



China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

Stock Code 股份代號：1117



连续四年荣获世界食品品质评鉴大会

**金奖**

**Annual Results Announcement**

**二零一七年年业绩报告**





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## 02 Business Review

## 03 Latest Development

## 04 Industry Overview





# 2017 Annual Results Review

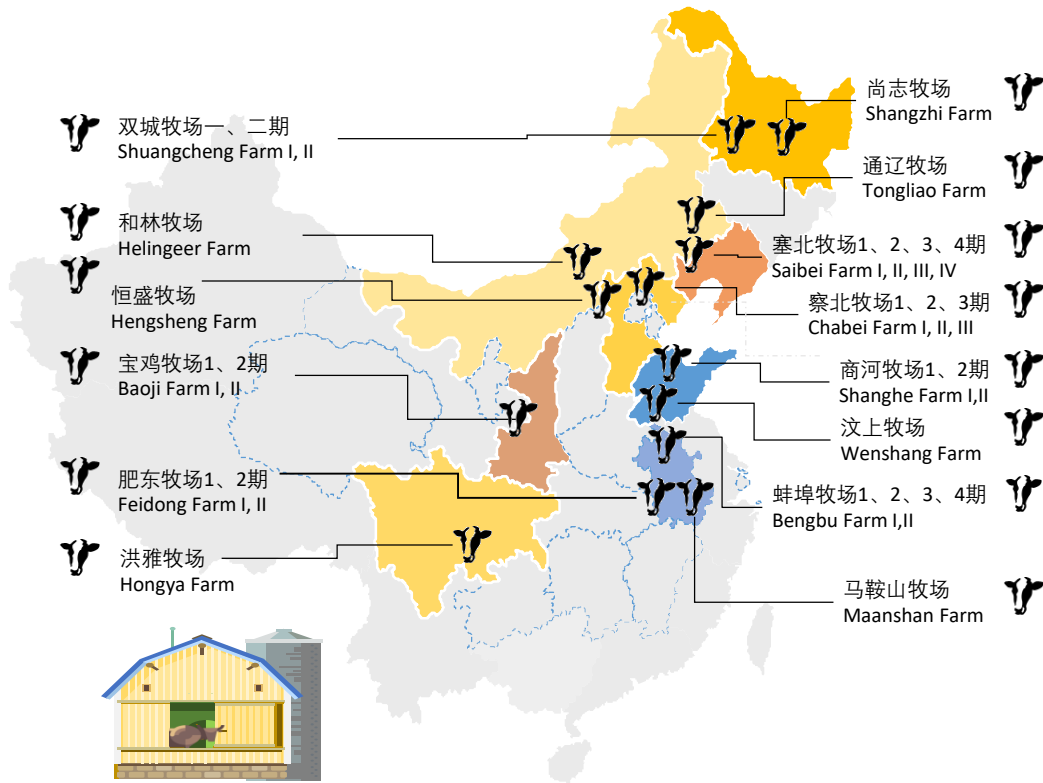


	31 Dec 2017	31 Dec 2016	Changes
	RMB '000	RMB '000	%
Milk Yield per Cow (ton/annum)	9.8	9.4	4.3%
Total Production Volume (0000 tons)	118.2	110.1	7.4%
Raw Milk Cash Cost(RMB/kg)	2.43	2.53	-4.0%
Revenue	4,783,801	4,862,311	-1.6%
Loss from Changes in Fair Value less Costs to Sell of Cows	-868,337	-1,058,928	-18.0%
Impairment loss of Trade and Other Receivables	-495,271	-1,589	NA
Cash EBITDA <sup>(1)</sup>	1,081,783	840,359	28.7%
Net Profit (Loss) Attributable to Owners of the Company	-975,116	-742,103	-31.4%

Notes : Cash EBITDA is defined as Loss before Finance Costs and Tax after having added back: i) Depreciation for Property Plant and Equipment ;ii) Amortization; iii) Other Gains and Losses, Net; and iv) Loss Arising from Changes in Fair Value Less Costs to sell of dairy cows.

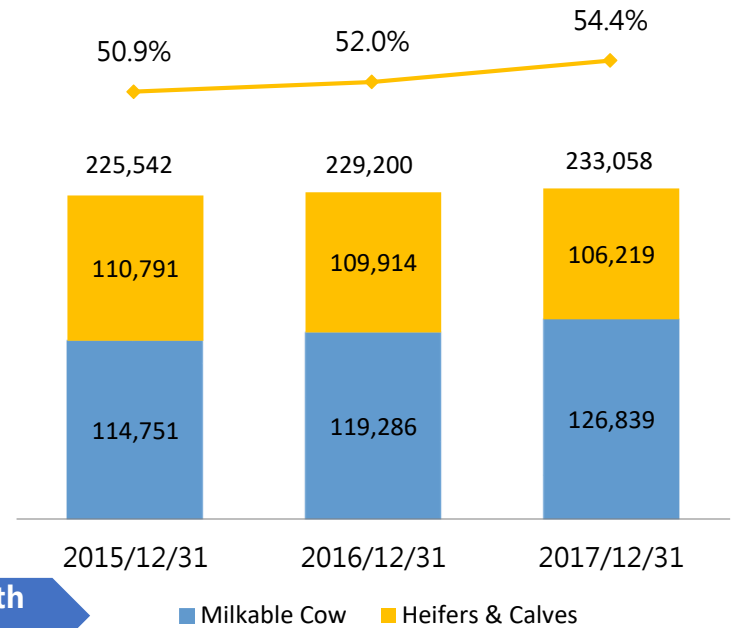


# Upstream Segment – Herd Size



## Herd Size & Proportion of Milkable Cow

Herd Size(head)



Our farms locate at 7 provinces in China, evenly in South and North of China





# Upstream Segment - Milk Yield and Sales Volume

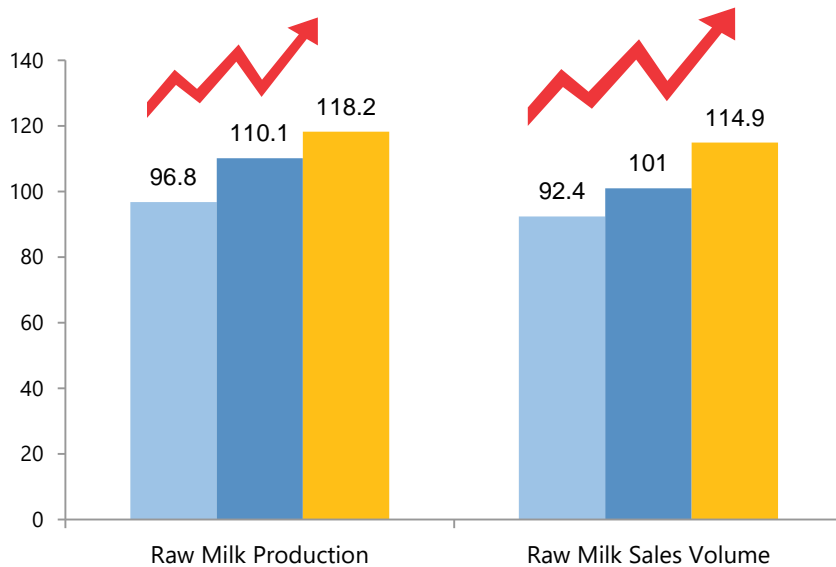


Sustained Growth in Milk Yield and Sales Volume<sup>(1)</sup>

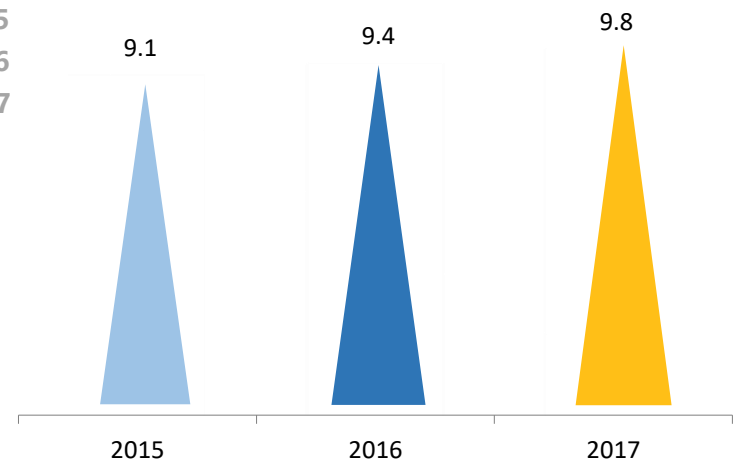


Continuous Improvement in Milk Yield Per Cow

( 0000 ton )



( ton/annum)



Note: (1) Include external sales and internal sales to liquid milk.

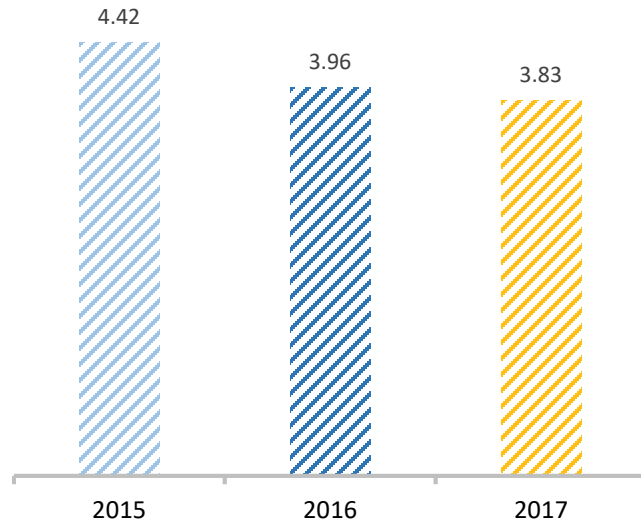




# Upstream Segment – Raw Milk Price and Cash Cost

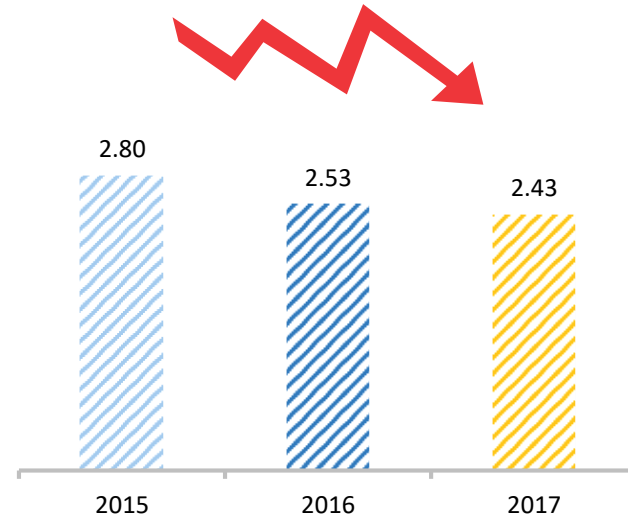
Raw Milk Price for External Sales

( RMB/kg )



Raw Milk Cash Cost (1)

( RMB/kg )



Note: (1) (The cost of sales of raw milk– depreciation of PPE) / sales volume of raw milk

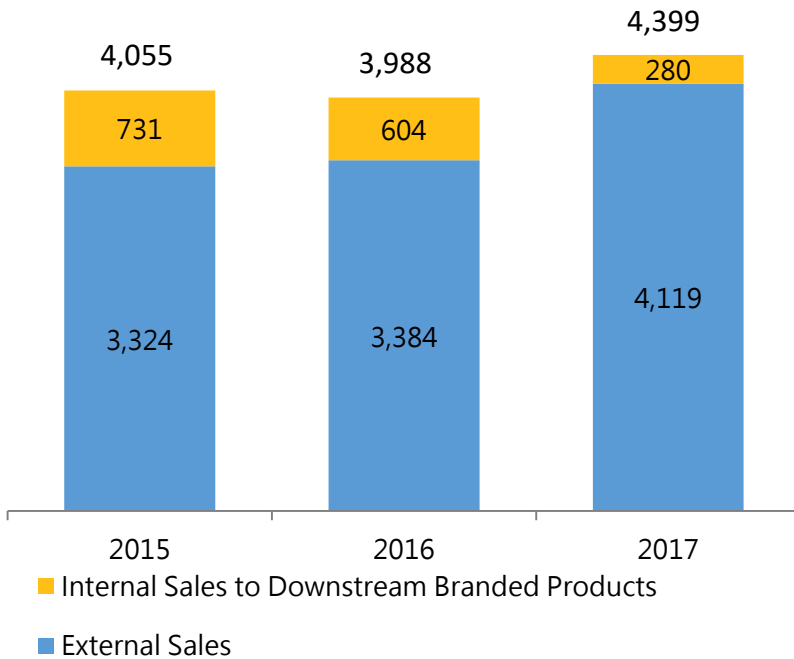


# Upstream Segment – Revenue, Gross Profit and Gross Profit Margin



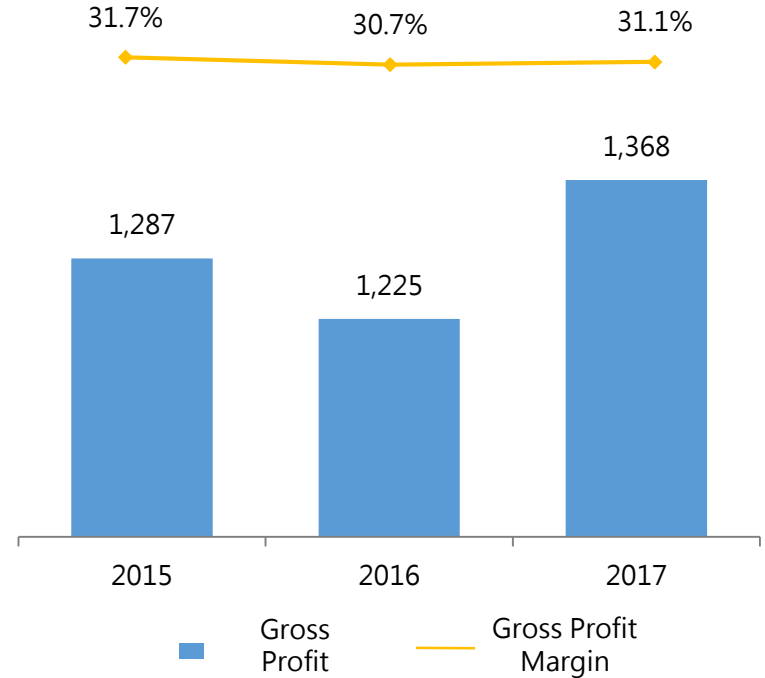
## Sales of Raw Milk

( RMB Million )



## Gross Profit & Gross Profit Margin<sup>(1)</sup>

( RMB Million )



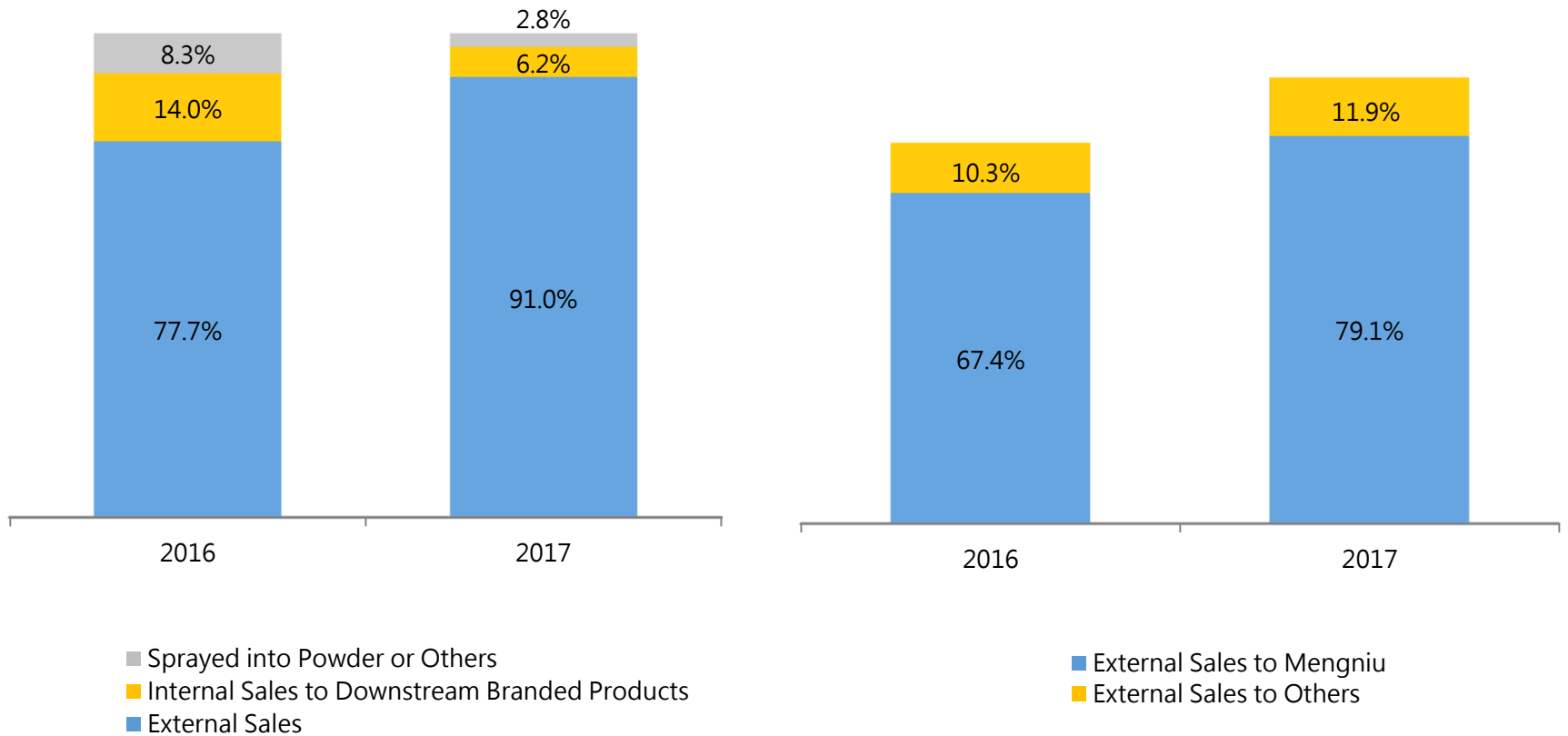
Note : ( 1 ) Before eliminating sales and costs of internal supply of raw milk.







## Upstream Segment – Breakdown of Raw Milk Sales





## Downstream Segments – Sales and ASP



Since June 2017, our downstream business model has changed, in which we sell finished products to Mengniu Company by the way of **cost +3%**



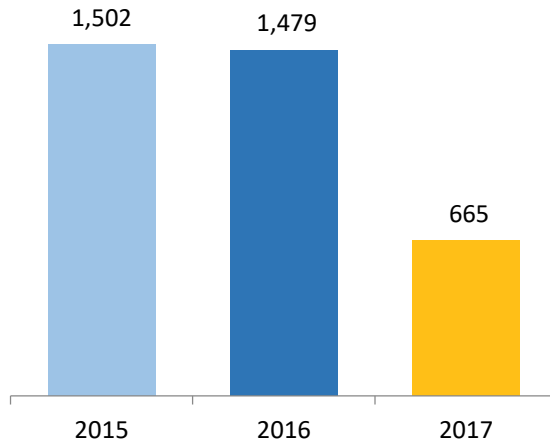
Marketing & promotion costs for liquid milk product has decreased **81.78%** yoy, with ASP decreasing **9.42%** on a yearly basis



We focused on **rebuilding prices**, refining brand image and sales channels in 2H 2017. Selling price maintenance is prioritized than sales volume growth, as a result of which sales dropped 50.38% yoy.

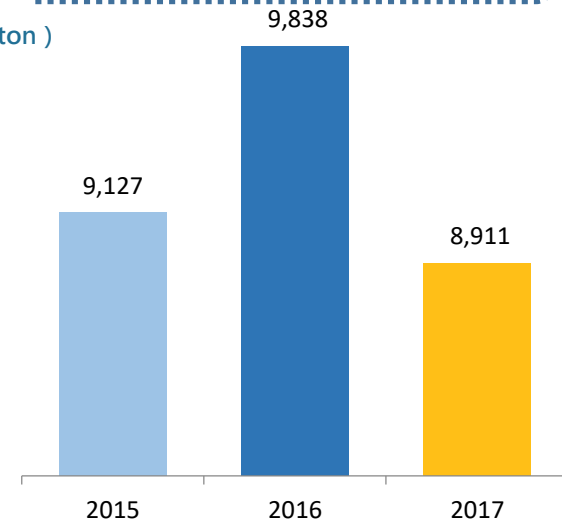
 Sales of Liquid Milk Products

( RMB Million )



 ASP of Liquid Milk Products

( RMB/ton )





# Balance Sheet Overview

	31 Dec 2017	31 Dec 2016	Changes
	RMB' 000	RMB'000	%
Biological Assets	7,751,070	7,602,959	1.9%
Fixed Assets	4,698,736	5,075,030	-7.4%
Total Assets	16,717,581	17,808,704	-6.1%
Total Liabilities	9,629,152	10,685,808	-9.9%
Total Borrowing	7,425,197	6,806,364	9.1%
Debt Ratio(1)	51.6%	49.2%	+240bps
Cash Balance(2)	797,986	1,208,412	-34.0%
Bank Facilities (unutilized)	6,306,479	6,709,321	-6.0%

Notes:

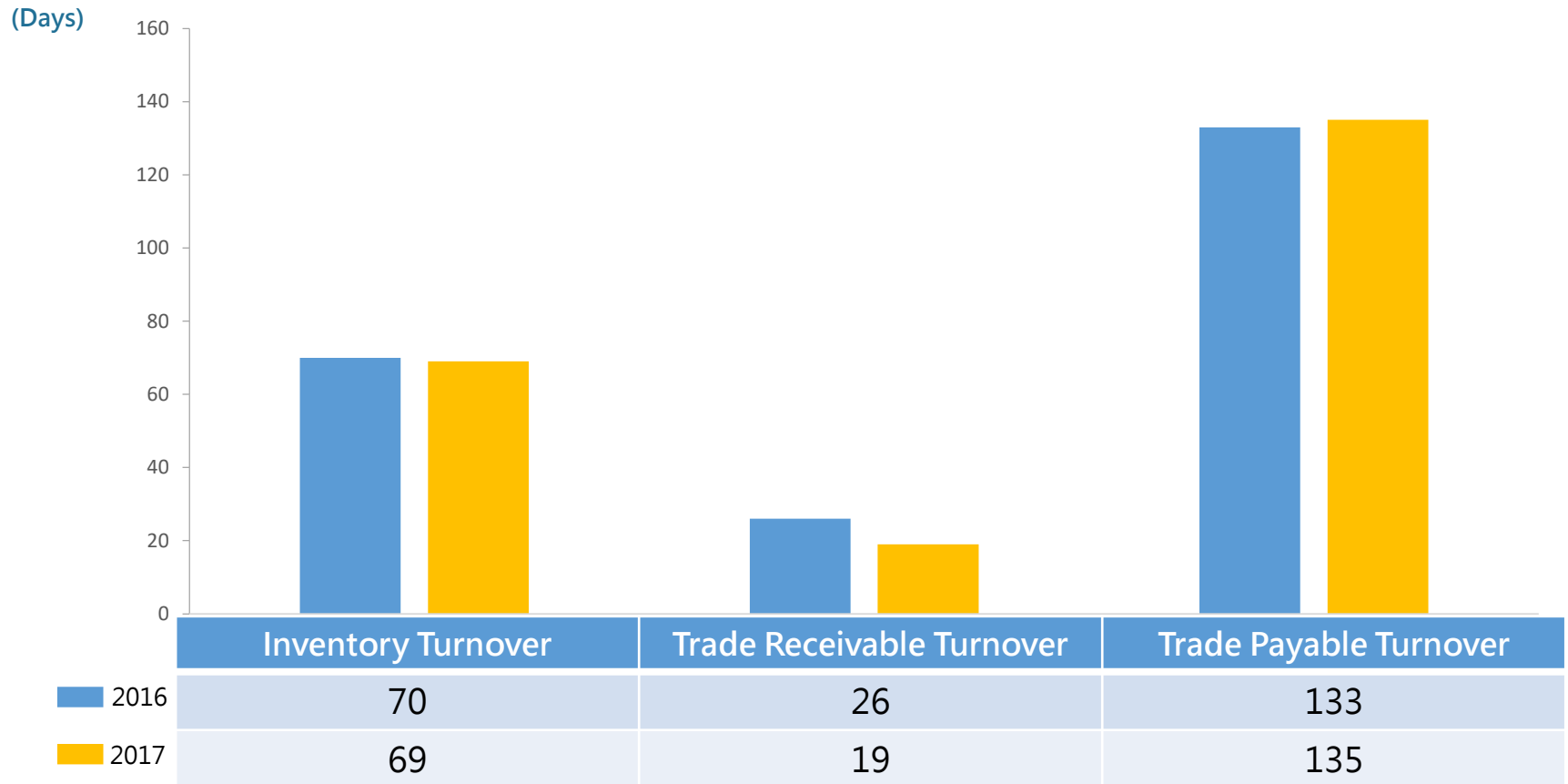
(1) Debt Ratio=Interest bearing liabilities/ (Interest bearing liabilities + book value of total equity)

(2) Including pledged bank balances





# Working Capital Ratio of Our Farms



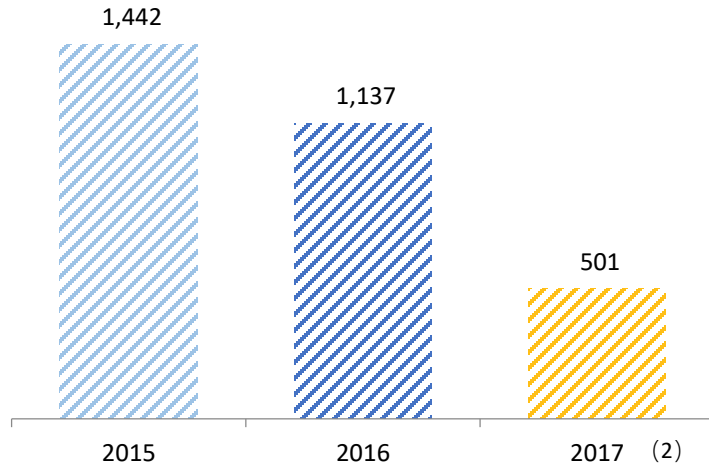


# Cash Flow and Capital Expenses



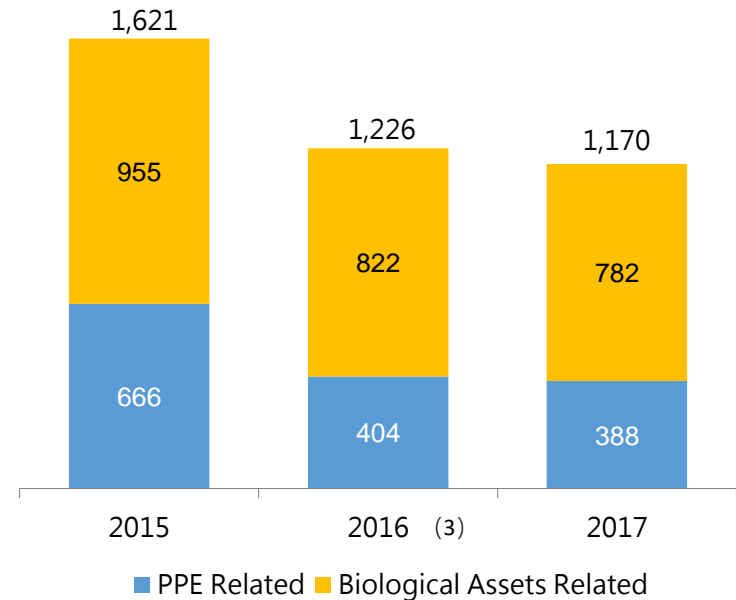
## Operating Cash Flow

( RMB Million )



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

( RMB Million )



Notes: (1) Capital Expenses = The Purchases of Properties, Factories and Equipment + Additions in Biological Assets- Proceeds of Disposal of Dairy Cows  
 (2) Including RMB 300 million silage expenditure in the year of 2016  
 (3) Including proceeds from disposal of commodity dairy cows in the year of 2015

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## Market Pioneer with Industrialized and Recyclable Dairy Farming Model



➤ Industrialized free stall-barn feeding mode and standardized operation procedure and farm design

➤ Implement stringent safety standard and quality control on every production segment

### Quality Monitoring

**The establishment and development of CMD has solved risks and challenges of dairy industry in a systematic and successful way.**



➤ Adopt advanced breeding & feeding techniques and modernized facilities to achieve scale of economy

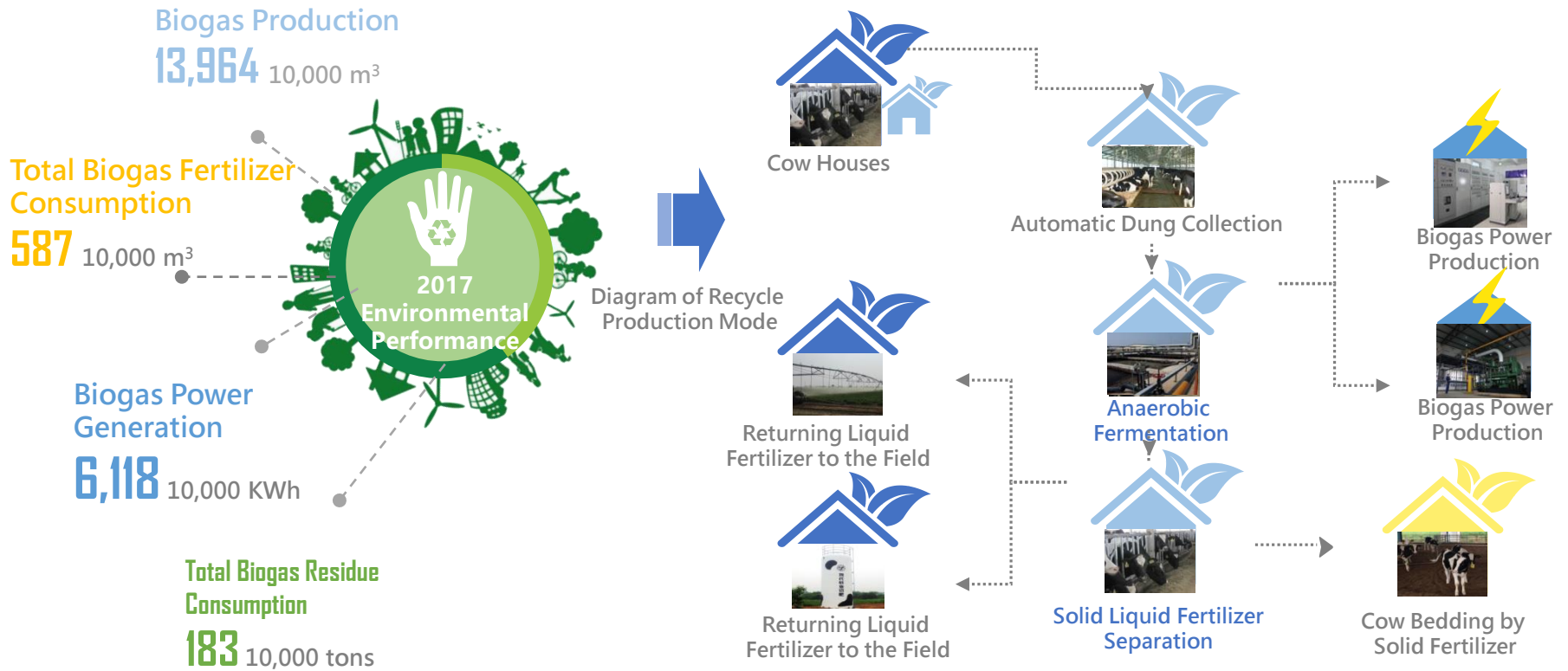
➤ Administer the farm rigorously and attach importance to epidemic prevention. Safeguard the health of herd by disease monitoring, prevention and vaccination.

➤ Produce in an ecologically recycling way. Protect the environment by utilizing the cow dung as resources.





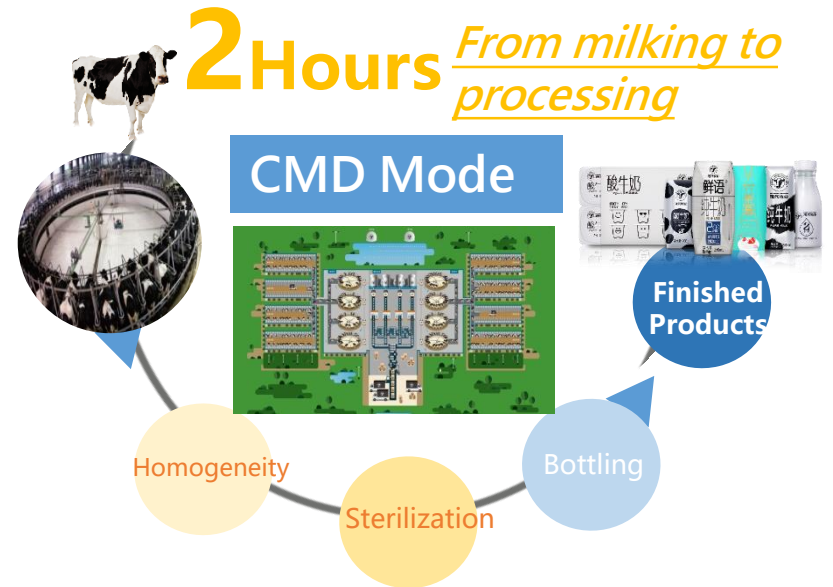
# Recyclable Production Mode







# Innovative Integration of Planting, Breeding and Processing



- CMD' s integration of **Planting, Breeding and Processing**, reduce the two heat treatments and maximize milk' s bioactive substances and nutrients.
- The only domestic enterprise with integration mode of Planting, Breeding and Processing recognized by **SGS**

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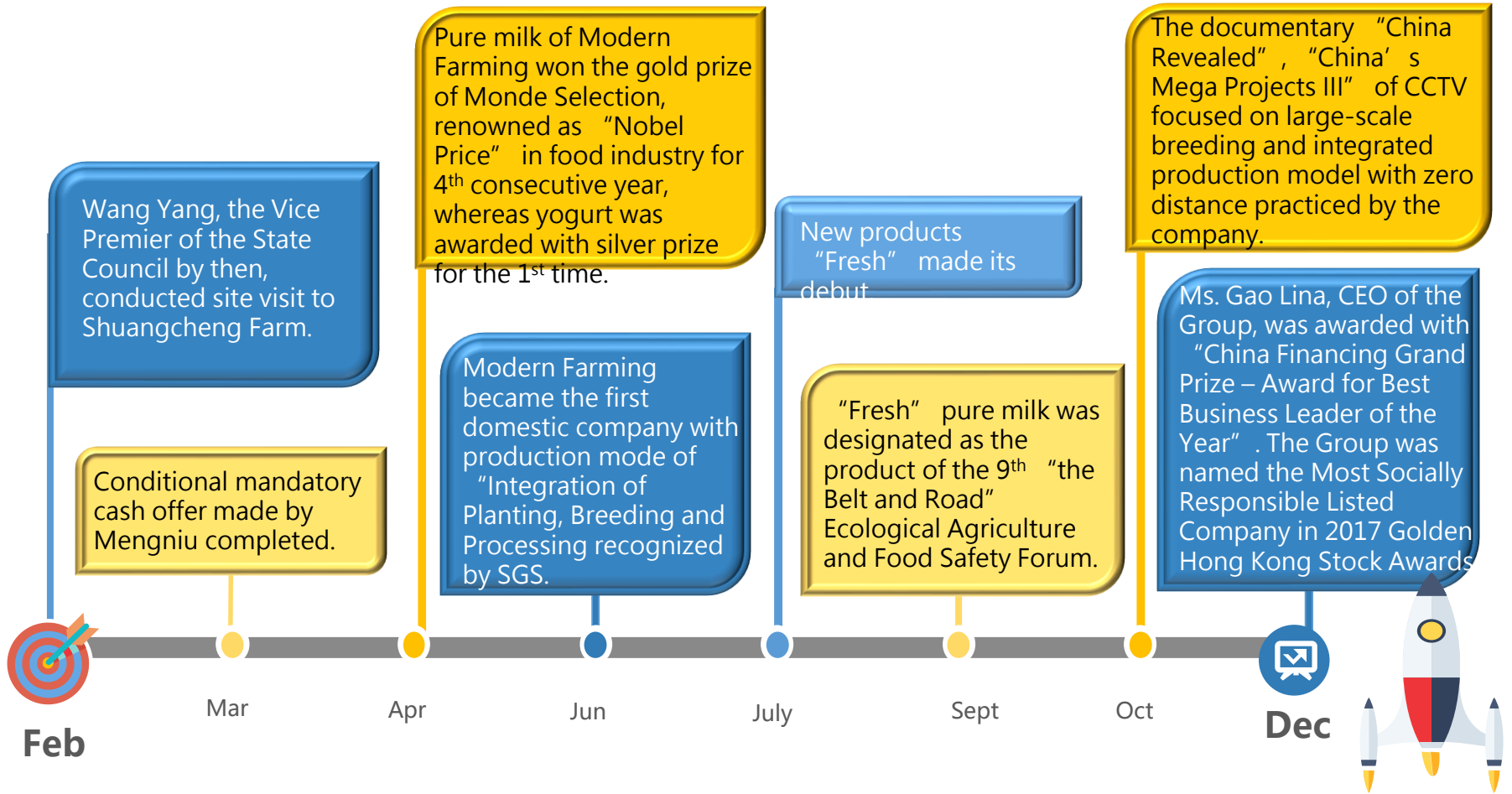
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# Significant Events of CMD in 2017





# Synergy with Mengniu

## Purchasing Synergy



- ▶ Lower procurement cost through negotiation and logistics synergy
- ▶ Reduce intermediate links by leveraging COFCO' s resources

## Quality Control Synergy



- ▶ Unify standard and process to improve inspection efficiency
- ▶ Streamline repeated inspection projects to reduce inspection costs

## Sales of Raw Milk



- ▶ Share strategic plans for collaboration in raw milk supply and production
- ▶ Control volume of imported bulk milk powder and increase the raw milk purchasing from CMD

## Capital Synergy



- ▶ Provide entrusted loan of RMB 1 billion and a bridging loan of RMB 500 million, with 4% annualized interest rate
- ▶ Lower CMD' s financing costs by leveraging Mengniu' s bank credit resources

## Capacity Synergy



- ▶ Mutually share capacity to reduce repeated investment
- ▶ Improve the overall capacity utilization to lower production cost

## Branded Milk Business



- ▶ Leverage Mengniu' s experiences in branding and marketing to expand sales channels
- ▶ Supplement Milk Deluxe, utilize CMD' s advantages of processing milk within 2 hours



# New Products Launched

## Room-temperature Pure Milk "Fresh"



- 💡 New Product "Fresh" made its debut on **11 July 2017**.
- 💡 Adopt the design concept of **"Refrigerator"** with elegant silver-white color to symbolize the freshness of milk was kept.
- 💡 The creative LED screen highlights the feature of milk's freshness as **"two hours from milking to processing."**

## European-style Yogurt "L' Amour"



- 💡 "L' Amour" was officially launched on the **Valentine's Day of 2018**.
- 💡 Adopt the Company's high-quality milk sources with selected **Europe imported bacteria**. Guarantee milking to processing within 2 hours. It offers consumers with combined flavors of rose and cranberry.
- 💡 **L' AMOUR**, a Latin word from Europe, symbolizes the long-lasting love and the European culture of humanity.

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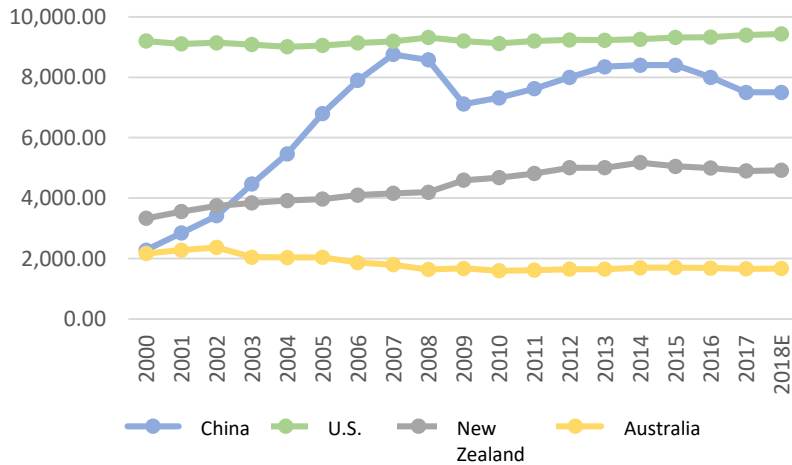


# Global Dairy Data Overview



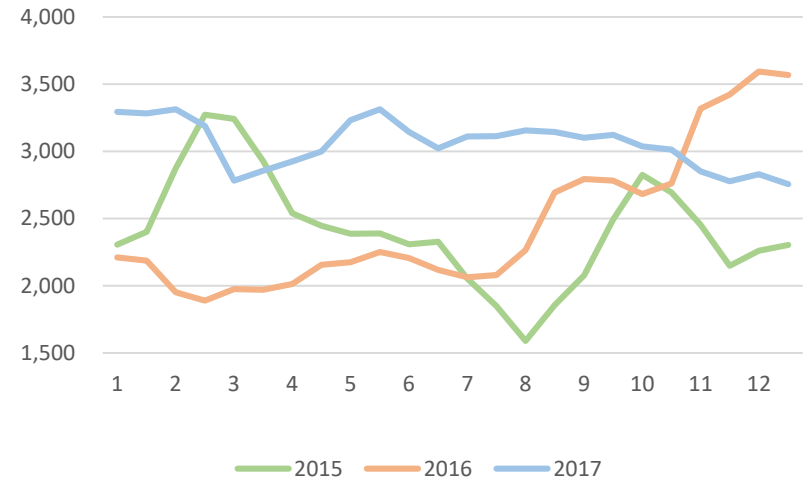
Number of Dairy Cows in Main Global Production Areas <sup>(1)</sup>

( 000 head)



Raw Milk Price Recovered from the Lowest Point in 2017<sup>(2)</sup>

(USD/ton)



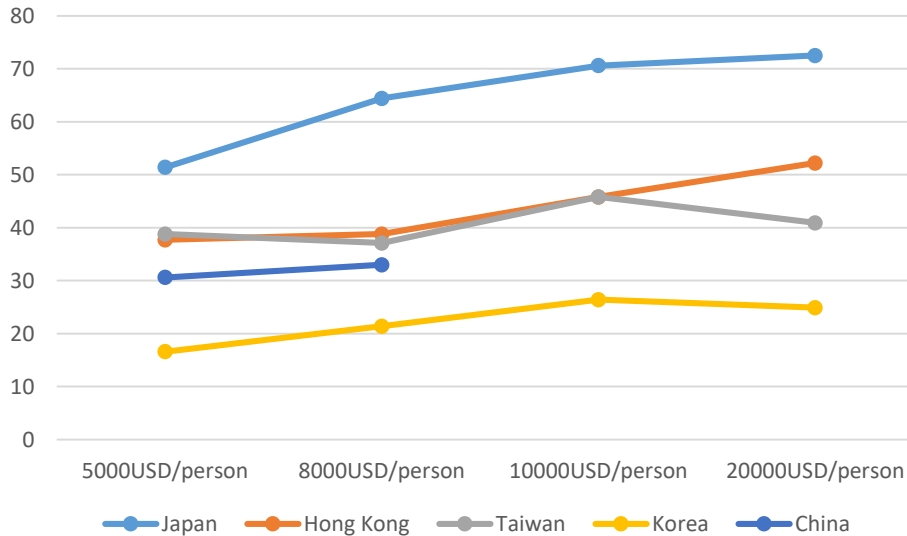
Source : ( 1 ) United States Department of Agriculture ( 2 ) CLAL



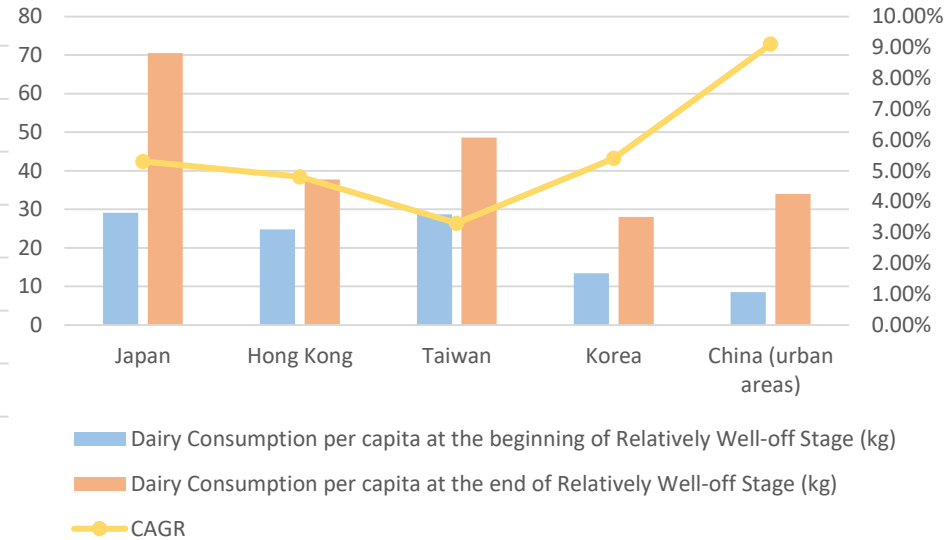


# Huge opportunities in Dairy Consumption Market

Dairy Consumption Increases as GDP per capita Increases in Main Asian Countries/Areas <sup>(1)</sup>



Growth Rate of Dairy Consumption per capita in Relatively Well-off Stage in Asian Main Countries/Areas <sup>(1)</sup>



▶ Huge opportunities lying in domestic dairy consumption.

▶ Dairy consumption per capita in main Asian countries/areas have witnessed significant increase after entering the relatively well-off stage (Engel's Coefficient:30-40%).

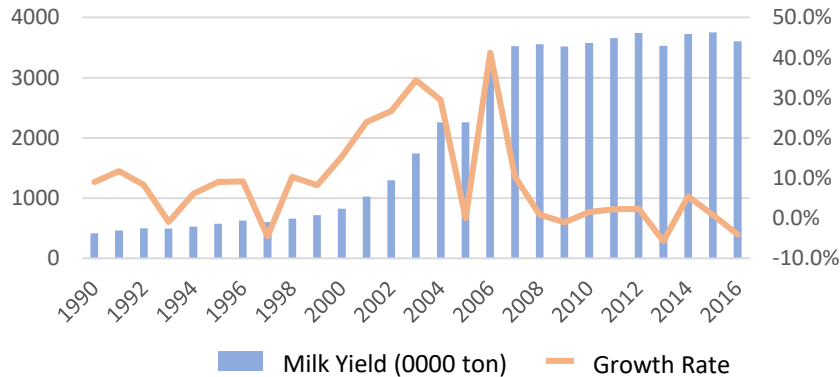
Source : ( 1 ) Wind



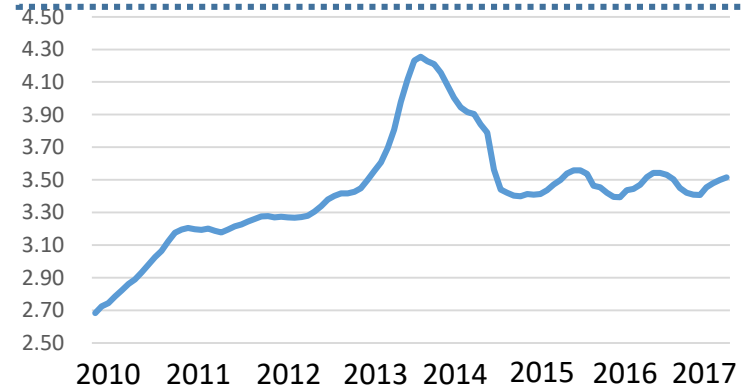


# Domestic Dairy Industry Overview

Growth Rate of Domestic Milk Yield Decrease and even Turn Negative<sup>(1)</sup>

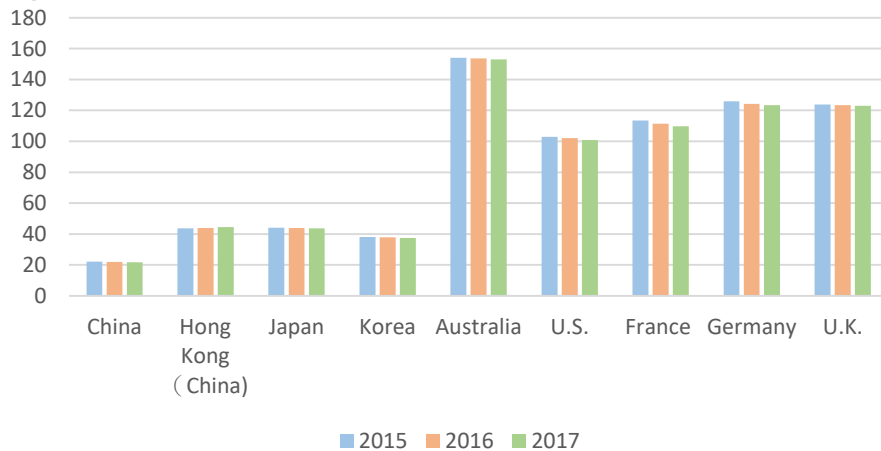


Domestic Raw Milk Price is Expected to Recover from the Lowest Point<sup>(1)</sup>



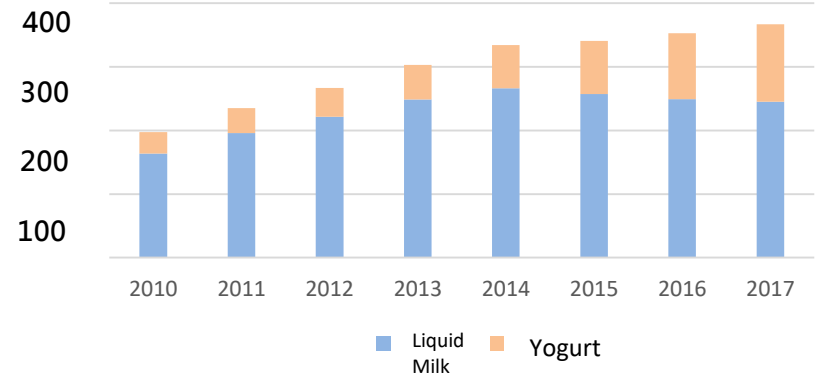
Domestic Dairy Consumption per capita has huge Growth Opportunities<sup>(2)</sup>

(kg per capita)



Domestic Consumption in Liquid Milk and Yogurt Shows an increasing trend<sup>(2)</sup>

(RMB 1 billion)



Source (1) Ministry of Commerce (2) Euromonitor





## Consultation Paper on New National Standards of Inspection on Dairy Products is Published for Comments

On 28 Feb 2018, the first consultation paper on New National Standard for raw milk, pasteurized milk, sterilized milk and reconstituted milk is published for comments.

### Highlights of the New Standard

- 1. Raw Milk Grading System** : Classify the Protein, Fat, Microbe and Somatic Cell in raw milk into Outstanding, Good and Pass Grade.
- 2. Specification on Processing** : Introduce praline and lactulose, two by-products of milk heat processing, to distinguish raw milk, pasteurized milk, sterilized milk, and reconstituted milk in a more scientific way.
- 3. Label of Dairy Product Packaging** : The new standard stipulates that the packaging of pasteurized milk and sterilized milk product can identify the grade, the processing and quality parameters of raw milk used.

Note: Modern Farming is the first company whose pasteurized milk and UHT sterilized milk passed the recognition of "High-quality Milk Project"

### Industry Chain Collaboration to Establish Sound and Sustainable Development in Dairy Industry



Enhance confidence in domestic dairy products



Drive consumption upgrading



Increase consumption of domestic raw milk



Promote development of domestic high quality farms



**2017** **THANK**  
**YOU!**

