



MODERN FARMING  
现代牧业

# China Modern Dairy Holdings Ltd. 中国现代牧业控股有限公司 2015 Annual Results Announcement





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# 2015 Annual Results Overview

RMB'000	From Jan 1 to Dec 31 2015	From Jan 1 to Dec 31 2014	Changes (%/ppts) compared to 2014	From Jan 1 to Dec 31 2013	Changes (%/ppts) compared to 2013
Turnover	4,826,341	5,026,706	-4.0%	3,289,281	46.7%
Cost of sales <sup>(1)</sup>	-3,167,298	-3,161,345	0.2%	-2,304,022	37.5%
Gross profit margin	34.4%	37.1%	-2.7%	30.0%	4.4%
Cash EBITDA <sup>(2)</sup>	1,527,715	1,797,801	-15.0%	1,012,338	50.9%
Cash EBITDA margin	31.7%	35.8%	-4.1%	30.8%	0.9%
Loss from changes in fair value of dairy cows	-474,910	-329,069	44.3%	-82,751	473.9%
Loss from changes in fair value of derivative financial instrument	-50,028	-105,468	-52.6%	-41,631	20.2%
Foreign exchange loss	-92,048	-28,976	217.7%	9,656	NA
Net profit	343,718	762,888	-54.9%	506,994	-32.2%
Core net profit <sup>(3)</sup>	960,704	1,226,401	-21.7%	621,720	54.5%
Basic earnings per shares (RMB cents)	6.37	15.23	-58.2%	9.99	-36.2%

Notes:

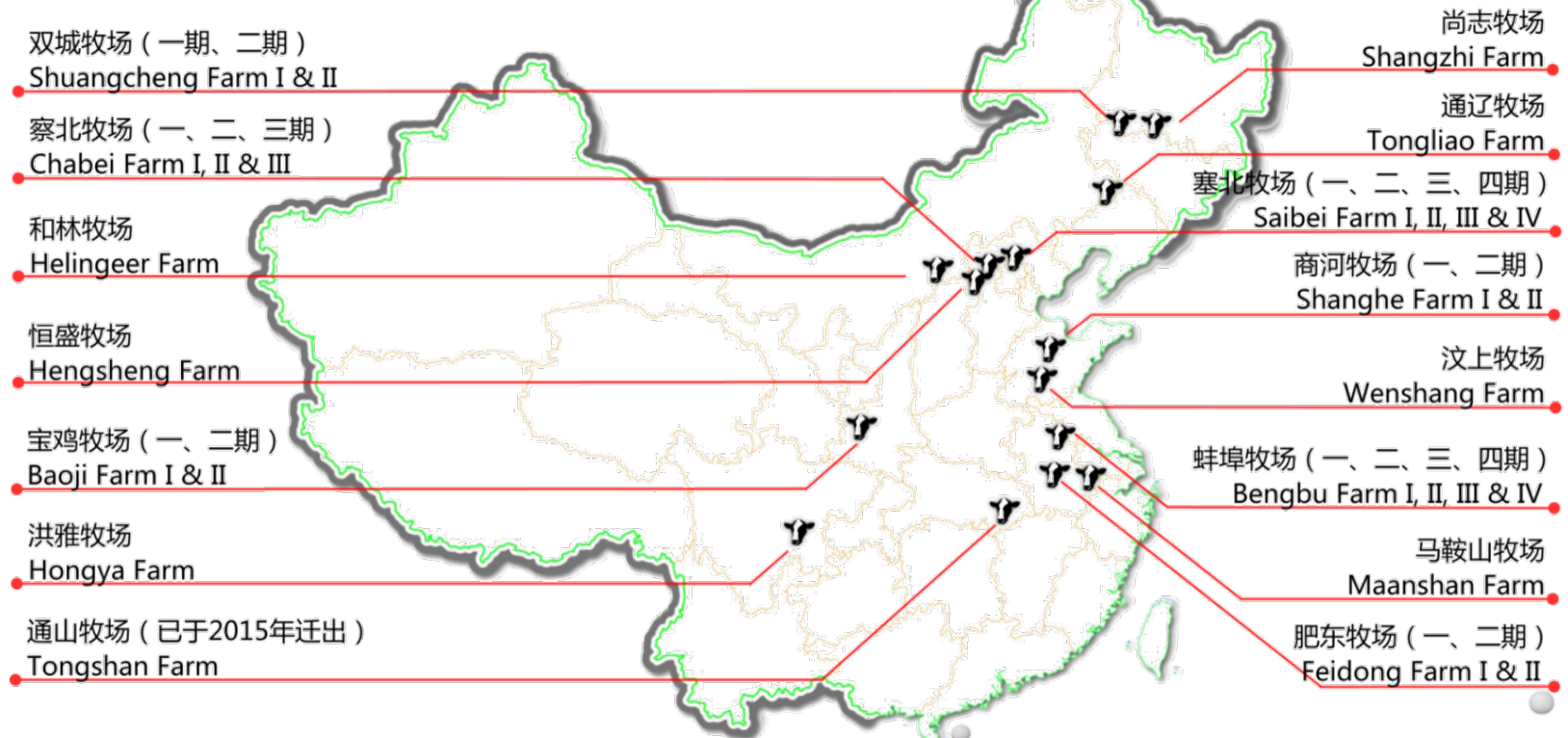
(1) Cost of sales represents cost of sales before biological fair value adjustment.

(2) Cash EBITDA represents EBITDA before loss arising from changes in fair values less costs to sell of dairy cows and other income/(loss).

(3) Core net profit represent net profit before fair value adjustment and foreign exchange gain or loss.



# Diagram of Farm Distribution



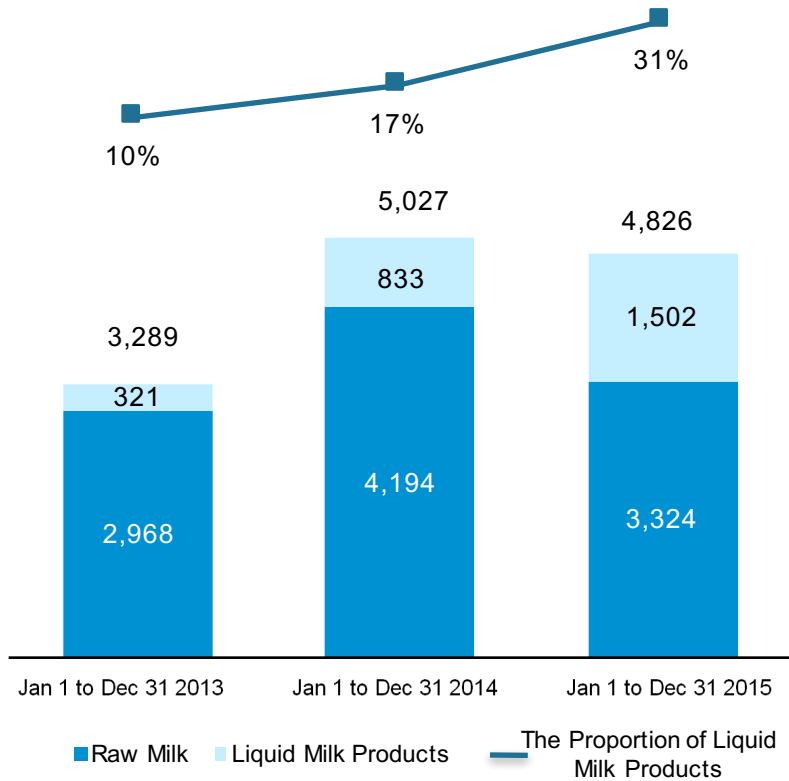
As of 31 December 2015, the Group had 27 dairy farms in 8 provinces in China.  
The current herd size of the Group is 225,542.



# Financial Overview

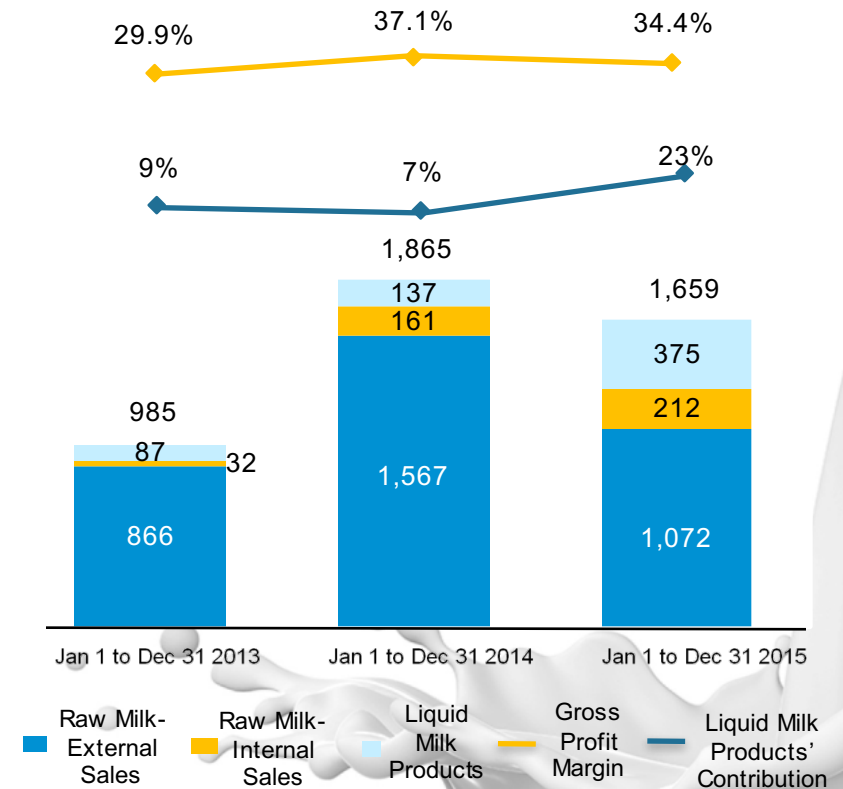
## Revenue

(RMB million)



## Gross Profit and Gross Profit Margin

(RMB million)

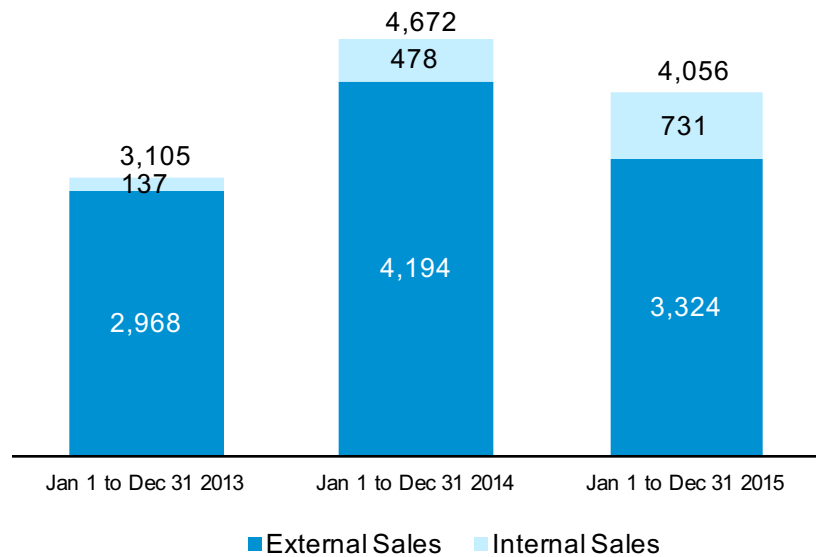




# Upstream Segment-Sales, Gross Profit and Gross Profit Margin

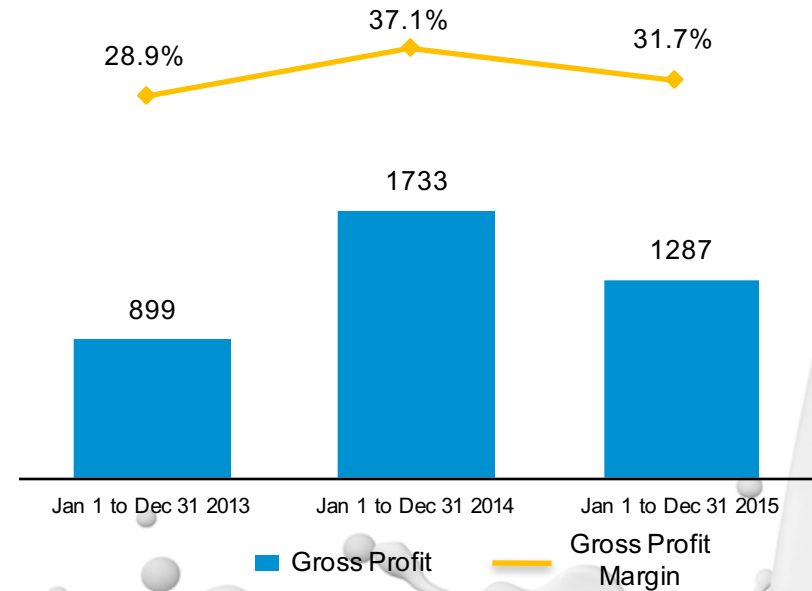
## Sales of Raw Milk

(RMB million)



## Gross Profit and Gross Profit Margin of Sales Raw Milk<sup>(1)</sup>

(RMB million)



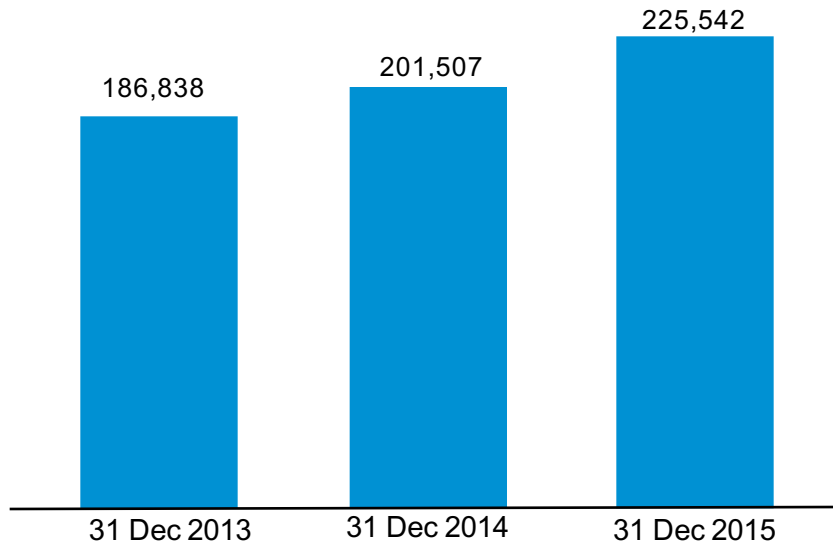
Note : (1) Before eliminating the internal sales and relevant cost of sales



# Upstream Segment-Herd Size

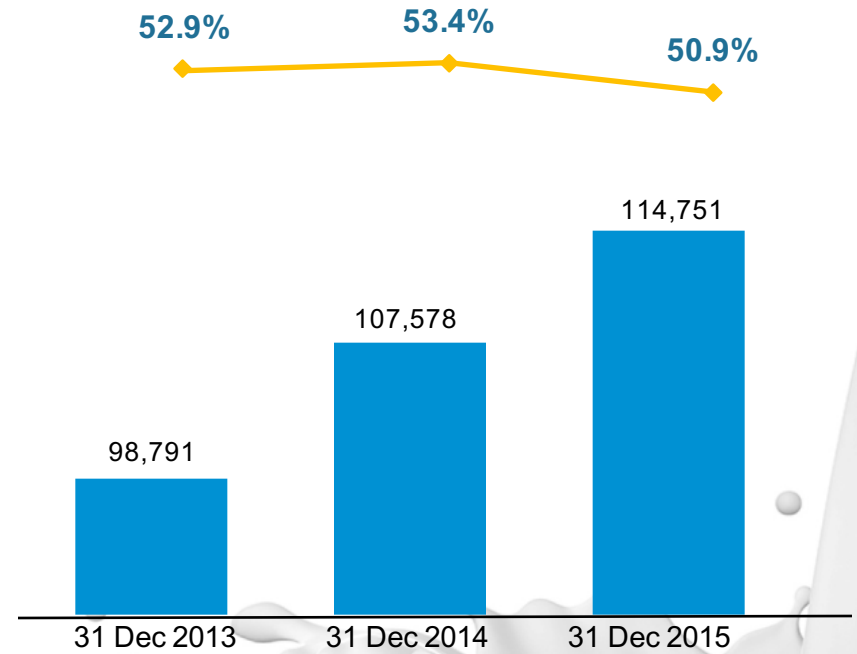
## Steady Growth in Herd Size

Herd Size (head)



## Structure of Milkable Cows

Number of Milkable Cow (head) and as % of Total Dairy Cows



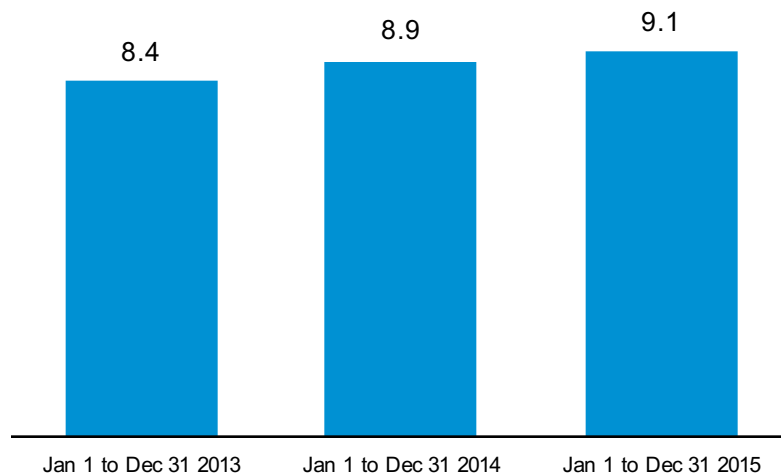




# Upstream Segment-Milk Yield and Sales Volume

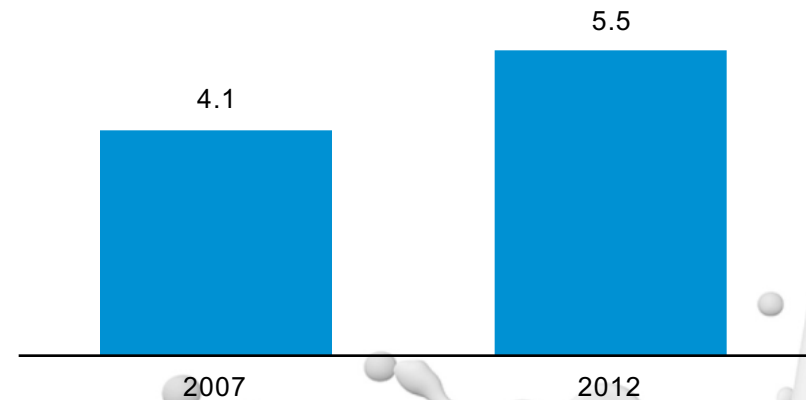
## Continued Improvement of Milk Yield

(Head/Ton/Annum)



## Industrial Situation<sup>(1)</sup>

(Head/Ton/Annum)



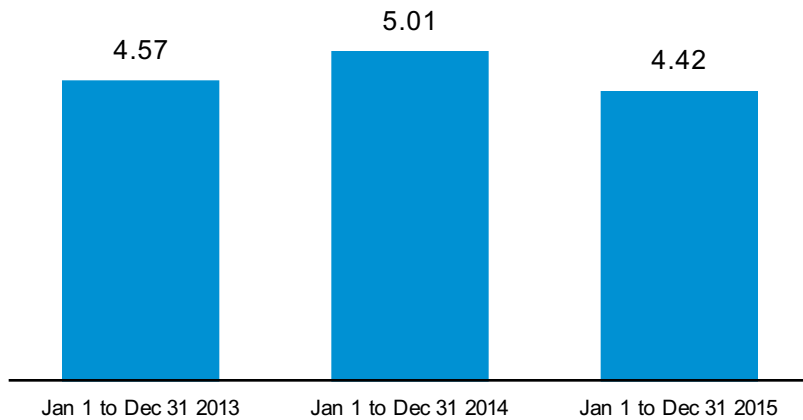
Notes : (1) Source : National Bureau of Statistics of China , Frost & Sullivan



# Upstream Segment-Raw Milk Price and Cash Cost

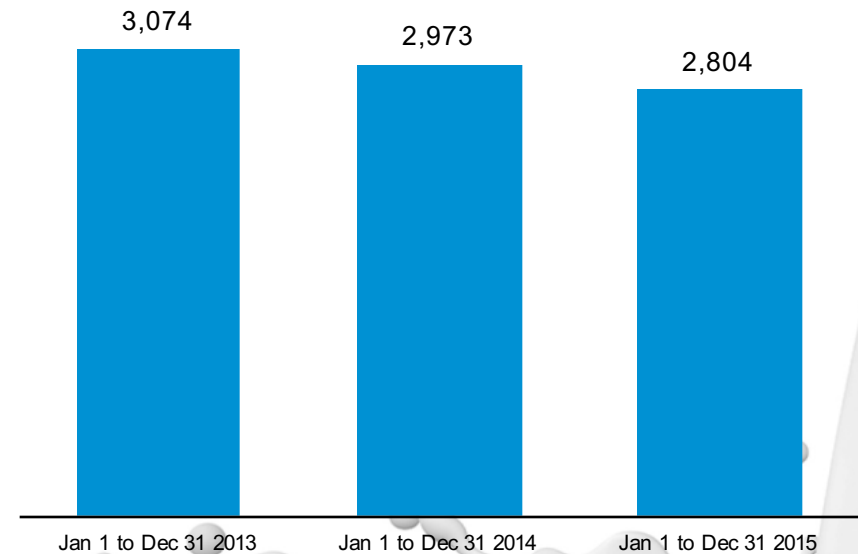
## Raw Milk Price for External Sales

(RMB/kg)



## Raw Milk Cash Cost <sup>(1)</sup>

(RMB/ton)

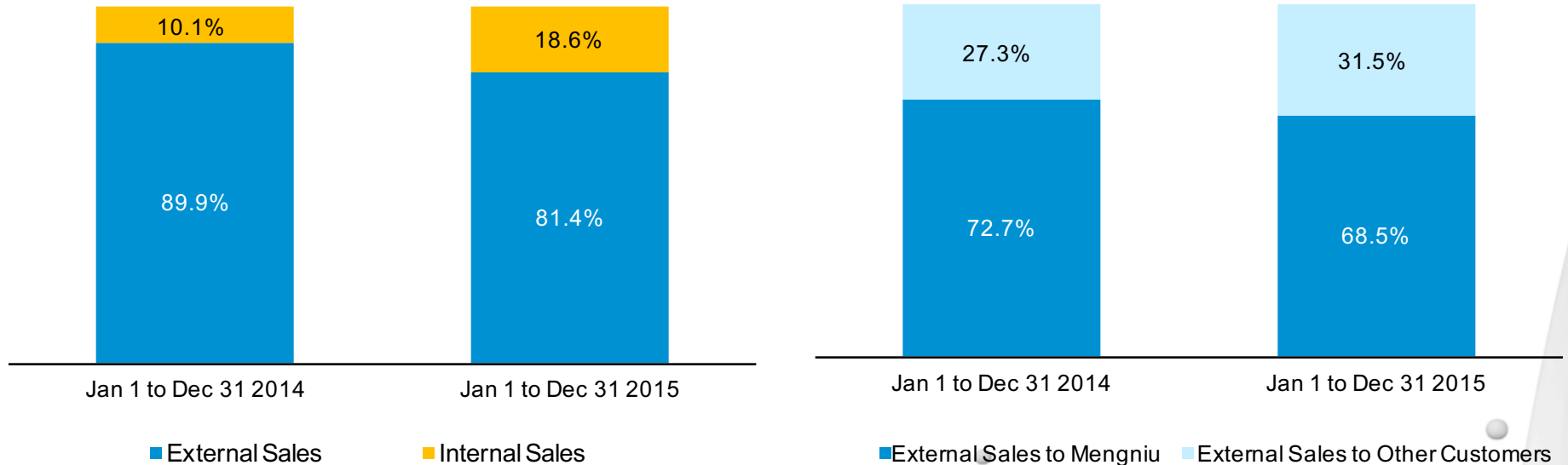


Note: (1) The cost of sales-raw milk (before eliminating the internal relative costs of sales of the supply of raw milk) excluding the depreciation divided by the sales volume of raw milk (before eliminating the internal sales of raw milk).



# Upstream Segment-Proportion of Raw Milk Sales Volume

## Diversified Customer Base of Raw Milk Sales and Increased Proportion of Internal Sales



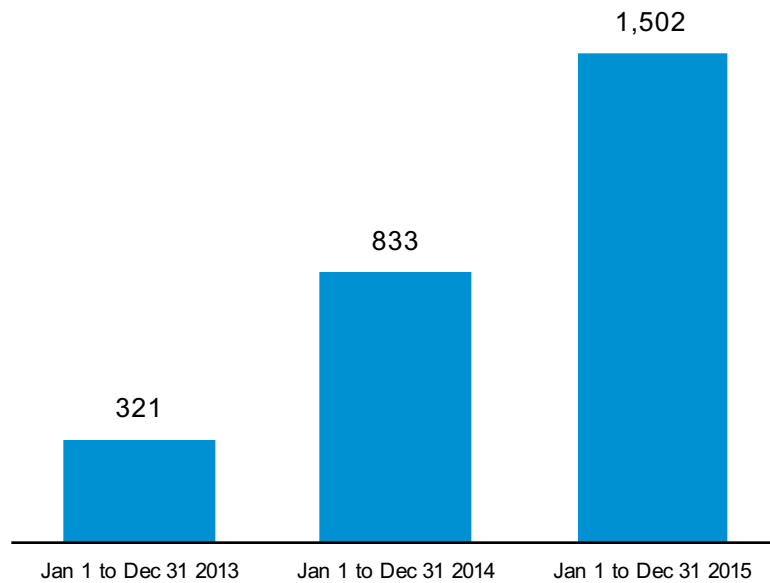
- ▶ Continue to cooperate with Mengniu according to the long-term strategic agreement of raw milk supply
- ▶ Proactively extend sales channels from third parties and build up marketing network
- ▶ Proportion of internal sales continuously increased with the development of own brand liquid milk products business



# Downstream Segment-Strong Growth

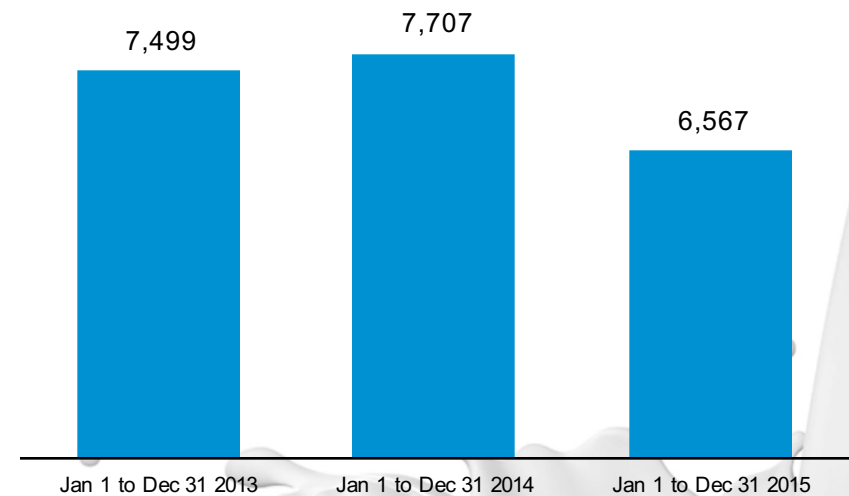
## Sales of Liquid Milk Products

(RMB million)



## Cash Costs of Liquid Milk Products <sup>(1)</sup>

(RMB/kg)



Note: (1) The cost of sales-raw milk (before eliminating the internal relative costs of sales of the supply of raw milk) excluding the depreciation divided by the sales volume of liquid milk products



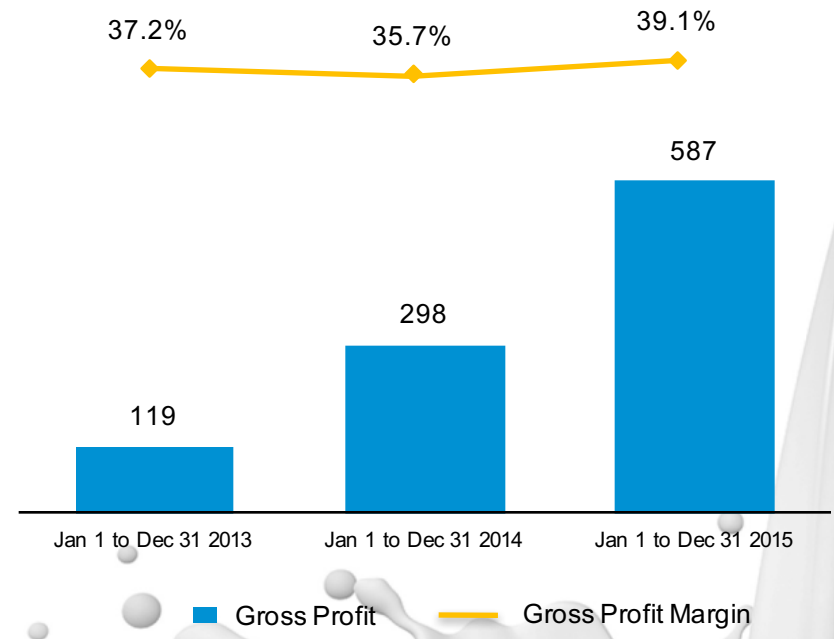
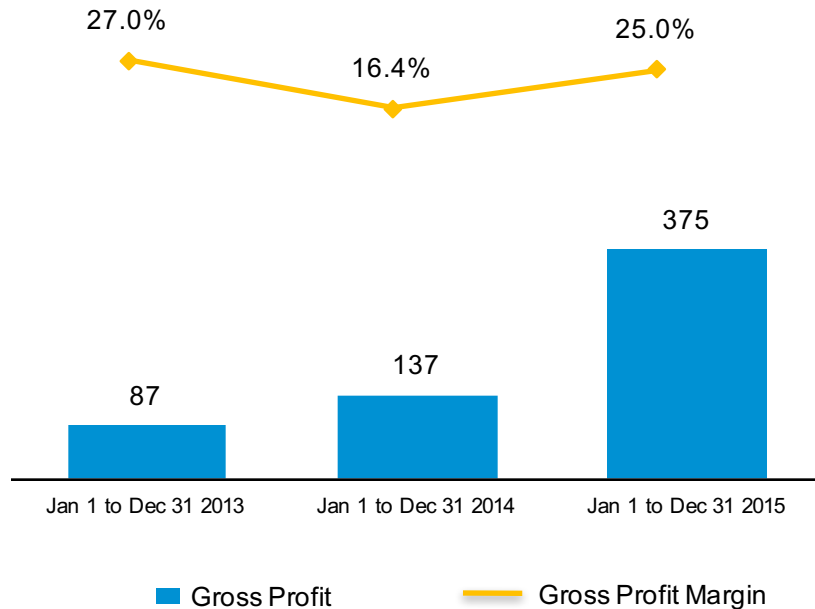
# Downstream Segment-Gross Profit and Gross Profit Margin

## Before Internal Sales Elimination

## After Internal Sales Elimination<sup>(1)</sup>

(RMB million)

(RMB million)



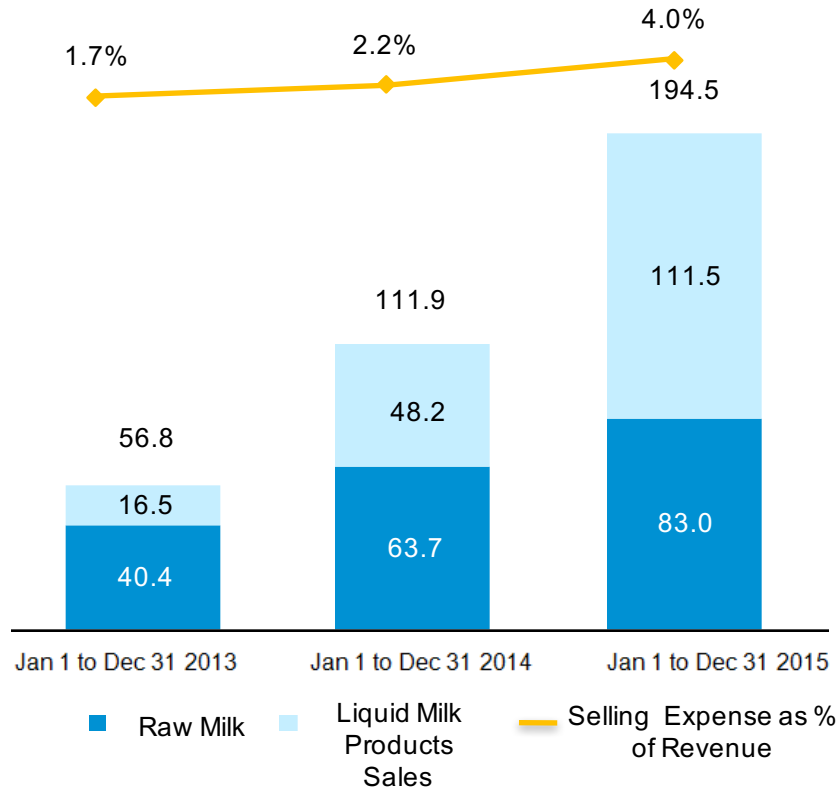
Notes: (1) Gross profit of liquid milk products included the gross profit of internal sales of raw milk



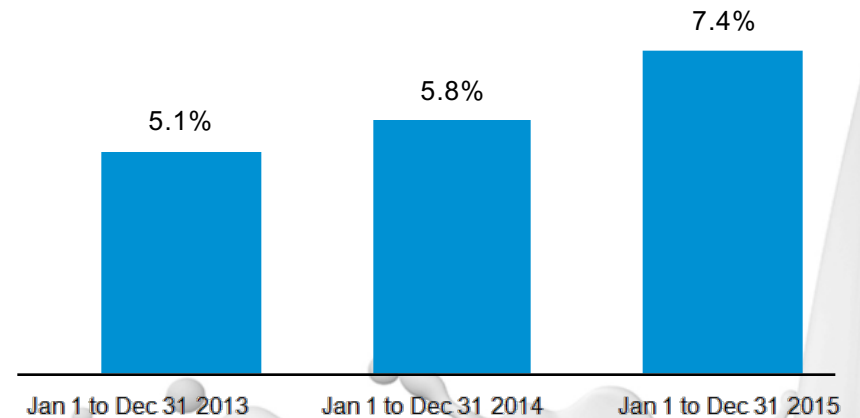
# Selling Expenses & Selling Expenses as % of Revenue

## Total Selling Expenses and Selling Expenses as % of Revenue of the Group

(RMB million)



## Selling Expenses as % of Revenue of Liquid Milk Products





## Financial Position

Items	Dec 31 2015	Dec 31 2014	Changes
	<b>RMB'000</b>	<b>RMB'000</b>	<b>%</b>
<b>Biological Assets</b>	7,590,878	6,530,814	16.2%
<b>Fixed Assets</b>	5,376,897	4,457,970	20.6%
<b>Total Assets</b>	17,507,836	14,117,110	24.0%
<b>Total Liabilities</b>	9,557,804	7,461,158	28.1%
<b>Total Borrowing</b>	6,247,251	5,787,848	7.9%
<b>Debt Ratio<sup>(1)</sup></b>	44.5%	47.1%	-2.6%
<b>Cash Balance<sup>(2)</sup></b>	1,017,233	1,169,873	-13.0%
<b>Bank Facilities (unutilized)</b>	6,753,413	8,089,553	-16.5%

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

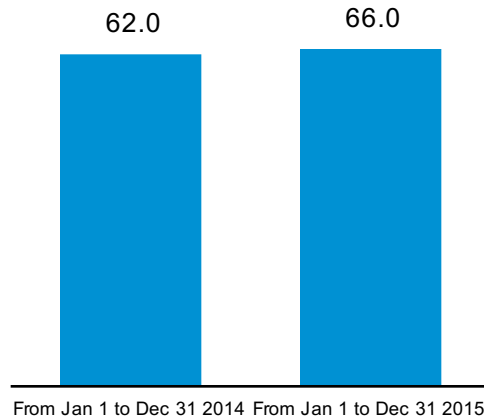
(2) Including pledged bank balances.



# Working Capital Ratios

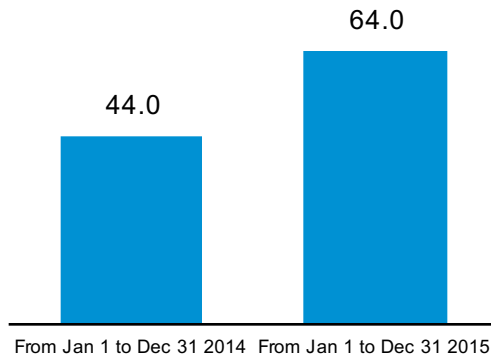
## Inventory Turnover

(Days)



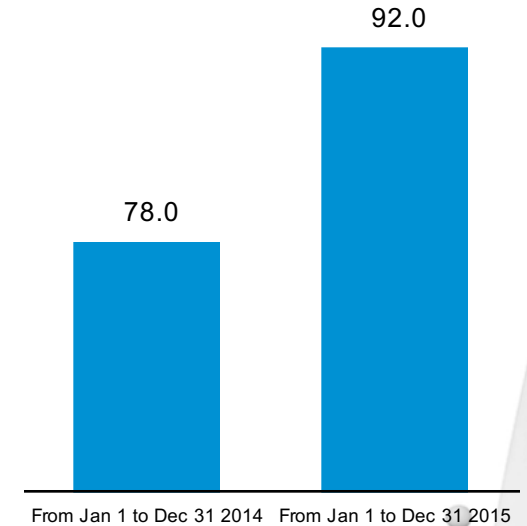
## Trade Receivable Turnover<sup>(1)</sup>

(Days)



## Trade Payable Turnover<sup>(2)</sup>

(Days)



- Note:
- (1) With the increase in both revenues and contribution from liquid milk products involving higher account receivable days, the Group's trade receivable days increased;
  - (2) Trade payable turnover days is increased due to the increase in the credit period granted by suppliers.

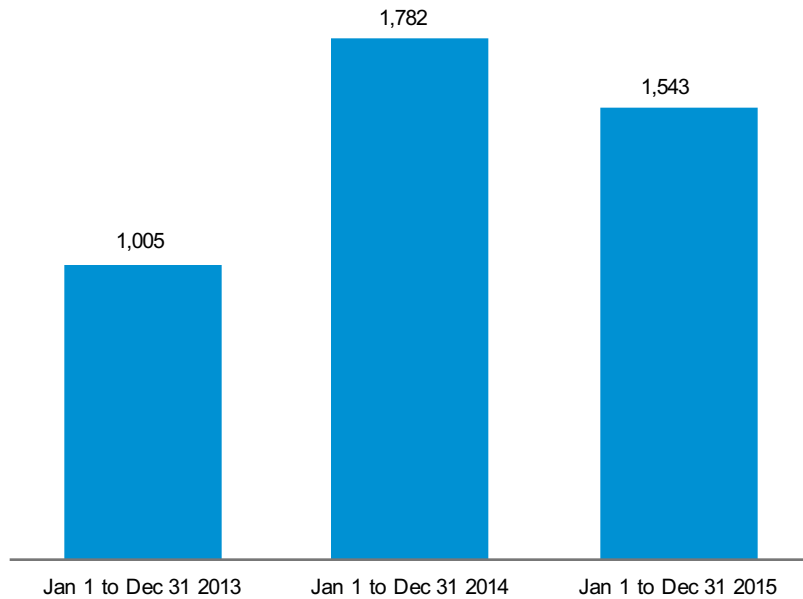




# Cash Flows & Capital Expenses

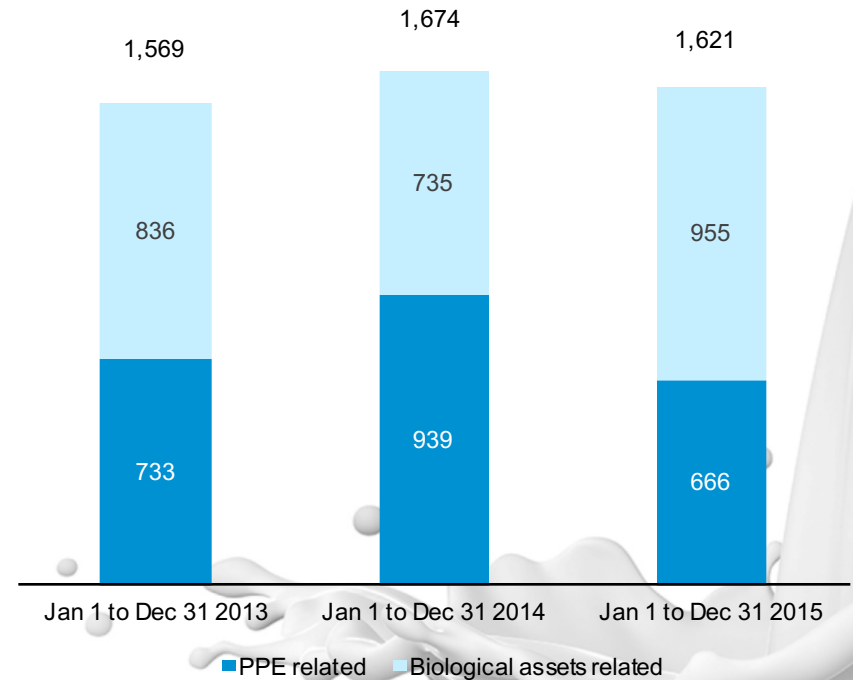
## Operating Cash Flows

( RMB million )



## Capital Expenses<sup>(1)</sup>

( RMB million )



Notes : ( 1 ) Capital Expenses = The acquisition of PPE + Additions in biological assets– Proceeds on disposal of dairy cows



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# Adopting Vertically Integrated Business Model with Forage Grass Planting, Cow Breeding and Milk Processing

## Our Industrial Chain

Forage  
Grass  
Planting

Cow  
Breeding

Milk  
Processing

## Real Picture of Operation



## Our Advantages

- ▶ Modern Farm entered into the New Framework Supply Agreement with Qiushi Grass Industry Co. Ltd. (秋實草業有限公司), which has established 170,000 mu alfalfa production base and 250,000 mu oat grass planting base.

- ▶ Will continue to seek the quality land for planting in order to enhance productivity and efficiency of planting, as well as to hold the scarcity of land

- ▶ The largest dairy farming company in China and the first listed company with focuses on dairy cow breeding in the world

- ▶ Use advanced breeding and feeding techniques, as well as leading facilities and equipment

- ▶ Select the semen of the world' preferred Holstein cows

- ▶ Take a leading position in the industry with high milk yield and quality

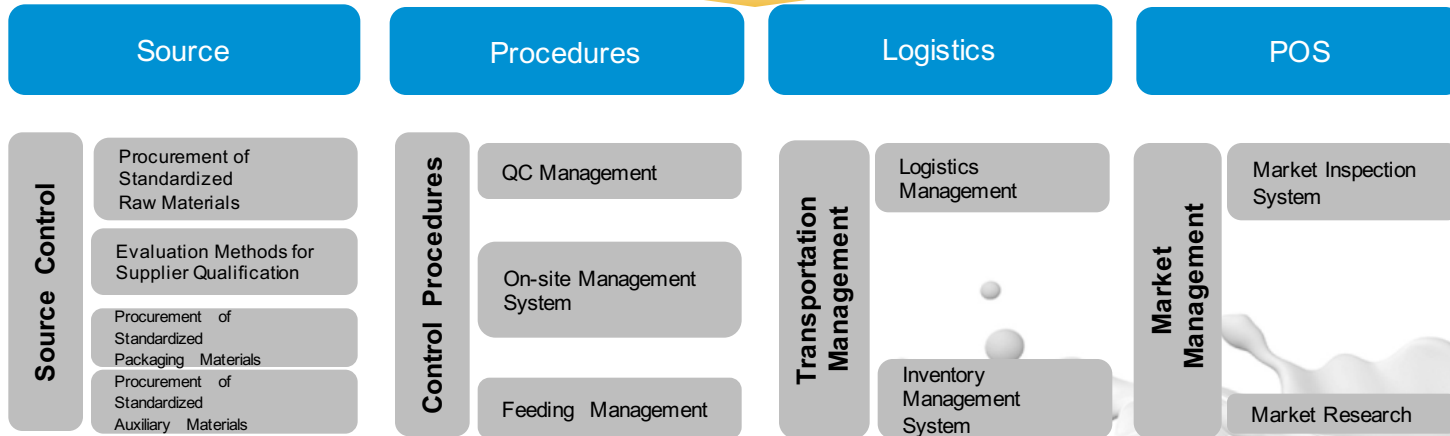
- ▶ Possessing the 1,200 tons daily processing capacity of liquid milk products

- ▶ Providing highest-quality raw milk and liquid milk products in China as a solution to the quality crisis faced by the dairy industry

- ▶ The market share of our room-temperature milk rapidly increased and ranked No.3 in the Chinese high-end milk market



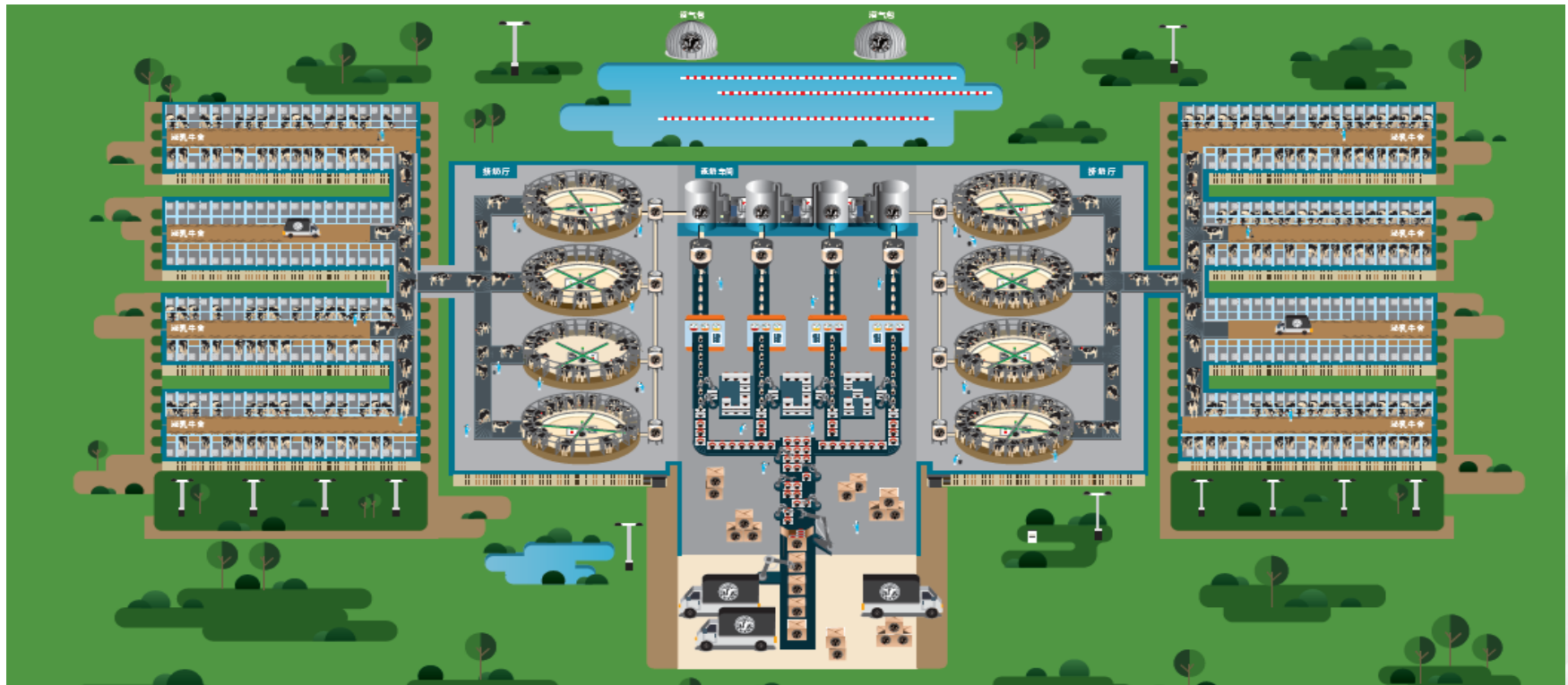
# Implemented Integrated Industry Chain Management for Comprehensive Quality Control





# Pioneered the Layout of “Zero-Distance Integration from Milking to Processing”

The whole processing is fully under control accomplished with scientific and standardized design. With refined processing management, the Group is capable of producing “Two Hours” milk, which can prevent milk from thermal injury and guarantee the best nutrition.

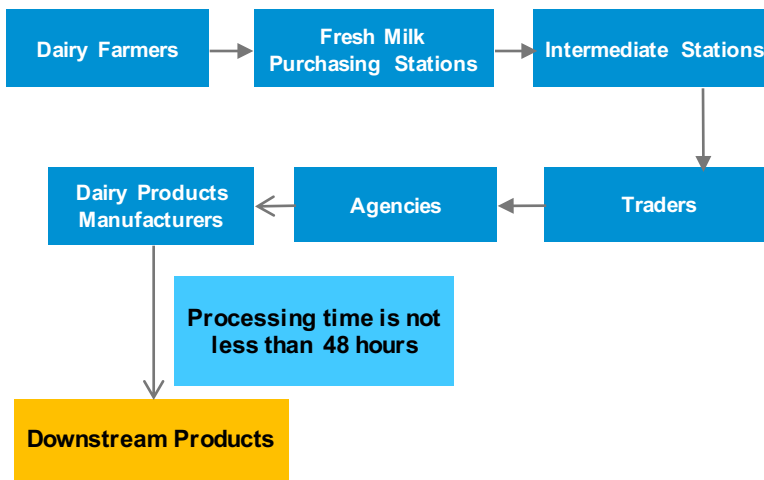




# Safety of Milk Benefits under Modern Method

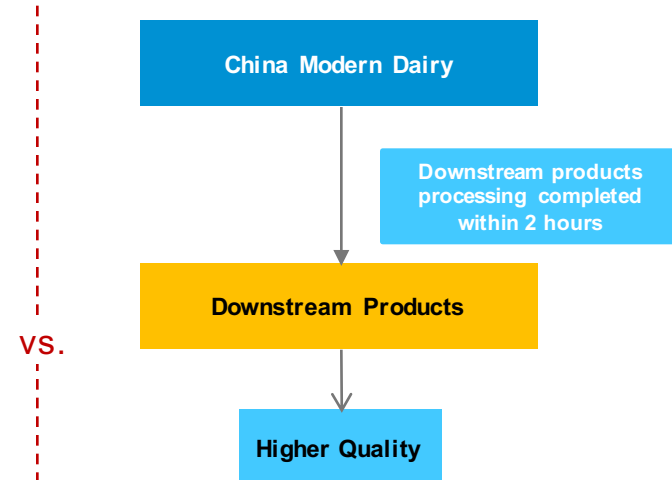
Ensure Safety of Milk Source, Better Cost Control and Eliminate Risks

Traditional Method



- ▶ Traditional method suffers from extensive middle segments and long processing hours. The fast growing microorganism completes a division each 20 minutes and will breed 72 generations within one day.

Modern Method



- ▶ Due to exclusion of middle segments and short processing hour, modern method will ensure high nutrition of the products and enable consumers to enjoy the highest quality fresh milk.



# High Quality Raw Milk

## Advanced Techniques

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

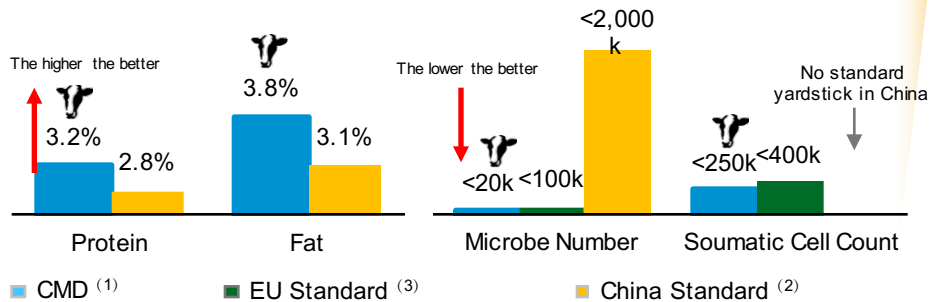
Optimizing feeding techniques

Improving the gene combinations of milkable cows

Strengthening feed mix research and managing

Enhancing the feed nutrients and energy

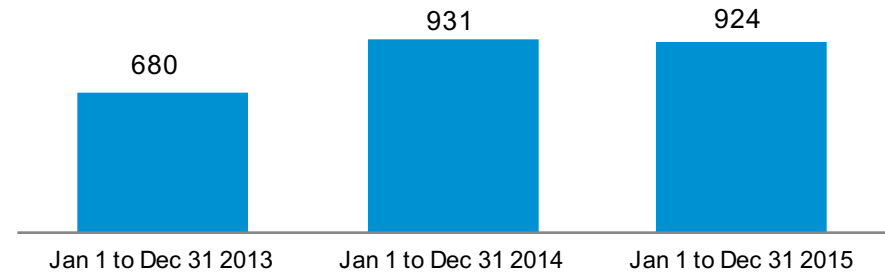
## Strive to Improve the Raw Milk Quality



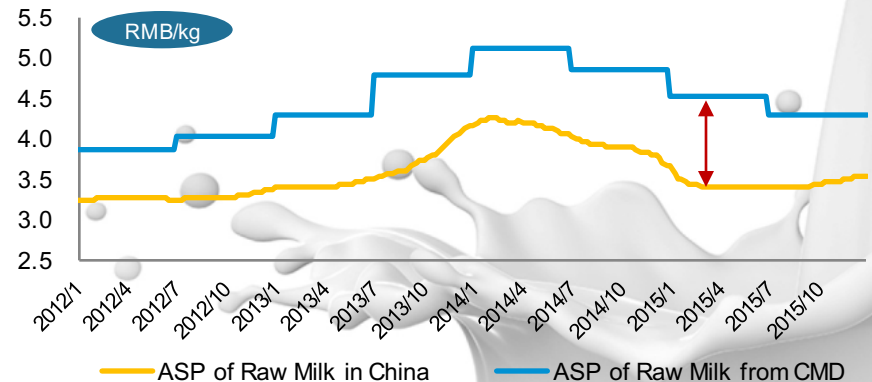
Notes: (1) In terms of herd size and raw milk output.  
 (2) National Food Safety Standard - Raw Milk was published on March 26, 2010.  
 (3) Raw Milk quality standards in Council Directive 92/46/EEC was adopted in 15 EU comprising member countries.

## Rapid Growth in Raw Milk Sales Volume

('000 tons)



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



Source: Company profile and Wind



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## Join hand with the Ministry of Agriculture of PRC and Dairy companies to promote the sustainable development of China Dairy Sector.

### Join hand with the Innovation team of the Ministry of Agriculture of PRC

► On the premise of ensuring that the indicators of microbial products are qualified, the team committed to research and development to reduce the heat damage of room-temperature milk and further reduce the content of furosine in milk.



CMD and the Innovation team of the Ministry of Agriculture of PRC signed a cooperation agreement for the "High-Quality Dairy Project"

### Copy with the challenges from the global dairy brands

► The first summit of "D20 Enterprise Alliance of China's Dairy Industry" was held on 18 August 2015. Ms. Gao Lina, being CEO of China Modern Dairy and one of the six speakers, made a statement at the summit on behalf of China's dairy industry. Mr. Wang Yang, Vice Premier of the State Council and Mr. Han Changbin, Chief Secretary of Ministry of Agriculture of PRC attended the meeting.



► To create the labeling system of high-quality milk  
► To promote feeding techniques  
► Full implementation of the regulation on processing technology standardization of dairy productions



# Enhancing Brand Value

Awarded the Gold Prize in Food Category for the Second Consecutive Year



Awarded Achievement Innovation of Chinese Agricultural Science



Awarded the Top 10 Innovative PRC Enterprises



Awarded Outstanding Contribution in Food Safety and Public Health for the Second Consecutive year





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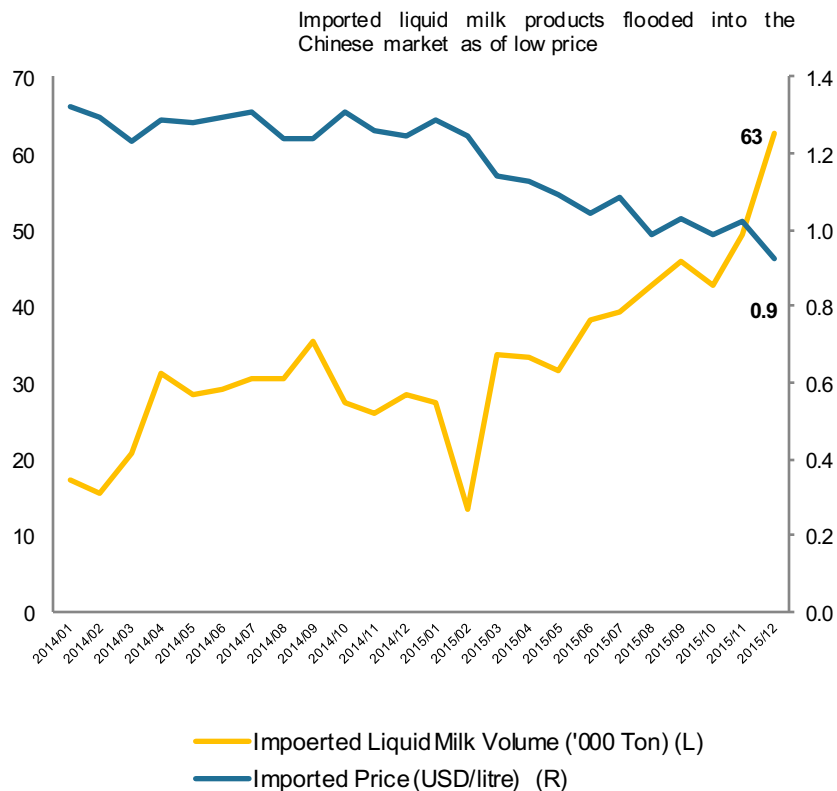
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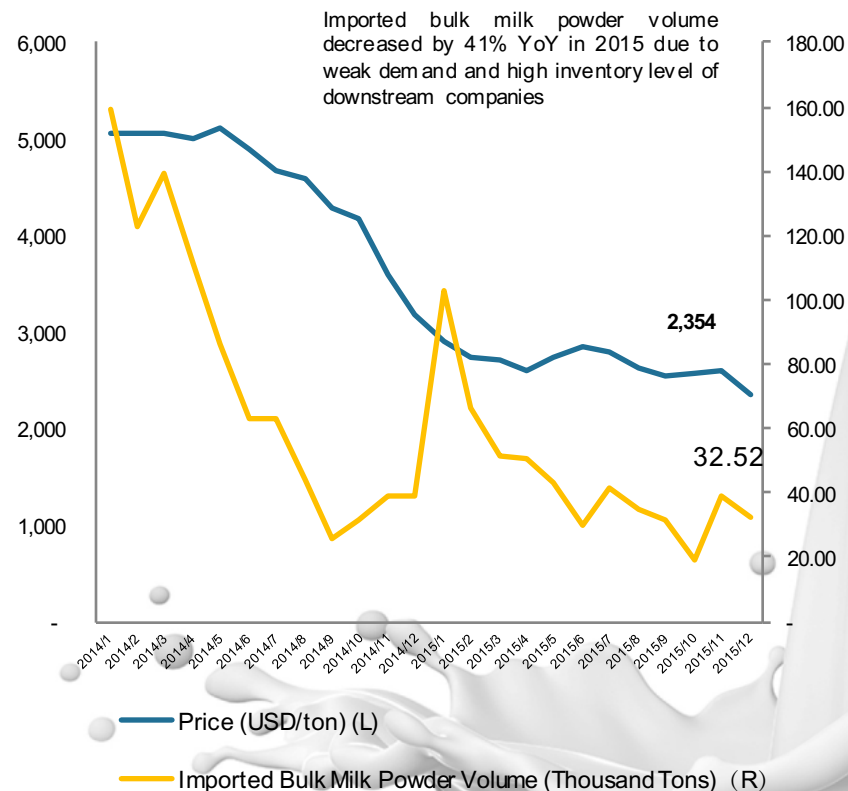


# Impacted by the Imported Dairy Products

## Rapid Volume Growth in Imported Liquid Milk



## Volume declined in Imported Bulk Milk Powder

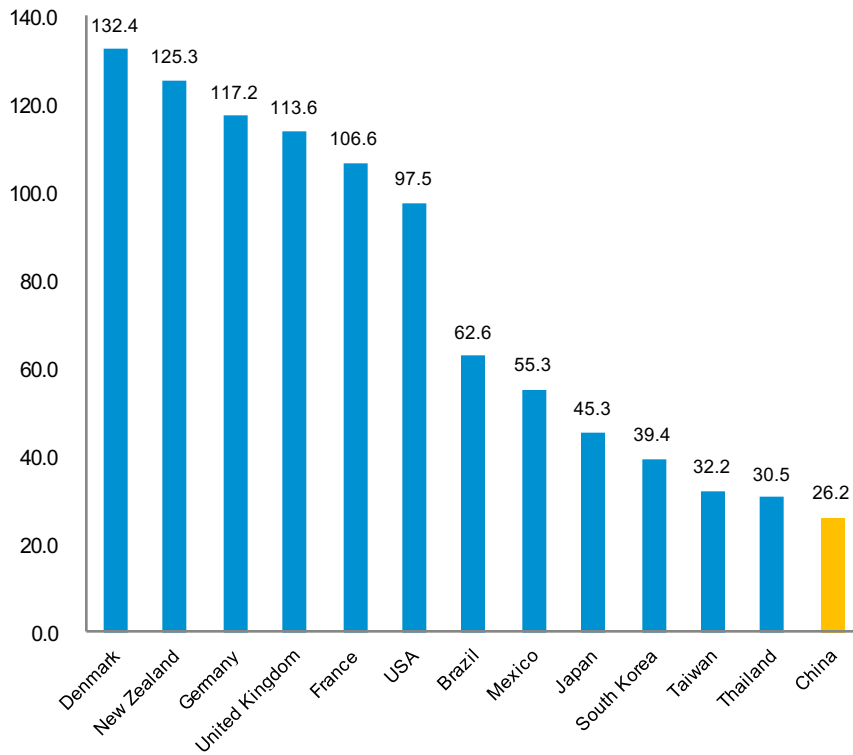




# Benefit from the Growing Demand for Raw Milk

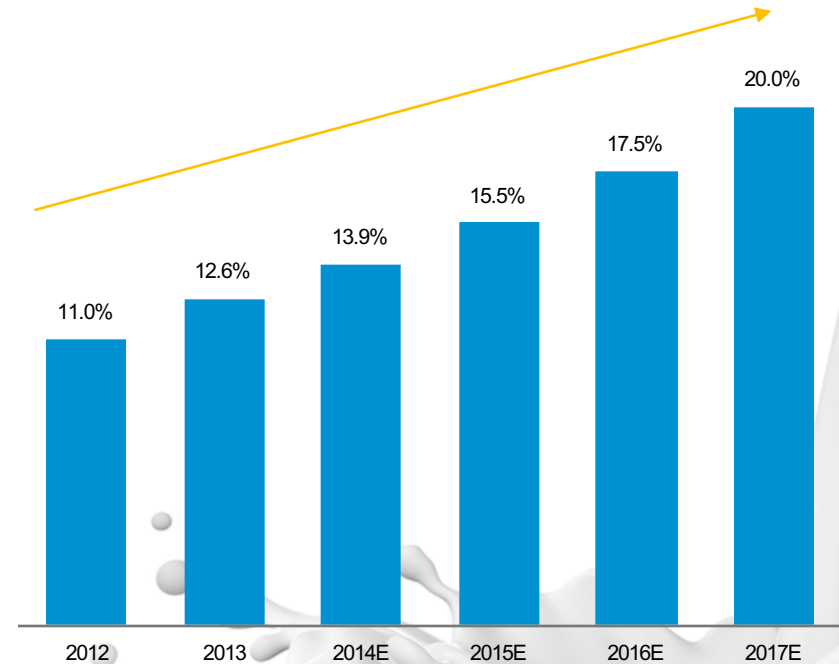
## China's Per Capita Dairy Products Consumption is Still at Growing Stage

Per capita liquid milk consumption, 2015 (kg/person)



## Increased Proportion of Premium Raw Milk

The Percentage of Premium Raw Milk Accounts Among Total Raw Milk Output





**Thank you!**

