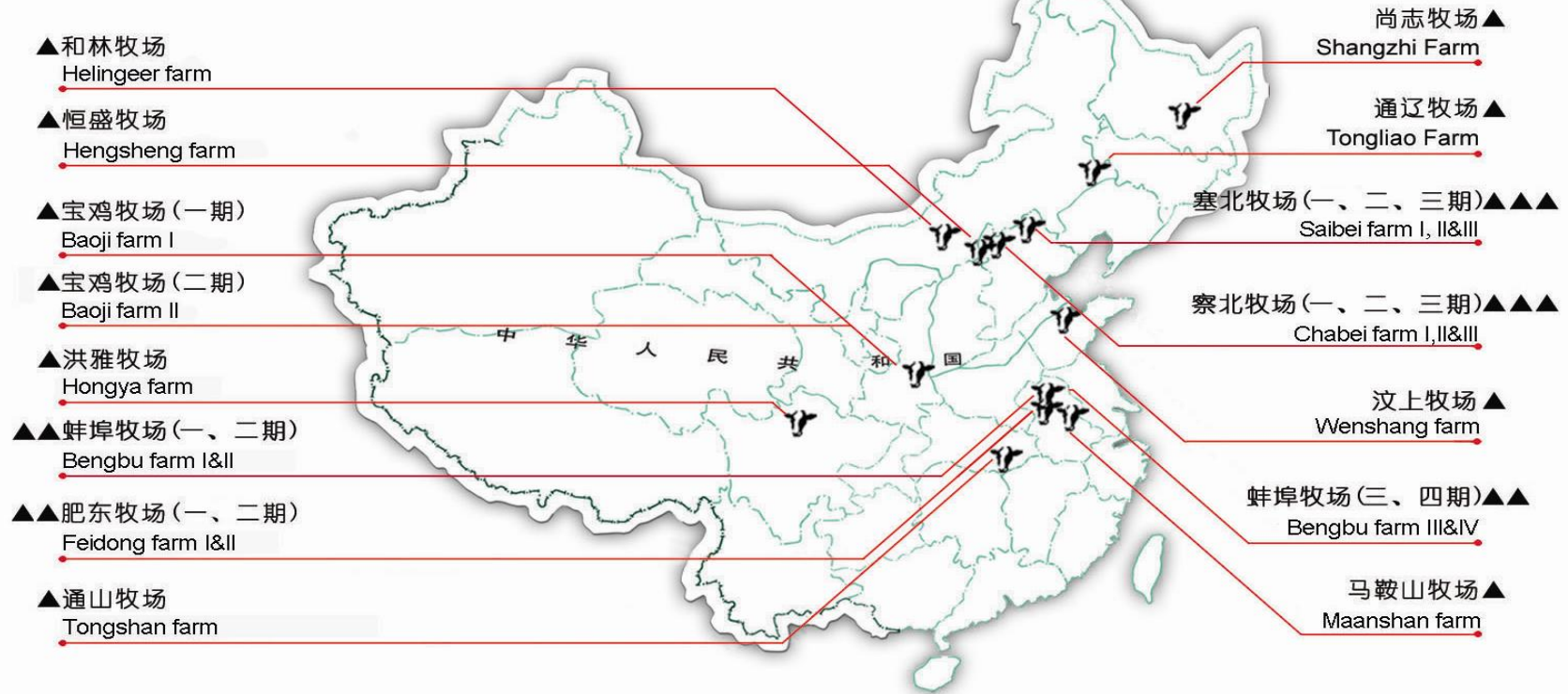
Note: (1) Cash EBITDA is the earnings before interest expenses, taxation, depreciation, amortization and gain/loss arising from changes in fair value less cost of sales of dairy cows



## Operation Indicators

# Largest Dairy Farming Company in China

## Farm Distribution



注：▲表示投产牧场，●表示在建牧场

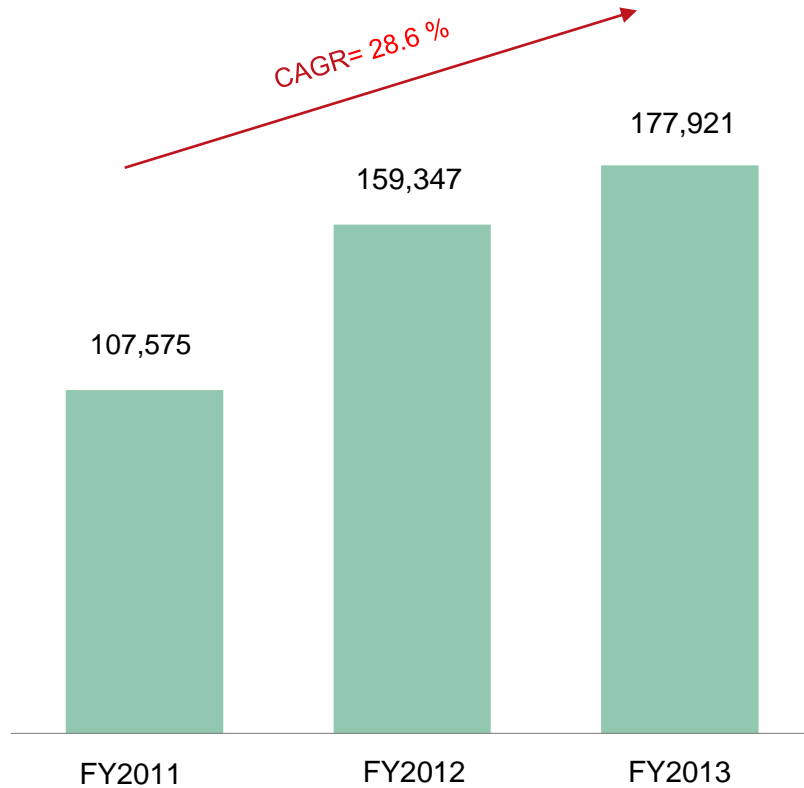
Note: ▲ Farms in operation, ● Farms under construction

As at 30 June 2013, the Company had 177,921 dairy cows in total, among which, 86,710 are milkable cows, representing an increase of 11.7% and 22.5% when compared with those of last year respectively.

# Largest Dairy Farming Company in China

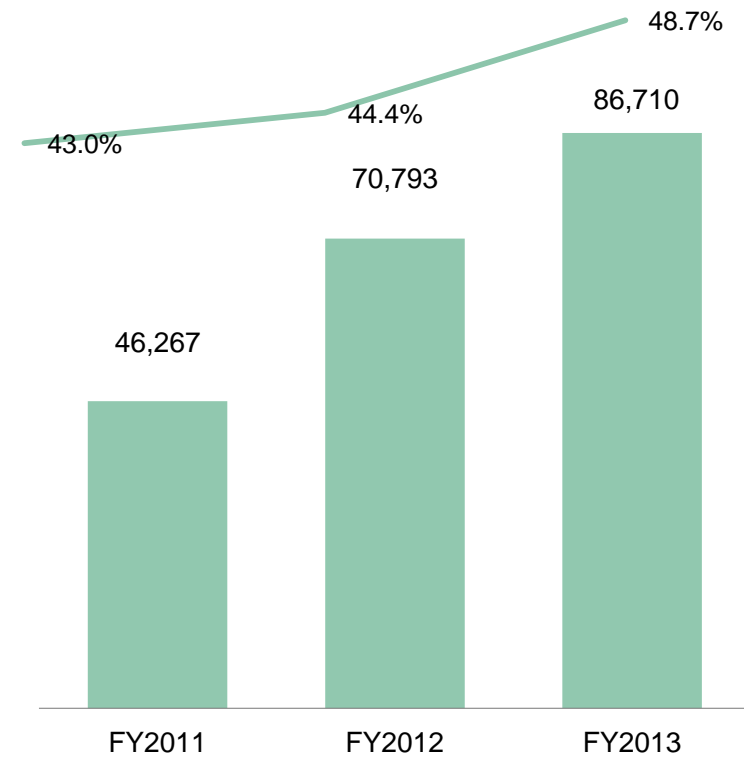
## Steady Growth in Herd Size

Herd Size(Cow)



## Rapid Growth in Milkable Cows Development of Herd Size through Organic Growth

Milkable Size(Cow)





# High-quality Raw Milk Benefits Our Pricing

## Advanced Techniques

- ▶ Adopting the leading edge breeding and feeding techniques to improve the milk yield and quality

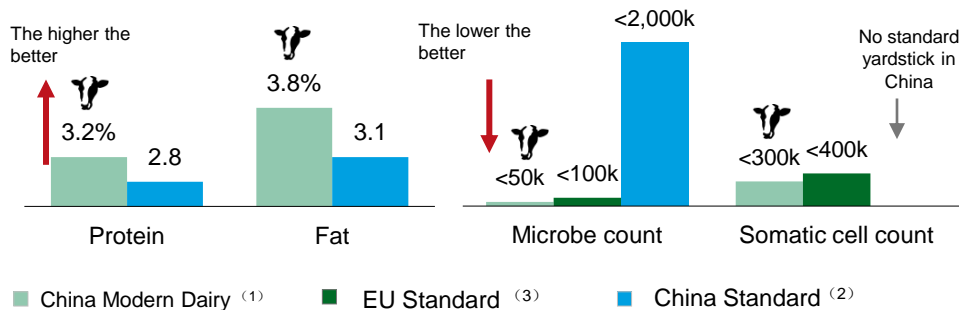
Optimizing feeding techniques

Improving the gene combinations of milkable cows

Strengthening feed mix research and managing

Enhancing the feed nutrients and energy

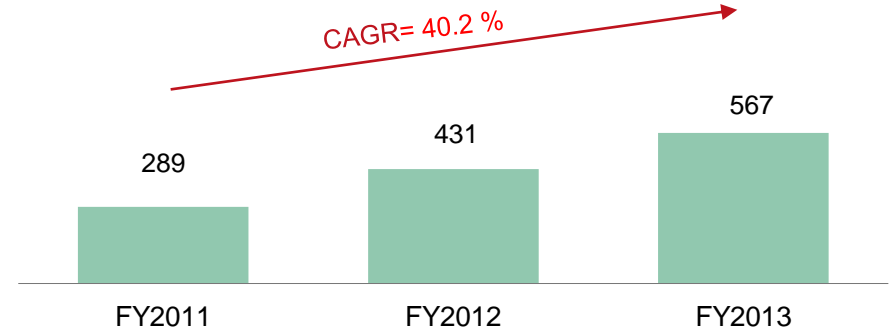
## Strive to Improve Raw Milk Quality



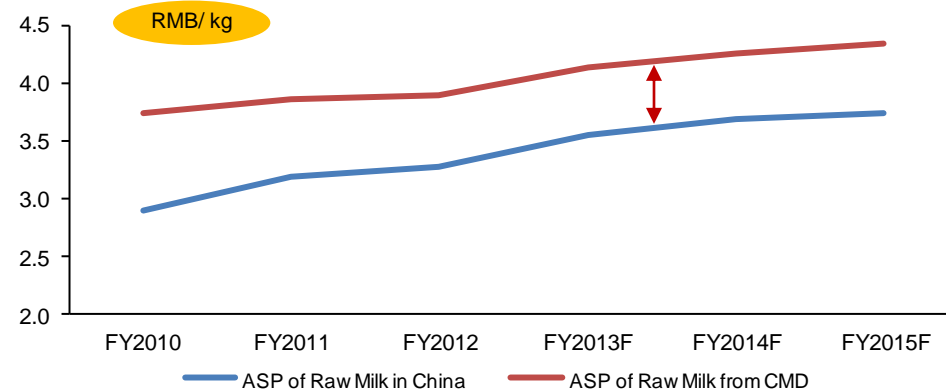
Notes: (1) in terms of herd size and raw milk output  
 (2) National Food Safety Standard — Raw Milk was published on March 26, 2010.  
 (3) Raw Milk quality standards in Council Directive 92/46/EEC was adopted in EU comprising member countries.

## Rapid Growth in Raw Milk Sales

Raw Milk Sale Volume (1,000 tons)



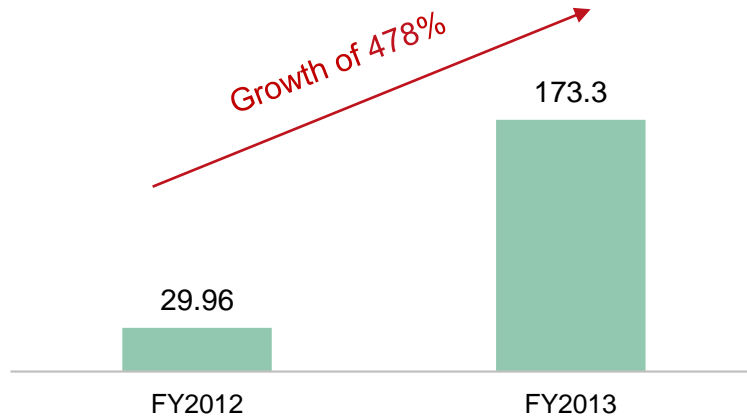
## Higher Raw Milk ASP Driven by Premier Quality and Nutrition Standard



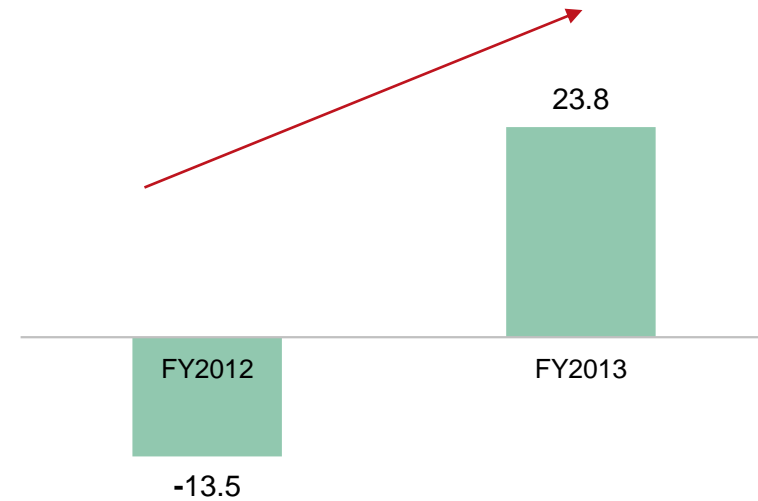
Source: Company data, Wind.

# Develop Self-owned Branded Milk Business

## Significant Growth in Branded UHT Milk Sales (RMB million)



## Significant Growth in Branded UHT Milk Profit (RMB million)



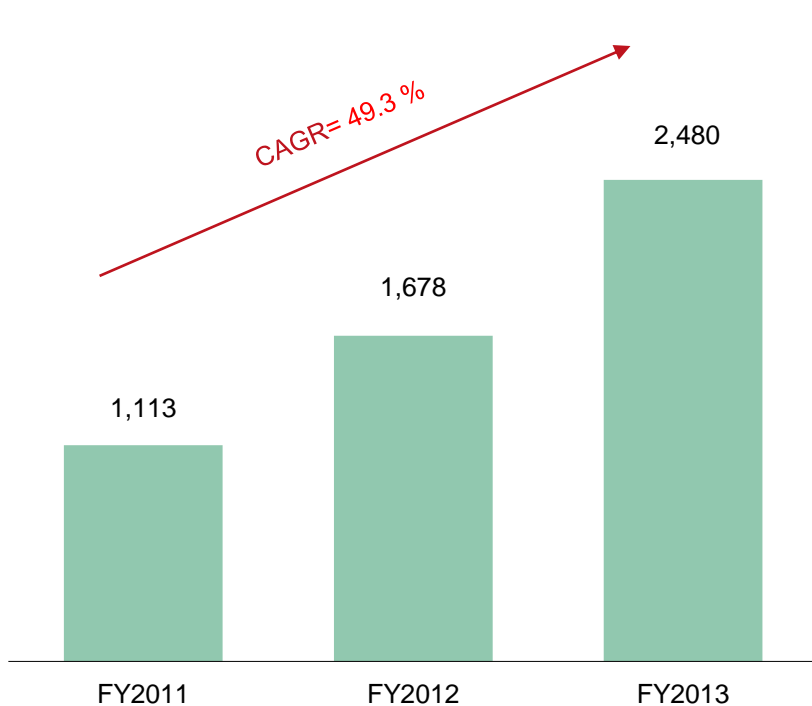


## Key Financials

# Strong Track Record of Growth

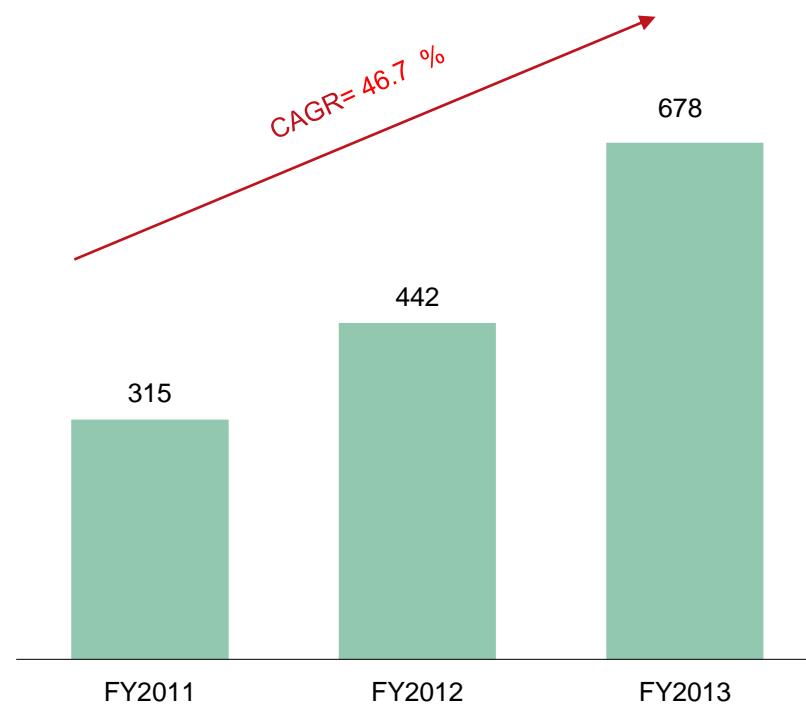
## Sales

(RMB million)



## Cash EBITDA<sup>(1)</sup>

(RMB million)



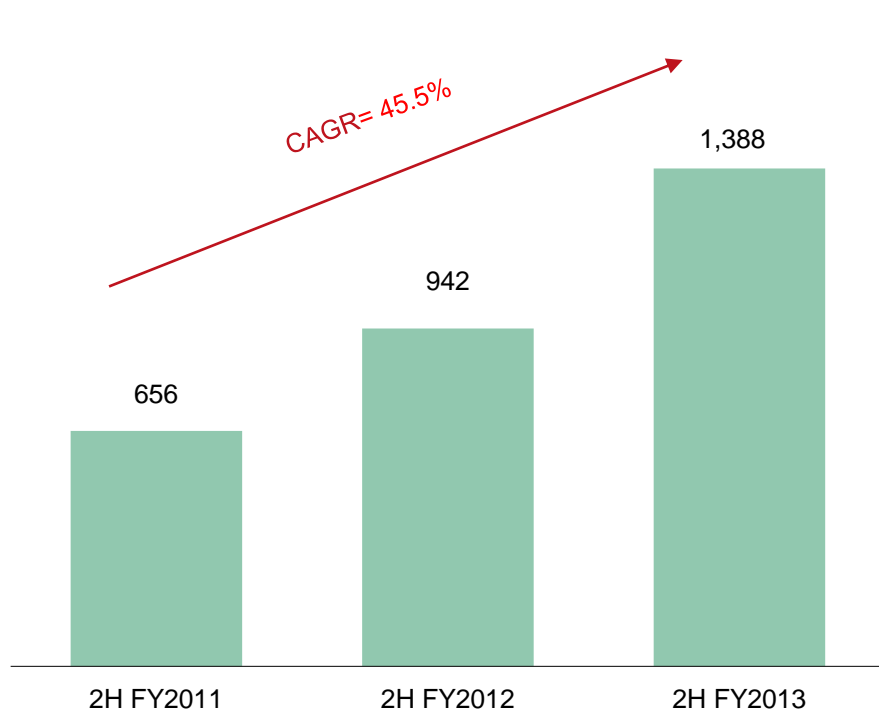
Note: (1) Cash EBITDA is the earnings before interest expenses, taxation, depreciation, amortization and gain/loss arising from changes in fair value less cost of sales of dairy cows



# Strong Track Record of Growth

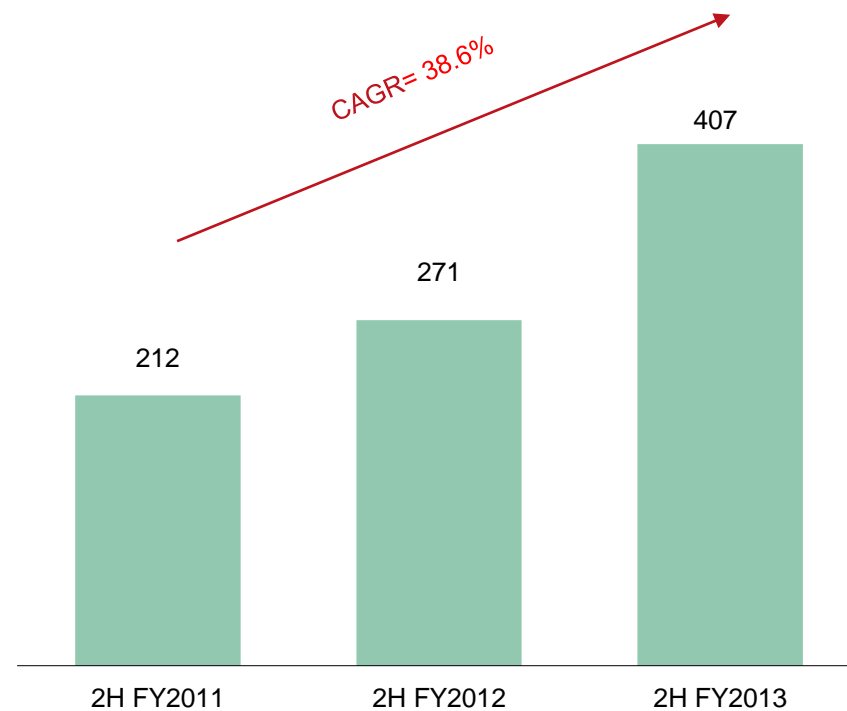
## Sales in 2H FY2013

(RMB million)



## Cash EBITDA<sup>(1)</sup> in 2H FY 2013

(RMB million)



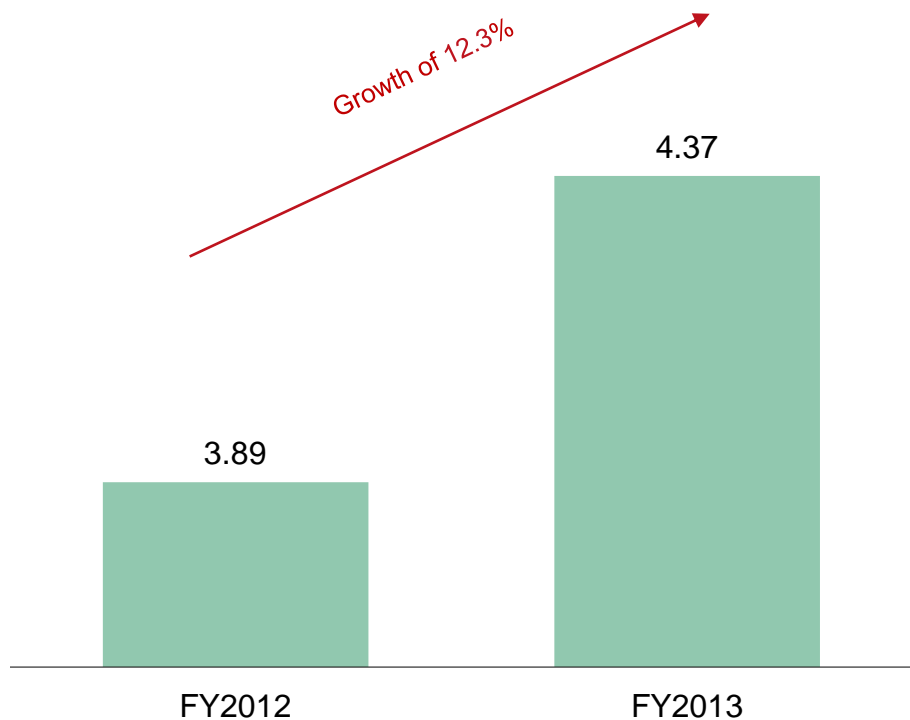
Note: (1) Cash EBITDA is the earnings before interest expenses, taxation, depreciation, amortization and gain/loss arising from changes in fair value less cost of sales of dairy cows

# The Rising Cost has shifted to the Price of Raw Milk

During the Year, the Company faced the pressure of rising feed cost, but our raw milk price also increased correspondingly, which enable the Company to maintain a stable profit margin.

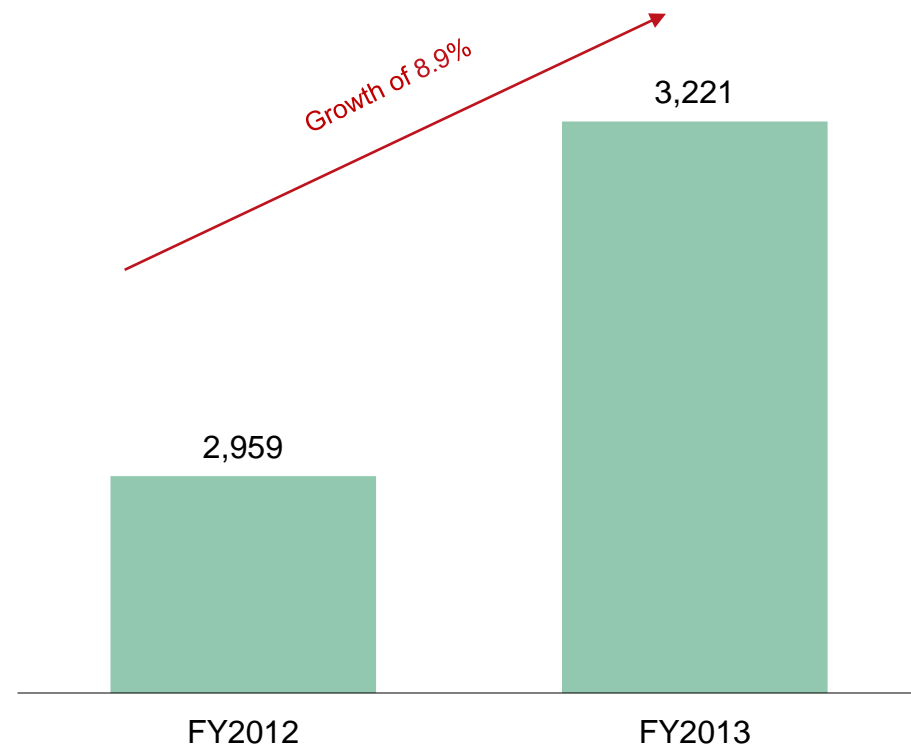
## Raw Milk Price

(RMB/ kg)



## Raw Milk Cash Cost

(RMB/ ton)



# Rapid Expansion of Assets

	FY2013	FY2012	Change
	RMB'000	RMB'000	%
<b>Biological assets</b>	<b>5,465,008</b>	<b>4,185,600</b>	<b>30.6%</b>
<b>Fixed assets</b>	<b>3,772,270</b>	<b>2,964,585</b>	<b>27.2%</b>
<b>Total assets</b>	<b>11,163,663</b>	<b>8,651,814</b>	<b>29.0%</b>
<b>Total liabilities</b>	<b>5,654,939</b>	<b>3,519,098</b>	<b>60.7%</b>
<b>Total borrowing</b>	<b>4,279,041</b>	<b>2,590,789</b>	<b>65.2%</b>
<b>Leverage ratio<sup>(1)</sup></b>	<b>44.2%</b>	<b>33.5%</b>	<b>10.4%</b>
<b>Cash balance<sup>(2)</sup></b>	<b>820,777</b>	<b>652,439</b>	<b>25.8%</b>
<b>Bank facilities (not yet utilized)</b>	<b>2,216,906</b>	<b>740,010</b>	<b>199.6%</b>

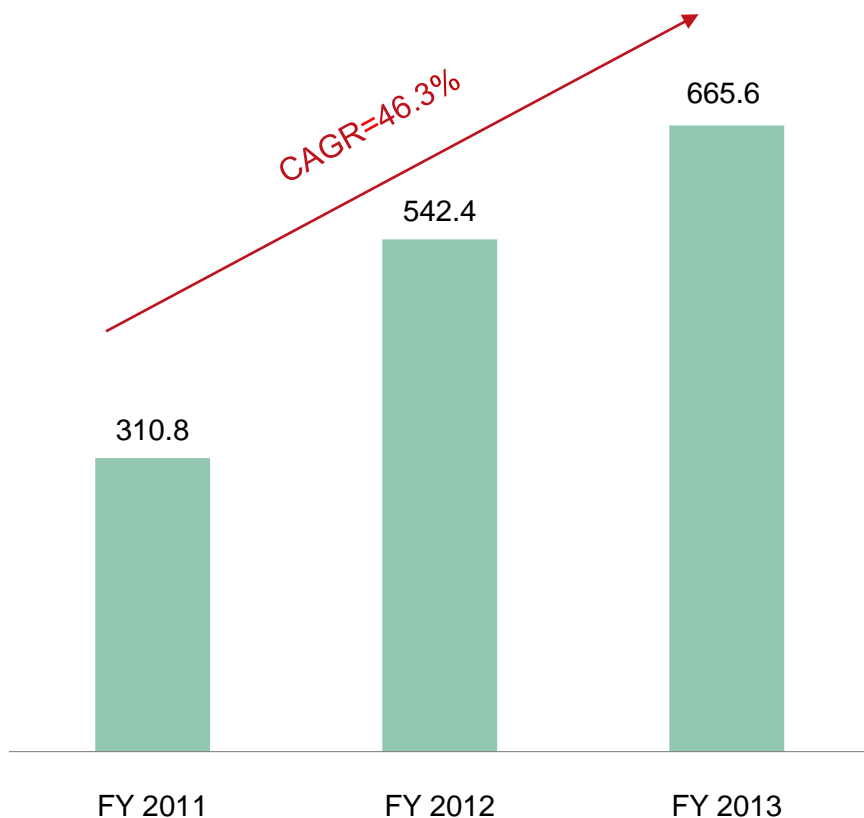
Note: (1) Leverage ratio=Interest bearing liabilities / (Interest bearing liabilities + book value of total equity).

(2) Including pledged bank balances.

# Asset Utilization Rate

## Operating Cash Flows

(RMB Million)



	Turnover Days	
	FY2013	FY2012
Inventories	40	53
Trade Receivable	32	26
Trade Payable	68	56

- To better manage the inventories, the Company enhanced its cooperation with large suppliers and successfully reduced the inventory days and increased trade payable days.
- The Company commenced selling self-owned branded products and gave the customers certain trade days, which makes the total trade receivable days increased; the trade days of raw milk are 30.



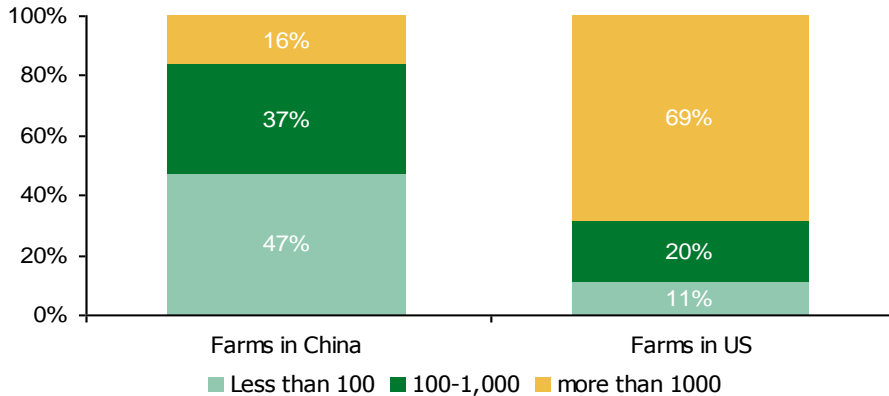


## Business Outlook

# Huge Development Potential of China Modern Dairy

## Highly Dispersed Farming Industry in China

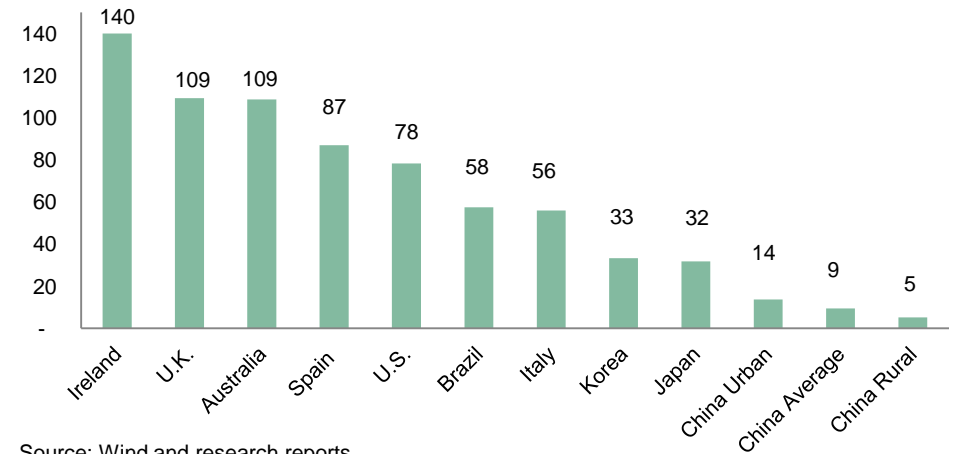
Raw Milk Supply Concentration: China v.s. US (in terms of the scale of farms)



Source: research reports.

## China's per capita dairy consumption still has a growth stage

Per Capita Liquid Milk Consumption, 2011 (kg)

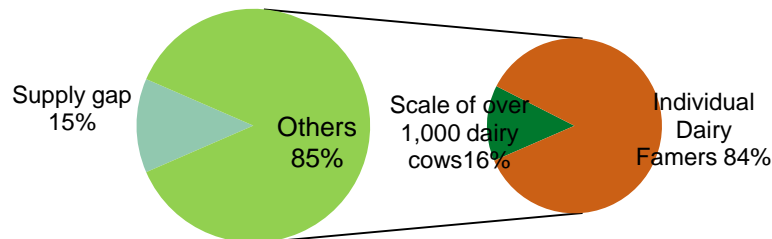


Source: Wind and research reports.

## Development Potential of China Modern Dairy

Raw Milk Demand in China

Raw Milk Supply in China

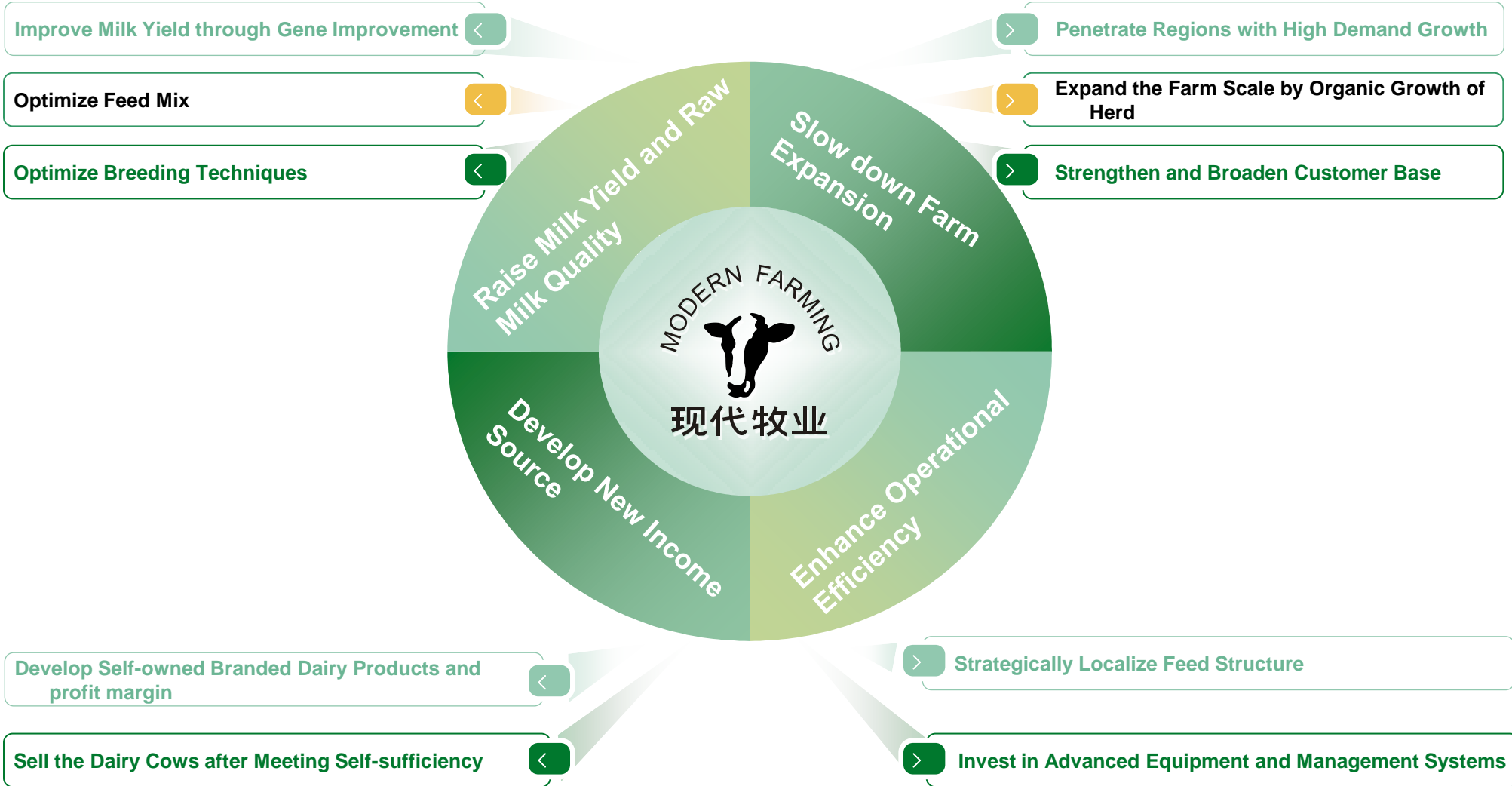


Source: China Dairy Industry Yearbook and research reports

- ▶ China has huge raw milk supply gap, especially raw milk supply from large-scale farms is still at low level. China Modern Dairy's high quality raw milk is favored by more and more dairy products manufacturers
- ▶ China Modern Dairy's raw milk yield amounts to 1.1% of the total yield in China, meeting only 0.9% of the current demands
- ▶ Significant consolidation trend is on the way to the modernization of dairy industry

# Future Strategy for Growth

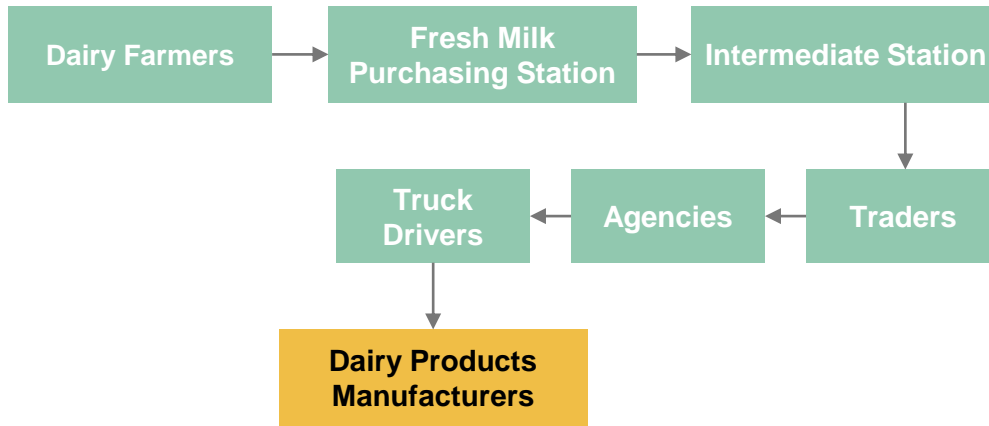
China Modern Dairy aims to be recognized as the best dairy farm brand for raw milk in China



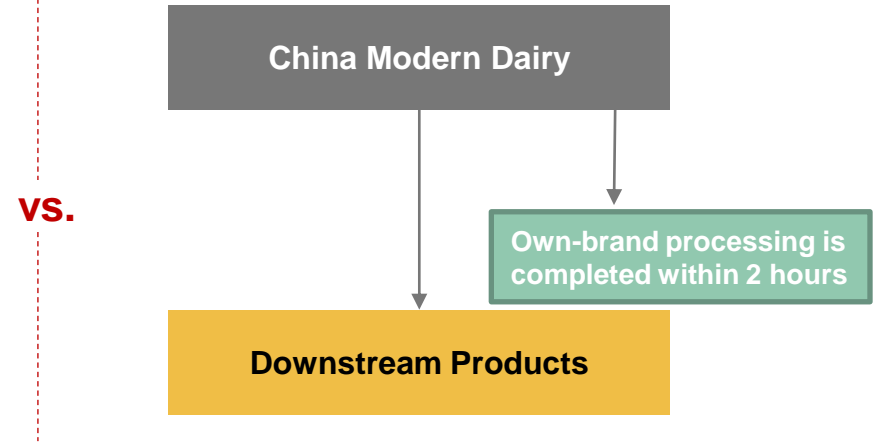
# Large-scale Farms Possess Significant Competitive Edges

Avoid Polluting Milk Sources, Better Control Cost and Prevent the Risks

## Individual Farms Operation Model



## Large-scale Farm Operation Model

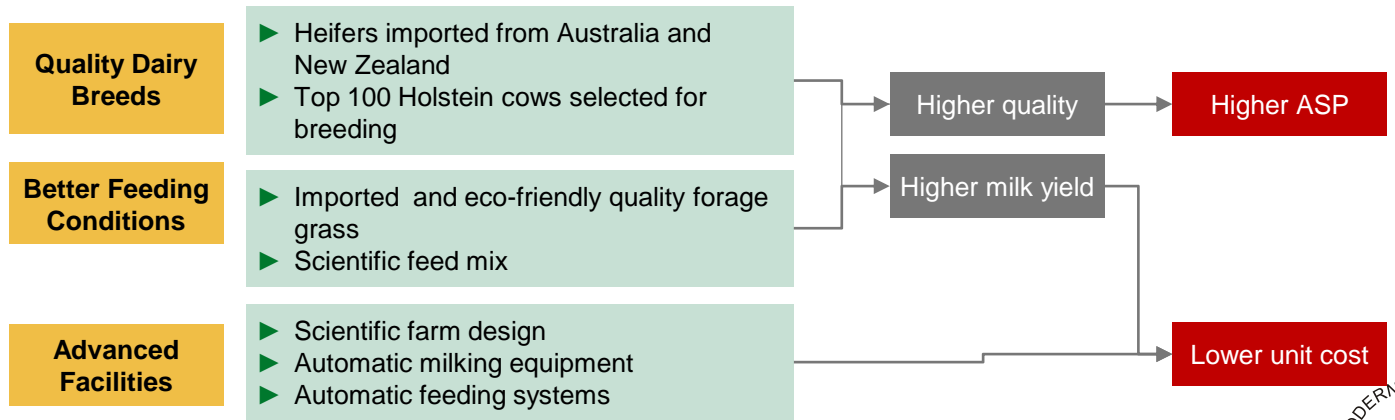


vs.

## Competitive Edges of Large-scale Farms



Source: Company information and research report.



# Enhance Operational Efficiency

## Invest in advanced technology and management system



- ▶ Install and implement herd management system in all farms
- ▶ Subtotal data from all functional departments while realizing centralized monitoring and data analysis

## Develop and implement new technologies and new techniques



- ▶ Apply new technologies and techniques in farm operations
- ▶ Achieve higher operation efficiency and lower operation costs

## Strengthen cooperation with local farmers and agricultural institutions

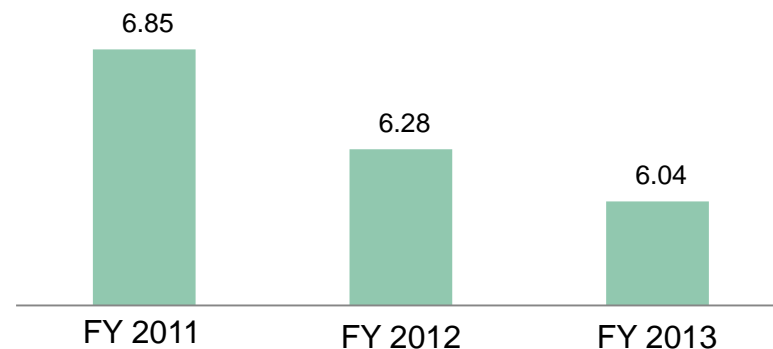


- ▶ Invest in self-owned high-quality plants and crops
- ▶ On the basis of cost control, supply high-quality feed with special features in accordance with geographical requirements

## Upgrade Management Efficiency

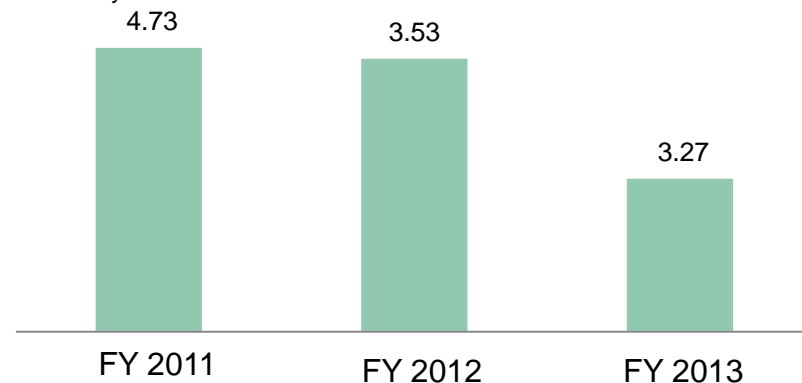
### Dairy Cost of Staff

RMB/Cow/day



### Other Costs

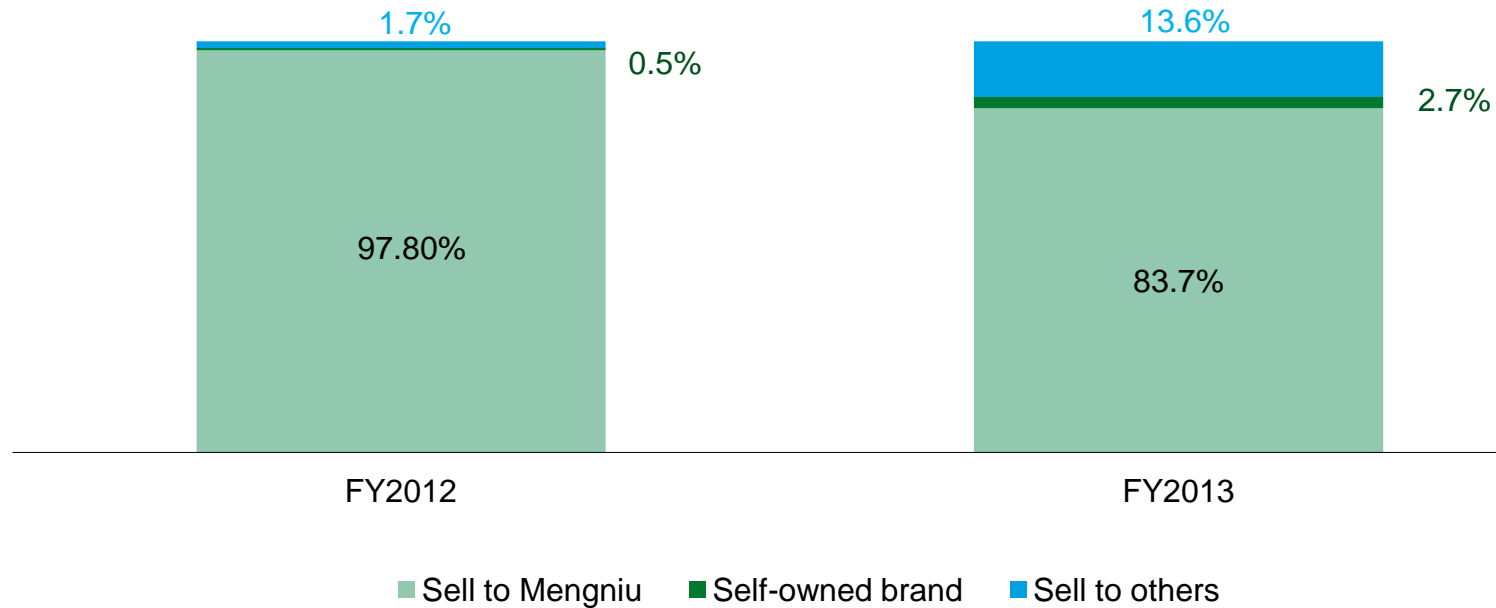
RMB/Cow/day





# Raw Milk Price and Proportion of Sales

## Client Diversification of Sales of Raw Milk



- ▶ Continue to cooperate with Mengniu according to the long-term strategic agreement of raw milk supply
- ▶ Proactively extend sales channels for other third parties and build marketing network
- ▶ In 2013, the Company sold raw milk to 10 third-party dairy products companies
- ▶ Build free distribution network and sell branded UHT milk in Beijing and Shanghai



**Thank you!**