



中國輝山乳業控股有限公司
China Huishan Dairy Holdings Company Limited
(Stock Code: 06863)



January 2015

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Company overview – grass to glass



Huishan is China's leading vertically integrated dairy company



Feed plantations

- 480,000 mu of plantations under long-term leases
- Largest alfalfa producer in China
- Significant cost and quality benefits



Liquid milk products

- #1 brand in Northeastern China
- Reputation for quality and safety
- c. 60% of the group's raw milk sales are internal



Dairy farming

- 162,394 cows and 63 farms in Liaoning province
- Second largest dairy herd in China
- Industry leading milk quality and milk yields



Milk powder products

- JV partner with global infant milk formula leader FrieslandCampina
- Only domestic Chinese brand solely using self produced raw milk

Our strategy – investing in growth



GENERATE SIGNIFICANT SHAREHOLDER VALUE BY

- Continue to grow our premium raw milk production to meet strong demand for premium raw milk in China
- Develop industry leading brands are recognized for the unique and quality of Huishan milk
- Investing prudently to fulfill our business potentials

SHORTER TERM

Continue to build on our market-leading position in N.E China:

- Continued rapid growth of raw milk production, number of milkable cows, and total herd size as we increase the number of farms we operate, and supplement organic herd growth with additional heifer acquisitions and imports
- Increasing liquid milk products sales with a new 360ktpa processing facility in Mar/Apr 2015
- Laying the groundwork for expansion outside of N.E China through product testing and the initial set up of distribution networks with a focus on Shandong, Hebei, Sichuan, and Jiangsu provinces

MEDIUM TERM

Expand into other provinces and to build our product offering:

- Increase awareness of the Huishan brand outside of NE China
- Expand distribution channels for liquid milk products into new markets based on the results of initial product testing
- Build the infant milk formula business in conjunction with FrieslandCampina, our joint venture partner
- Develop farms in new geographic markets to meet increasing demand for pasteurized milk products
- Introduce new premium products in response to changing consumer preferences

Executive summary



- Turnover increased by 30.0% to RMB1,995m
- Gross profit margin was 57.1% compared with last year's 58.0%
- Net profit increased by 53.0% to RMB789m

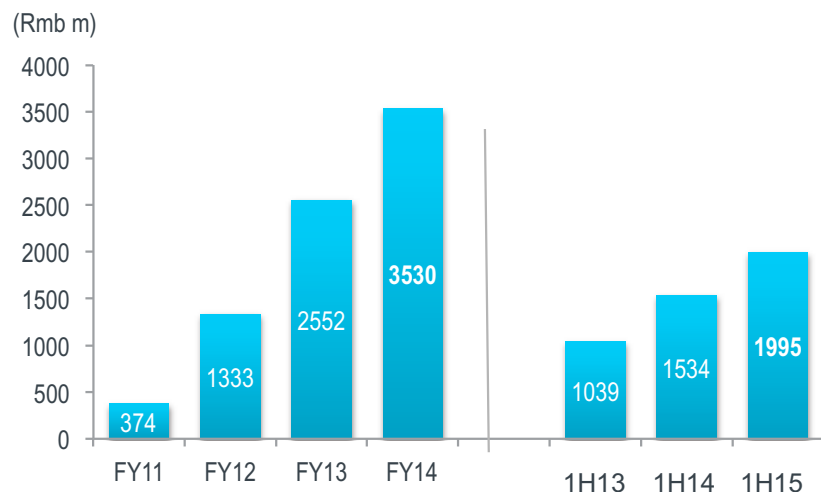
- Cash generated from operations increased 63.8% yoy
- Cash and cash equivalents were RMB2,954m

- Total herd size was 162,394 cows, milkable cows accounted for 40.2%
- Raw milk output increased 25.5% yoy to 289,116 tonnes
- Milk yield increased 5.8% to 9.1 tonnes
- Average raw milk price was RMB5,033 per tonne

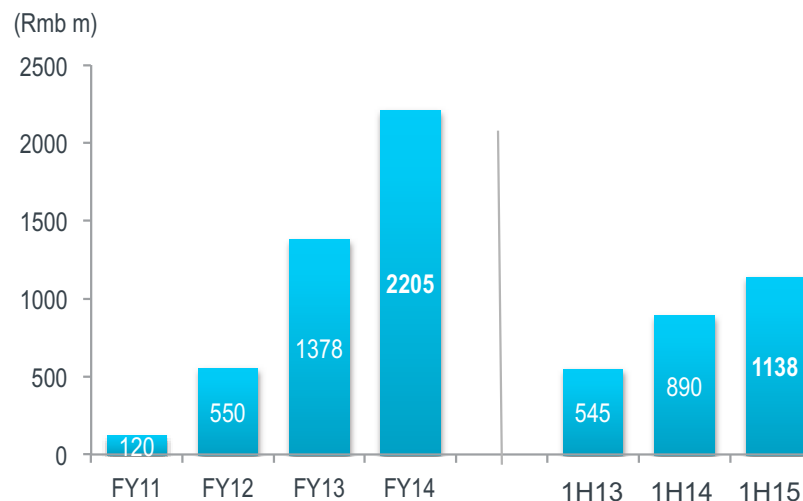
Financial performance overview



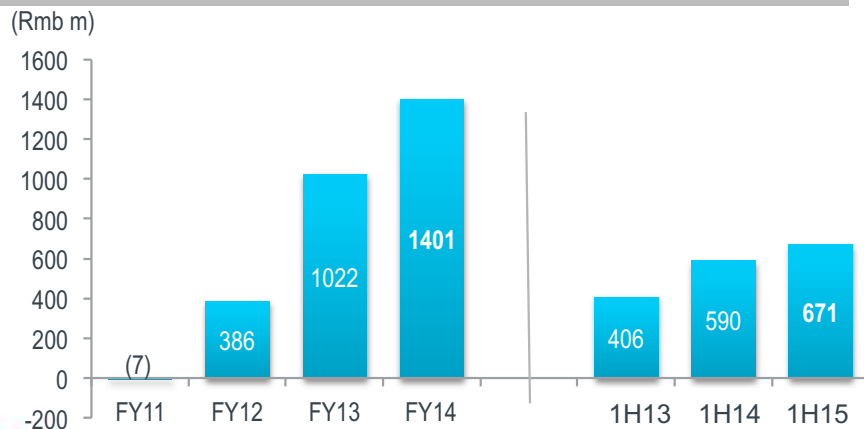
Revenue



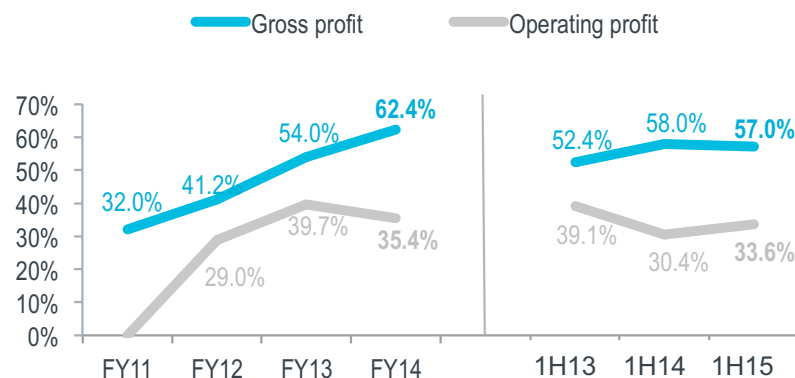
Gross profit



Operating profit¹



Margins



(1) Operating profit is attributable net income before biological fair value adjustments, noncash stock option expenses, and nonrecurring IPO expenses

Turnover and GP

Turnover RMB'm

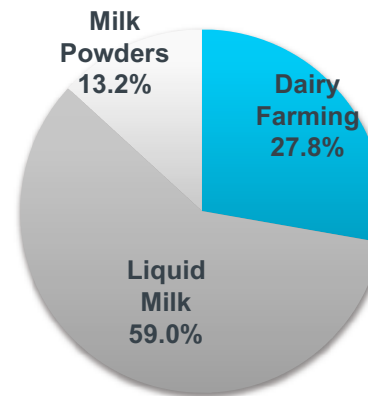
	1H2015	%	1H2014
Dairy Farming			
External Sales	554	31%+	424
Liquid Milk	1,178	18%+	1,002
Milk Powders	263	144%+	108
Total	1,995	30%+	1,534

Gross Profit* RMB'm

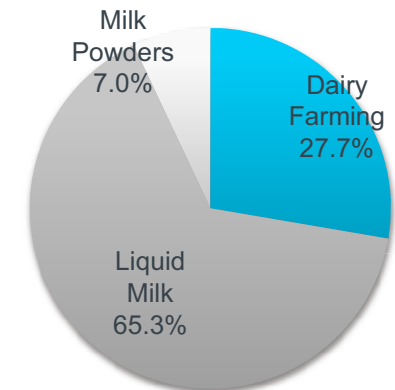
	1H2015	%	1H2014
Dairy Farming	317	32%+	241
Liquid Milk	725	19%+	611
Milk Powders	96	146%+	39
Total	1,138	28%+	891

* After elimination of internal supplies of milk

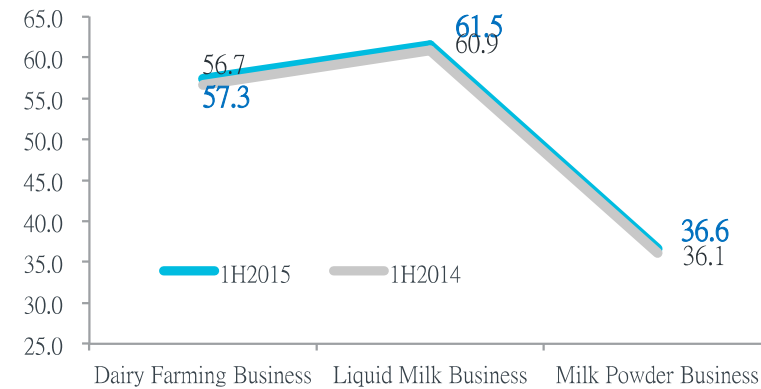
1H2015



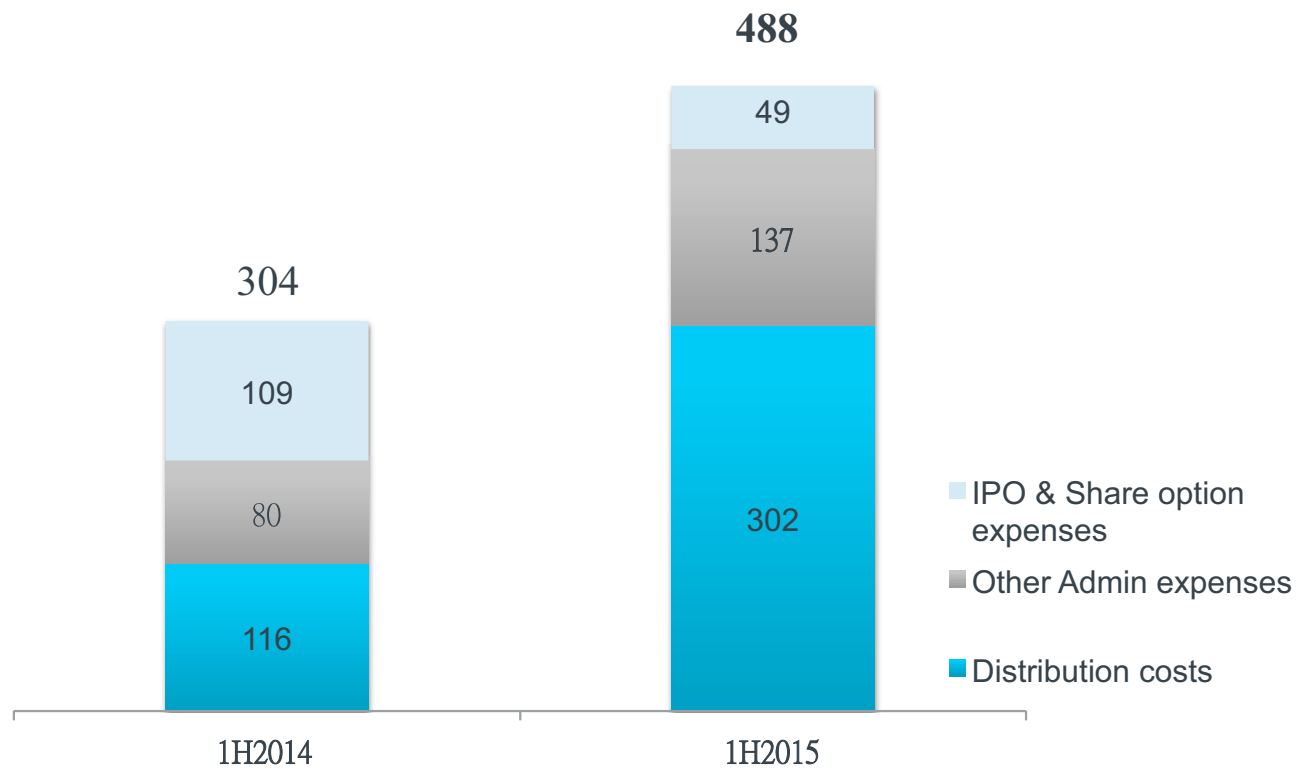
1H2014



GP Margin%

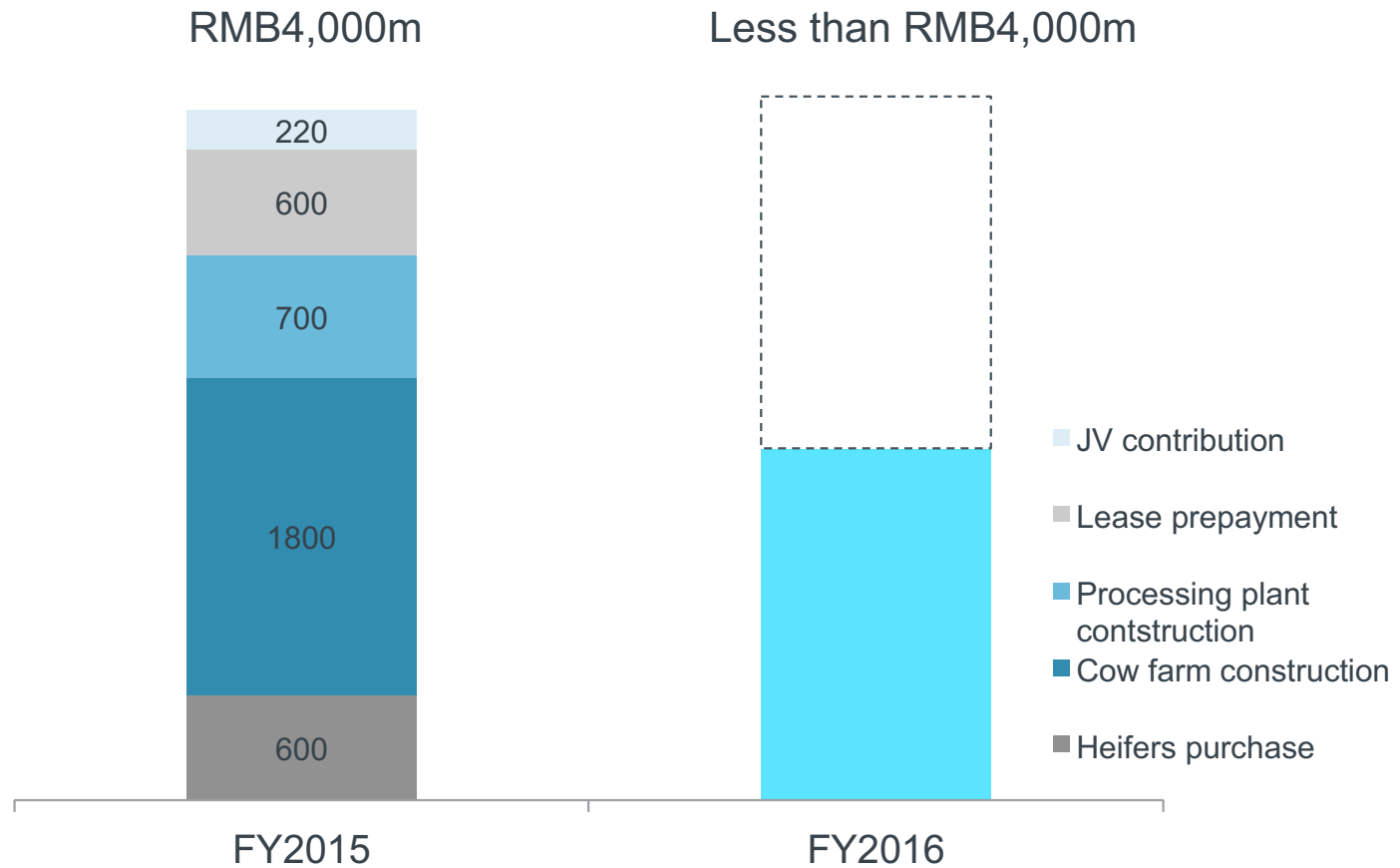


Operating expenses – Investing prudently for growth



OPEX to revenue	19.8%	24.4%
Distribution costs to revenue	7.5%	15.1%

Capex - Investing prudently for growth



Strong cashflow generated from operating activities



RMB'm	1H2015	1H2014	Change%
Net cash generated from operating activities	991	605	+63.8%
Net cash used in investing activities	(3,488)	(1,549)	+122.9%
Net cash generated from financing activities	386	6,610*	
Cash and cash equivalents	2,954	6,478	

* Including RMB6,169m of IPO proceeds

Company debt maturity and target gearing

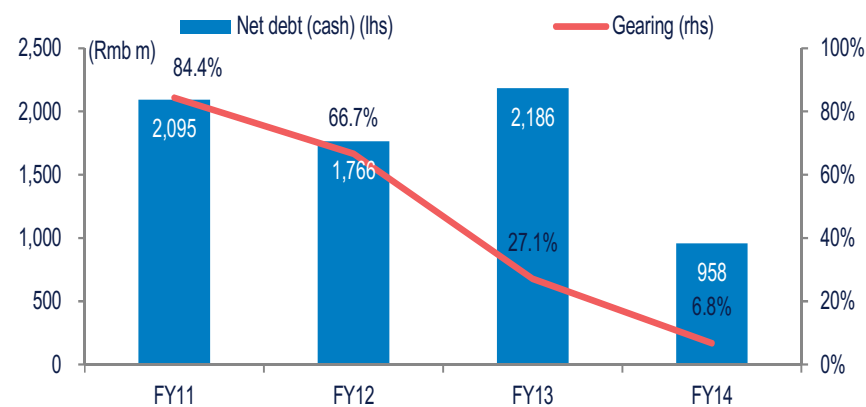


Huishan remains conservatively geared

Debt maturity profile as at Sept 2014, Rmb m

Bank loans due within 1 year	2,411
Bank loans due after 1 year but within 2 years	1,407
Bank loans due after 2 year but within 5 years	2,753
Bank loans due after 5 years	924
Gross debt	7,495
Cash and cash equivalents	2,954
Term deposits less than one year	1,165
Net debt	3,376

Net debt and gearing



- As at 30 Sept, 2014 Huishan had total debt of Rmb7,495m and net debt of Rmb3,376m
- Gearing (net debt/equity) was just 24.7%
- Given our current cash balance and cash flow from operations we intend to remain conservatively geared although this does provide flexibility as we continue to grow the business

Maximizing shareholder value



- On 13 October 2014 the Company announced the implementation of a share repurchase plan
 - An initial on-market repurchase of up to HK\$780m of shares, subject to market conditions, financed from existing cash reserves
 - Up until 23 November 2014 the company has repurchased 41.172m shares at an average price of HK\$1.752/share

- As part of the proposed JV Agreement, FrieslandCampina has committed to the purchase on-market of US\$30m of shares (0.93% of total shares on issue assuming a price of HK\$1.75 /share) in Huishan within 6 months of completion of the JV Agreement. These shares will be subject to a 6-year lock up period

Share price performance since IPO on 27 September 2013



Source: Bloomberg

Shares bought back and average price

Date	Shares, k	Paid, HK\$m	Paid, HK\$/share	% of shares	% of float
10/15/2014	8,000	14.0	1.754	0.056%	0.153%
10/16/2014	1,620	2.8	1.741	0.011%	0.031%
10/17/2014	5,804	10.1	1.741	0.040%	0.111%
10/20/2014	13,600	23.6	1.737	0.095%	0.260%
10/21/2014	5,278	9.2	1.752	0.037%	0.101%
10/22/2014	6,870	12.3	1.794	0.048%	0.131%
Total	41,172	72.1	1.752	0.287%	0.788%

Source: HKSE filings



Dairy farming



Dairy farming segment business overview



Largely self-sufficient in feed



- 480,000mu of leased land with an average lease of 15 years
- Includes 140,000mu of alfalfa plantations
- 280ktpa of concentrated feed processing capacity
- We are self sufficient in alfalfa production and largely self-sufficient in corn silage production



Self-sufficiency in alfalfa gives us a material cost advantage versus peers



Our ability to secure sufficient arable land is a key competitive advantage

A rapidly growing dairy herd



- 63 standardised dairy farms in Liaoning Province, China
- A herd size of 162,394 Holstein and Jersey cows as at 30 Sept 14 but growing
- A target of importing c. 30,000 heifers in both FY15 and FY16 to supplement a herd already growing organically at c.10% pa



Our raw milk is high-quality and realises a premium to the industry average



We will consume more raw milk internally as our liquid milk products sales increase

Premium raw milk production



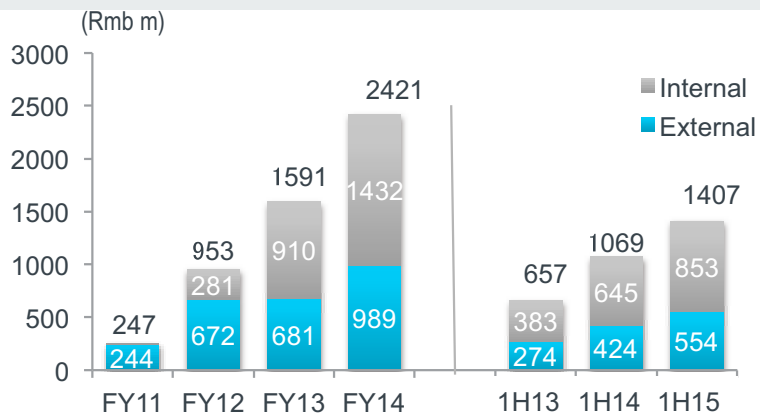
- 289,116 tonnes of premium quality raw milk production in 1H2015 with average realised raw milk prices of Rmb5,033/tonne
- A yield of 9.1t per milkable cow
- 61% of raw milk segment sales made internally
- Yili is our largest external raw milk buyers



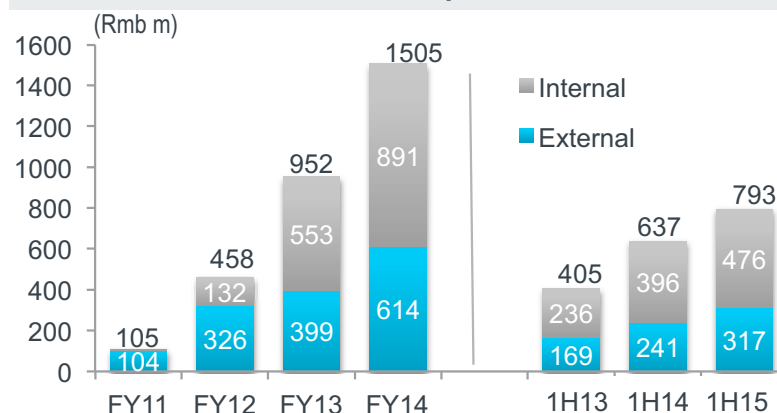
Financial overview



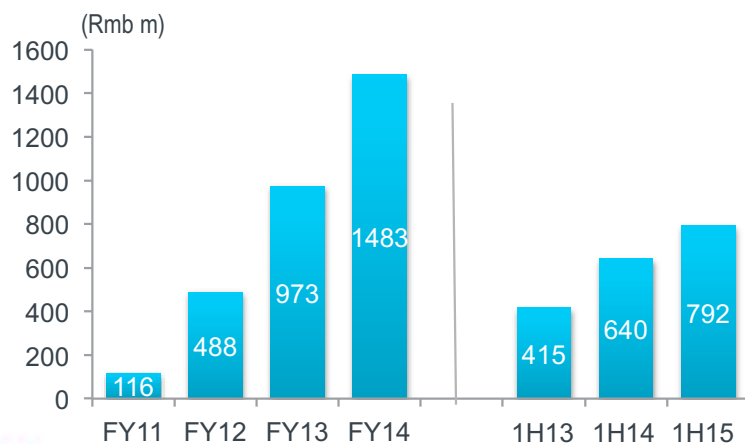
Revenue



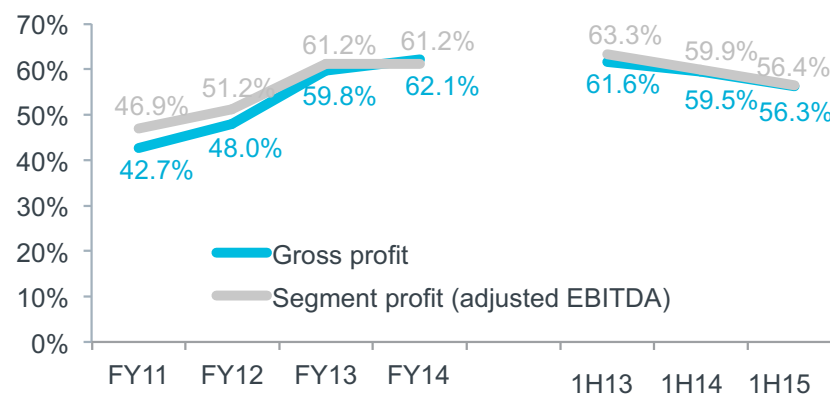
Gross profit



Segment profit¹ (adjusted EBITDA)



Margins



(1) Segment profit is "adjusted EBITDA" adjusted for items not specifically attributed to individual segments and before changes in fair value to biological assets (see our financial statements for a complete definition)

Rapidly growing dairy herd



- As at the 30 Sept 2014 we have a herd size of 162,394 cows, of which 65,312 are milkable cows and we now have 63 standardised dairy farms in Liaoning province
- We expect the herd size to continue growing rapidly based on:
 - Our target of purchasing of c. 30,000 heifers pa in FY15 and FY16
 - An organic growth rate of c.10% (of total herd size), consistent with historical growth rates
- The percentage of milkable cows to total herd size is expected to remain relatively flat in FY15 (42.5% in FY14) and to fall to c. 40% in FY16 as we continue to grow rapidly and import younger heifers, but will increase towards a longer-term sustainable ratio of c .60% as the herd matures

Herd size and %'milkable cows

	31/3/13	30/9/13	31/3/14	30/9/14
Milkable cows	49,889	57,040	61,286	65,312
Heifers and Calves	62,962	71,312	82,905	97,082
	112,851	128,352	144,191	162,394
% of Milkable cows	44.2%	44.4%	42.5%	40.2%

Maintaining high milk yields

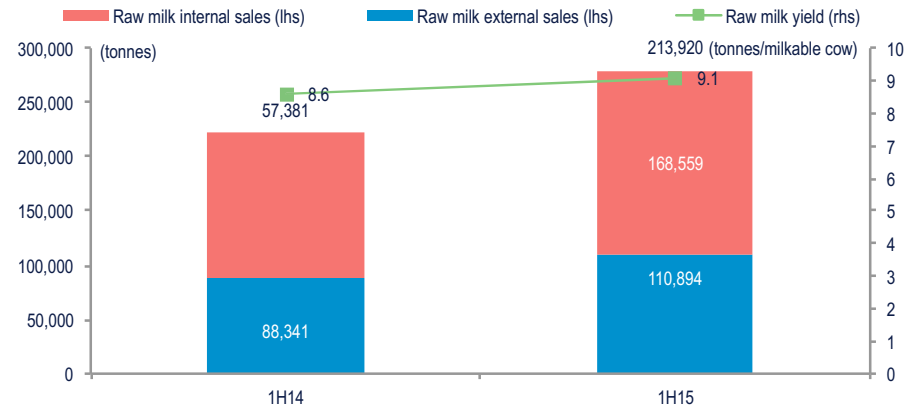
- We achieved a yield per milkable cow of 9.1 tonne in 1H2015, an increase of 5.8% compared to last year's 8.6 tonne.
- The company aims to sustain high yields through:
 - Culling of low yielding cows
 - Ongoing purchases of heifers with superior genetics
 - Optimization of the feed mix
 - Management of milking schedules and cow welfare
- Our yields are comparable to peers implementing modern farming practices but are well above the average yield of 7.8tpa for large dairy farms in China**

*We calculate our milk yields on a daily basis. Yields calculated by dividing the total raw milk production in a period by an average number of milkable cows in the period, based on reported period beginning and end milkable cow numbers, may therefore differ slightly

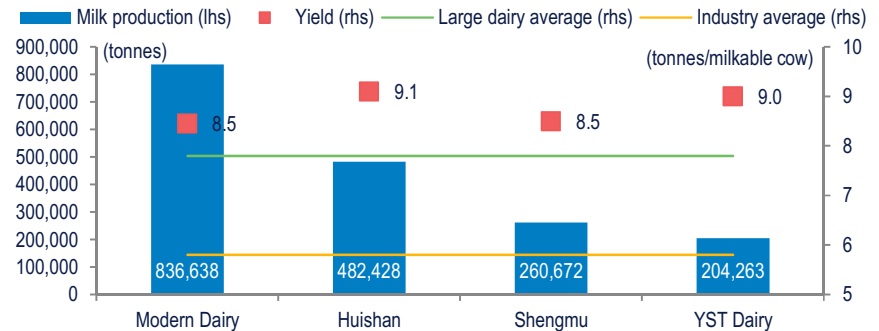
**According to Frost & Sullivan



Huishan's raw milk sales and yield



Milk production and yield per milkable cow



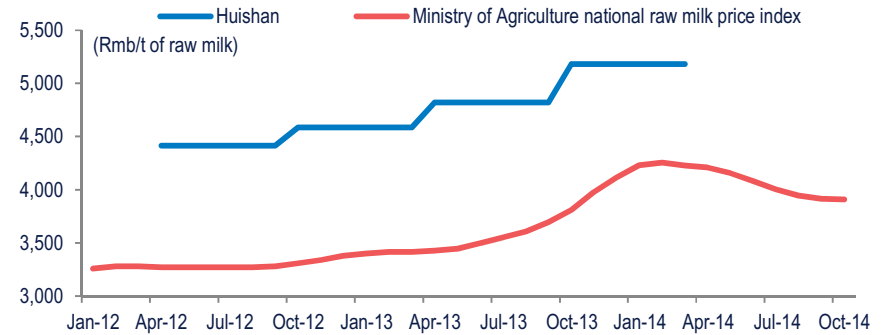
Source: Company financial statements, Frost & Sullivan

(1) Industry data is for Chinese dairy farms in the year ending Dec-12 from the Frost & Sullivan industry report in Huishan's IPO prospectus.

Premium realised raw milk prices

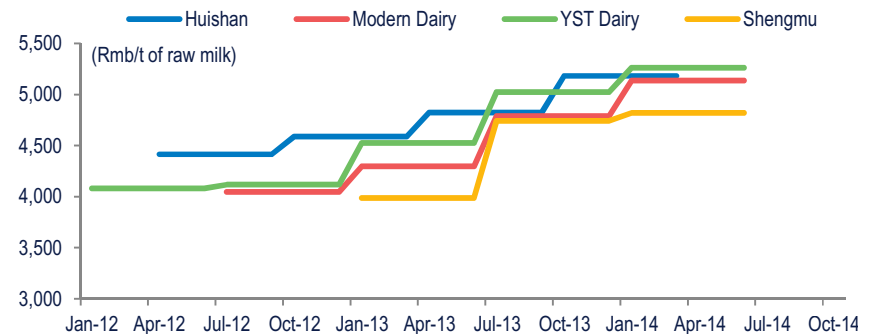
- Raw milk prices in China, as reported by the Ministry of Agriculture national raw milk price index, have stabilised after falling since February 2014
- Our average raw milk sales price was RMB5,033/tonne in 1H2015
- Our realised price is only loosely correlated to the raw milk price index due to:
 - Our realisation of significant price premiums that reflect the higher quality of our raw milk and the more positive supply and demand trends in the premium raw milk segment
 - Significant regional raw milk price differences that are obfuscated in the national index
 - Our contracts are repriced at 3-12 month intervals, reducing realised price volatility
 - Longstanding relationships with Mengniu and Yili, our two main external customers
- Demand growth for premium raw milk remains strong and we expect our average realised price in FY15 to be similar to FY14 based on current contracts and market price trends

Our realised raw milk price versus national index price



Source: Ministry of Agriculture

Our realised raw milk price versus listed peers



Source: Company financial statements

(1) Modern Dairy price is for external raw milk sales only

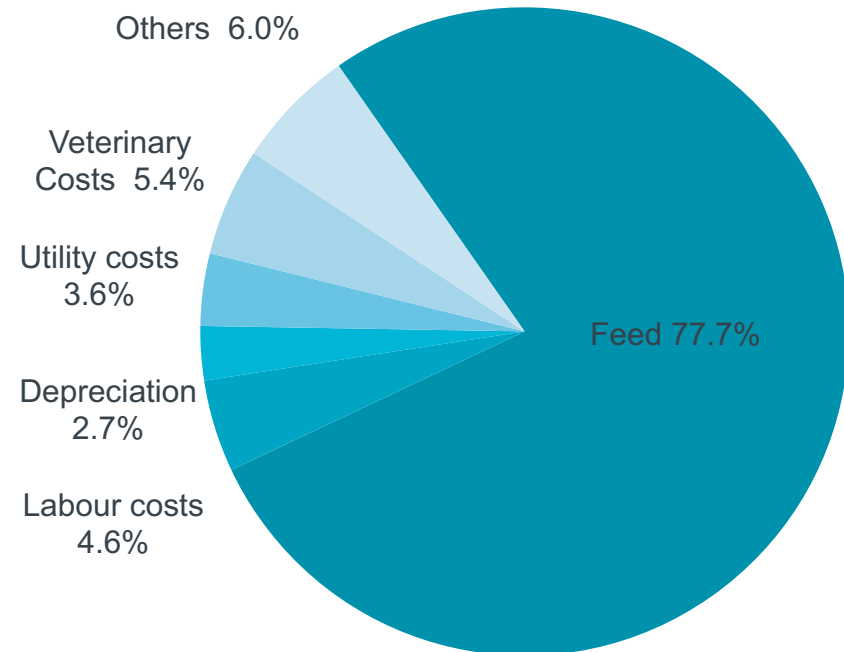
(2) Shengmu price is for standard raw milk only and excludes organic milk sales

Feed comprises the majority of raw milk production costs



- **We believe our raw milk production costs advantage is primarily due to:**
 - The lower cost of self-produced feed, particularly alfalfa, versus purchasing feed in the market
 - Higher milk yields from better quality nutrition due to usage of self produced feeds
 - Lower transportation costs
 - The proximity of a number of our farms to each other and the resulting synergies
- **Our lower feed costs have required a significant investment in arable land**

Breakdown of Huishan's raw milk production costs, 1H2015



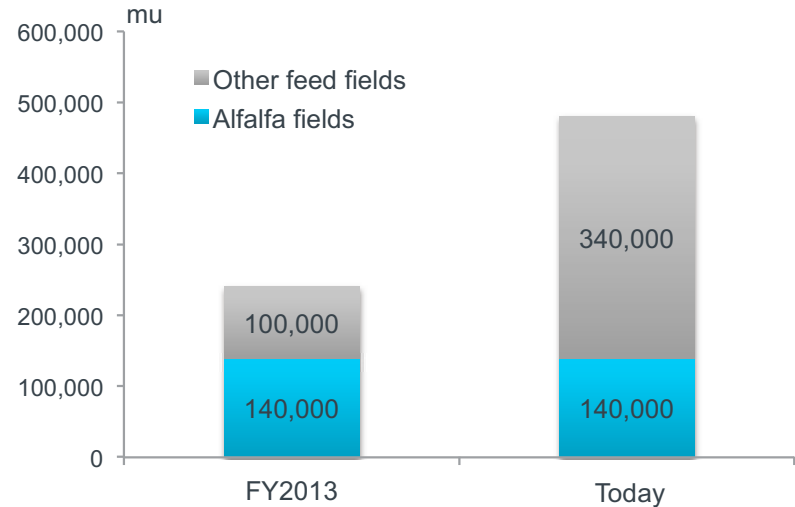
Securing sufficient arable land

- Our ability to grow low cost, high nutrition value feeds requires us to secure sufficient arable land
 - Today, our feeds plantation fields exceeded 480,000 mu
 - About 20,000 mu of land was put under two-harvest trial cultivation of oat and corn silage and turned out to be a breakthrough in such plantation in the agricultural industry in N.China.
 - Enhance our control over feeds plantation cost in the future and bring greater profitability to our fully vertically integrated business model from the upstream sector
- Our current leased land will support sufficient alfalfa plantations and 60-70% of the corn silage required for a herd size of up to 85,000 milkable cows

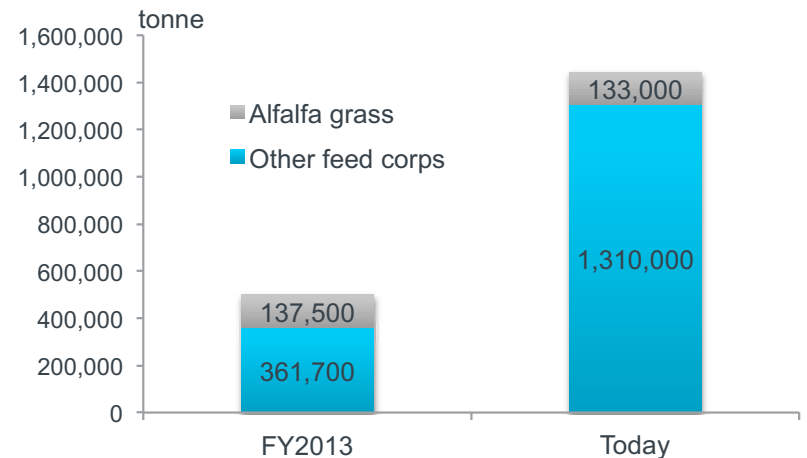


* 15mu = 1 hectare

Huishan's leased land, mu



Huishan's production of alfalfa and supplementary feed



Managing our cows' health

- We have an inspection centre and over 200 staff ensuring the health of our dairy herd
- Routine health inspections are carried out and any sick cows are immediately quarantined by our veterinarians
- Each farm implements a standardised immunisation program, and farm-wide disinfection and immunisation is carried out if there is a concern of substantial infection risk
- A cow's vaccination history is tracked by our ERP system
- The size of our dairy farms, c.3,000 cows per farm, reduces the risk of disease versus super large-scale dairy farms
- We are required to report to authorities any outbreak of certain classified diseases

Milk yields are better in healthier herds





Liquid milk products



Liquid milk products business overview



Increasing capacity



- Current liquid milk products production capacity is 375ktpa, located in Liaoning province
- Operations are currently at 70-80% utilisation rates, the effective maximum rates
- A new 360ktpa, HK\$600m facility is under construction and expected to be completed in early 2015, removing the growth bottleneck. c. 120ktpa of this new capacity will replace existing outdated capacity



We will commission 360ktpa of new liquid milk products capacity in early 2015



Established premium brands



- Sales of 279kt of liquid milk products in 1H2015 across four product categories (pasteurised milk, UHT milk, yogurt, and milk beverages)
- The only large-scale dairy in China to source all its raw milk from own farms
- Processed c. 80% of our raw milk production into value added liquid milk products



c. 61% of our raw milk production was processed internally in FY14

We have a well established brand in Northeastern China



With expanding distribution



- The Huishan brand is renowned for its quality and safety assurance
- #1 in Northeastern China with a 19.5% market share
- #5 in China by retail value
- We are in the early stages of expanding the brand outside of Northeastern China

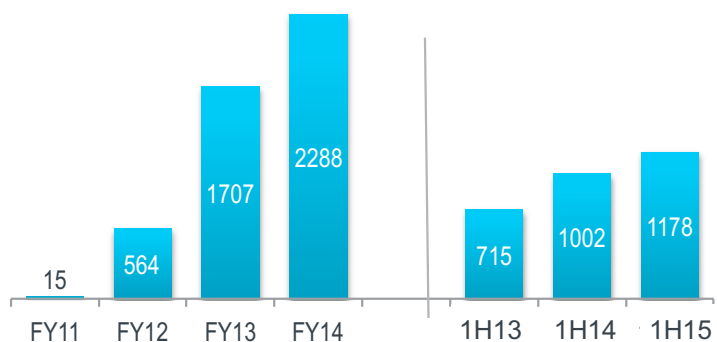


We are gradually expanding into other provinces in Eastern China

Financial overview

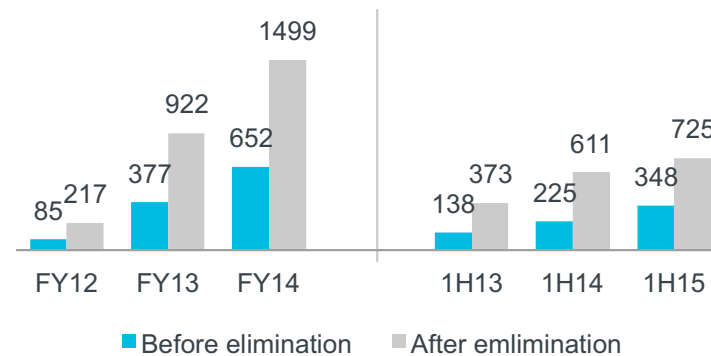
Revenue

(Rmb m)



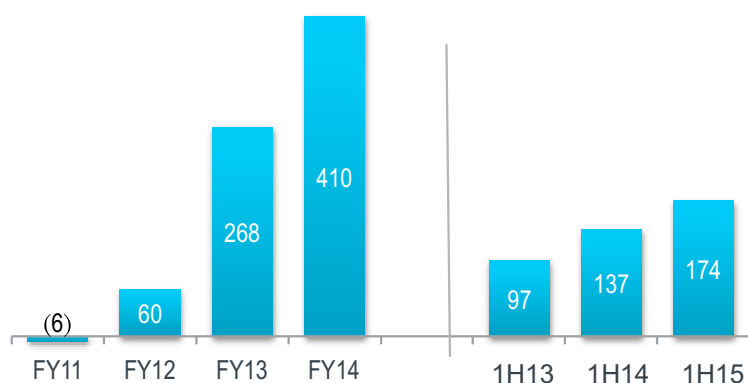
Gross profit

(Rmb m)

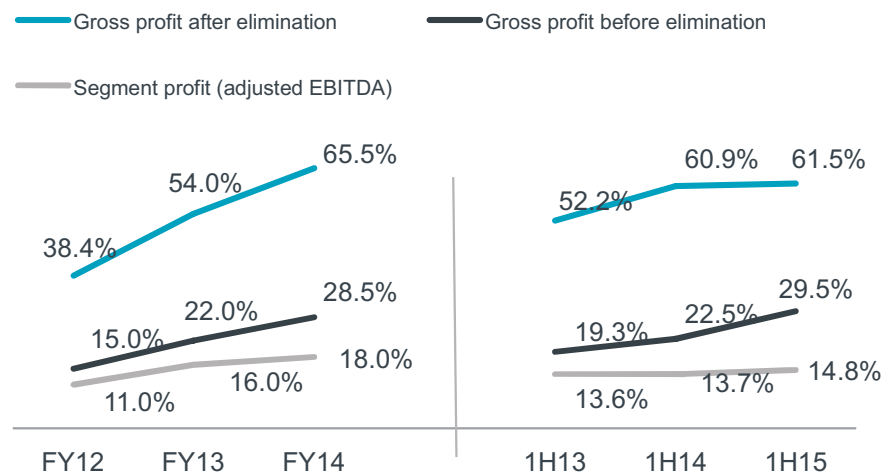


Segment profit¹ (adjusted EBITDA)

(Rmb m)



Margins



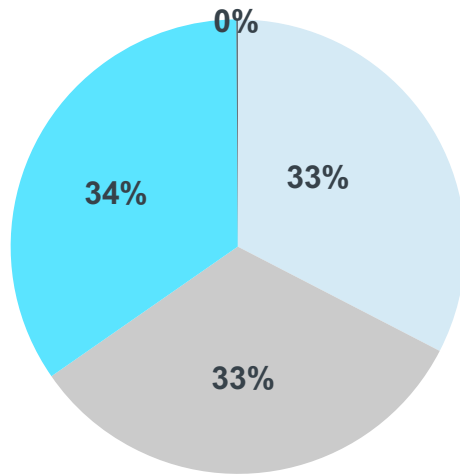
(1) Segment profit is "adjusted EBITDA" adjusted for items not specifically attributed to individual segments and before changes in fair value to biological assets (see our financial statements for a complete definition)

Revenue and Volume Breakdown



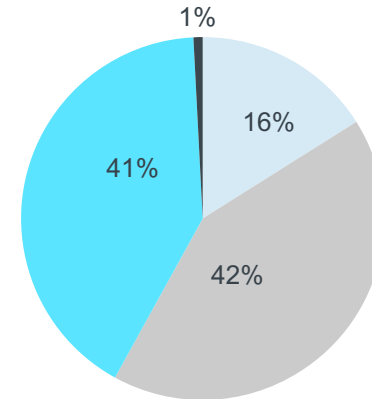
Revenue
RMB'000

1H2015



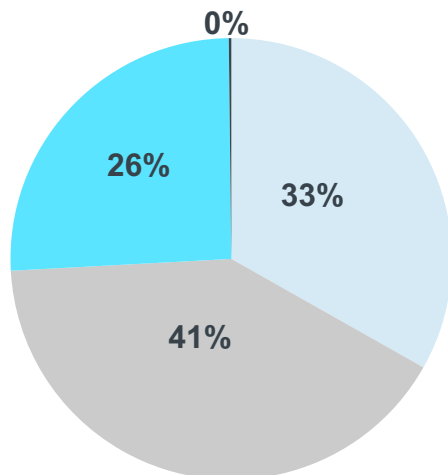
- Fresh Milk
- UHT
- Yogurt
- Milk Beverage

1H2014



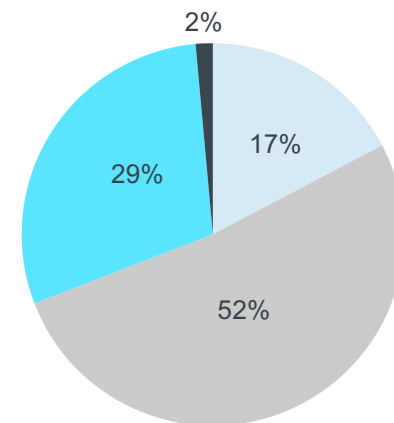
Volume
Tonne

1H2015



- Fresh Milk
- UHT
- Yogurt
- Milk Beverage

1H2014

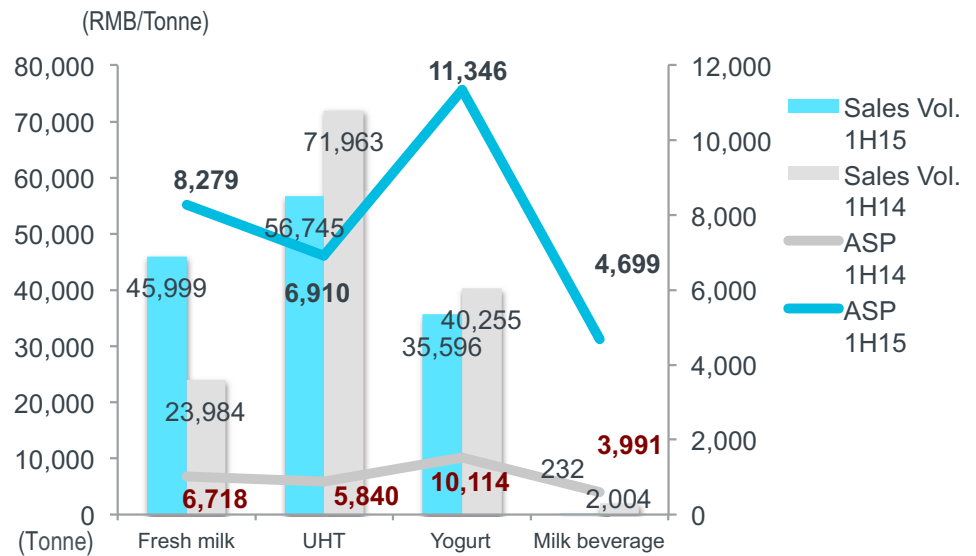


Growing downstream volumes and margins



- Sales of liquid milk products reached RMB1,177.9m in 1H2015, an increase of 17.5% from RMB1,002.3m in 1H2014, gross margin after elimination was 61.5% as compared with 60.9% in 1H2014
 - Introduction of new premium products
 - Increased sales in Liaoning province and initial sales in other provinces
- we continue to enhance our product mix with more premium products including:
 - “Jersey Dairy Farm” – ultra-premium UHT products
 - “Sharing Global Flavours” – premium yogurts
 - “10 Days” – additive free yogurt with a natural taste
 - Increasing sales of pasteurised milk versus UHT

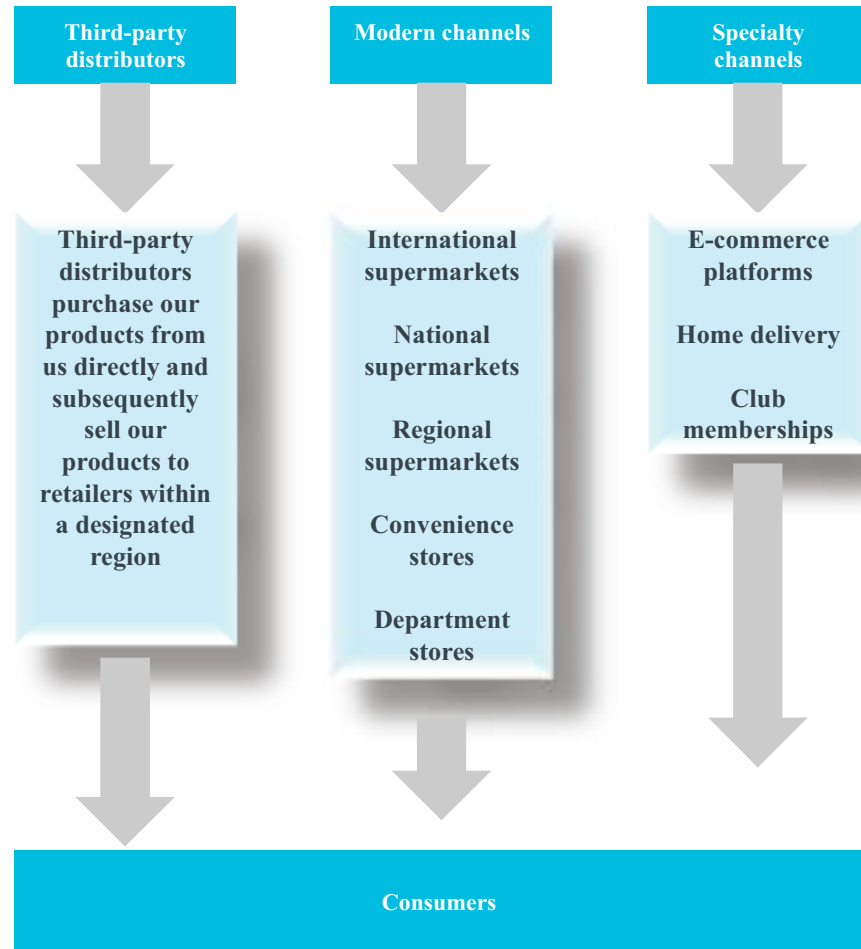
Liquid milk product volumes and ASPs



Market leaders in Northeastern China

- 95% of our liquid milk product sales were still in Liaoning province but with sales in the other Northeastern provinces of Jilin and Heilongjiang
- Huishan will continue to build its distribution in Northeastern China through:
 - Building “Freshness Delivery” (新鮮送) a home delivery service
 - Increasing sales of pasteurised milk and yogurt products
- As at 30 September 2014 Huishan’s distribution network comprised 450 distributors and 416 supermarkets
- There is significant scope to introduce new SKUs into other provinces

Distribution channels

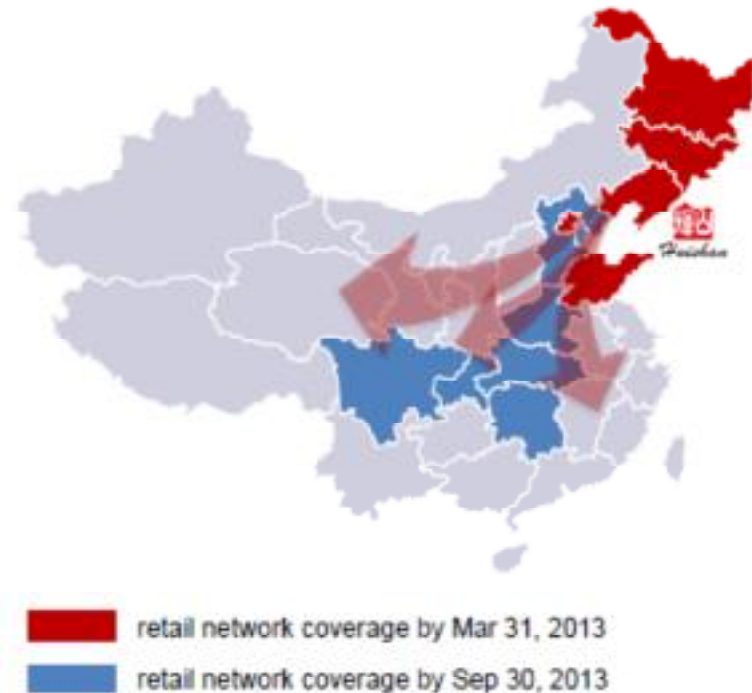


Expanding distribution beyond Northeastern China



- Huishan is at an early stage of selectively expanding into other provinces including Jiangsu, Shandong, Hebei, Henan and Sichuan with:
 - An initial focus on 15 key provinces/areas
 - Sale of primarily high-end products
- On 25 August 2014 we announced that, in partnership with Zongyi, we had entered into a strategic framework agreement with Sheyang county for the establishment of a vertically-integrated dairy business in Jiangsu province
 - We will invest equity of up to Rmb650m initially in the JV
 - Potential to open up the pasteurised milk market in Shanghai, Zhejiang and Anhui
- We are in the early stages of developing two new liquid milk processing facilities to support our growth

Huishan's expanding distribution network





Milk powder products



Milk powder products business overview



Growth in our milk powder products segment has been slower than anticipated

- Our milk powder and dairy ingredients products business is still relatively new
- We currently have three milk powder production facilities a 26ktpa milk powder production plant in Shenyang, a 19.8ktpa D90 whey powder plant in Fushun, and a 19.8ktpa milk powder plant in Jinzhou
- In FY14 we processed c. 20% of our raw milk production into value added milk powder products
- Sales of 7,998t of milk powder products in 1H2015, included infant milk formula (IMF) sales of 1,478t
- Other milk powder products include, whole milk powder, D90 whey powder, and non-dairy creamer
- Processing capacity is underutilised but will grow as marketing efforts intensify



We are focusing on the higher margin IMF segment with the FrieslandCampina JV

- In October 2014 we announced the formation of a joint venture with FrieslandCampina, a major international dairy company, for the manufacture, marketing and sales of an existing IMF brand in China
- We will receive c. Rmb700m in cash and the 26ktpa milk powder production plant in Shenyang will become part of the JV company
- We will continue to produce and distribute our own IMF brands in parallel with the JV
- Subject to growing sales we expect to construct a further 33ktpa, HK\$800m milk powder factory by FY17

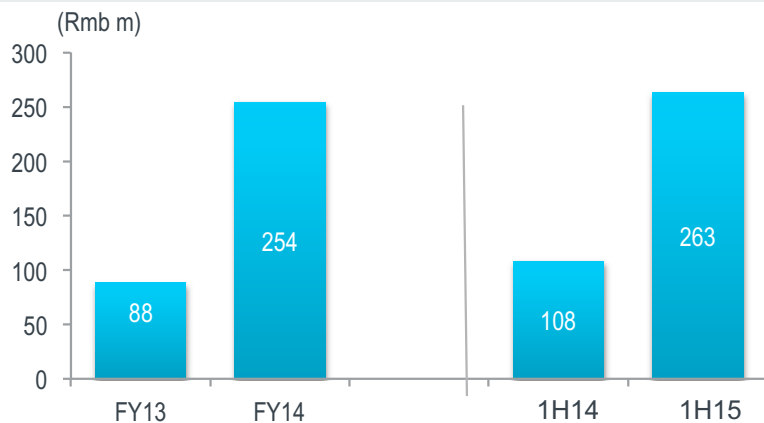


Financial overview

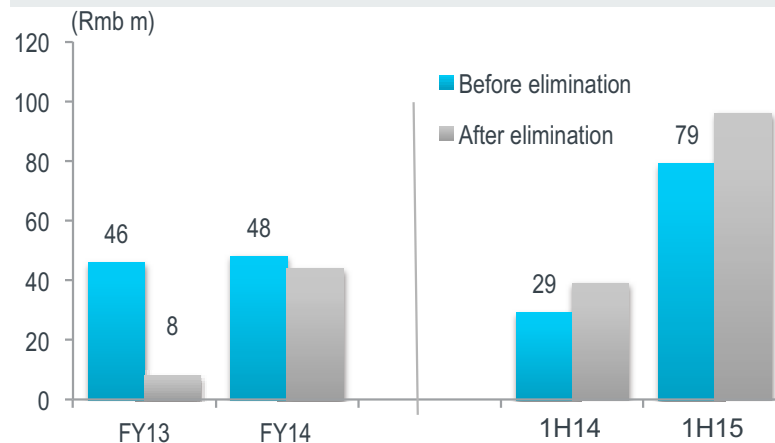


Our milk powder products business remains in its infancy

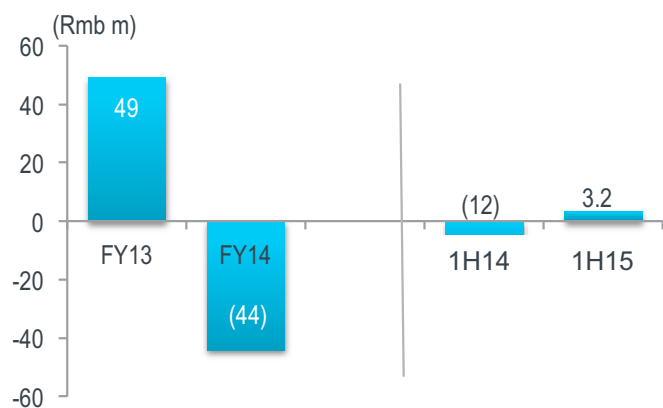
Revenue



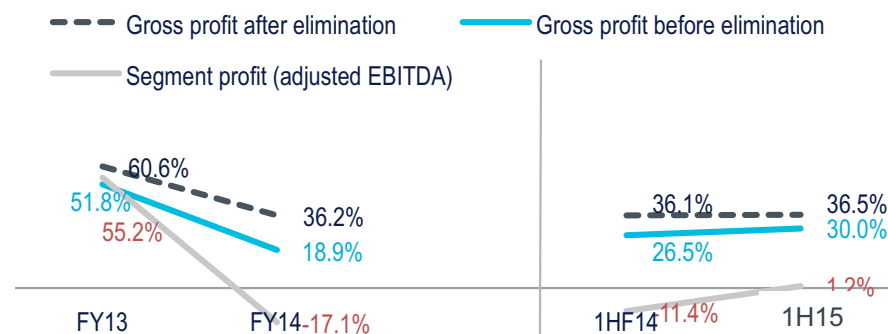
Gross profit



Segment profit¹ (adjusted EBITDA)



Margins



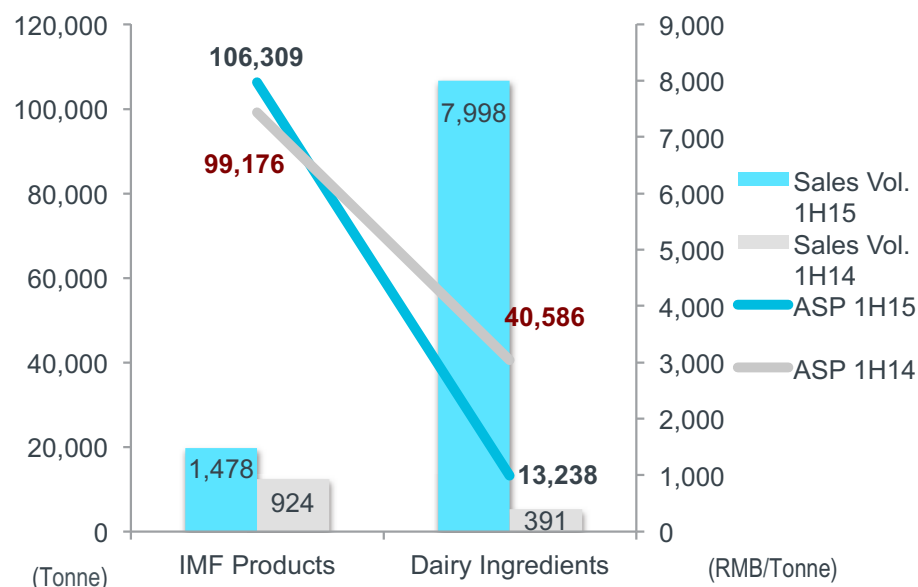
(1) Segment profit is "adjusted EBITDA" adjusted for items not specifically attributed to individual segments and before changes in fair value to biological assets (see our financial statements for a complete definition)

Still a relatively new business



- In 1H2015, we sold 1,478 tonnes of IMF (924 tonnes in 1H2014), and produced 7,998 tonnes (391 tonnes in 1H2014) of dairy ingredients, including non-dairy creamer, whole-milk powder and clarified butter
- Gross margins in the powder milk products segment were 36.6% compared to last year's 36.1% after elimination
- We will continue to develop our own IMF brands alongside the JV with FrieslandCampina. Growth in IMF sales has been helped by the launch of 'Huishan Red Label' in March 2014, and increased direct sales to mother-and-baby stores which we hope to increase to over 2,000 in FY15

Milk powder product volumes and ASPs



	1H 2015			1H 2014		
	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonnes	Sales Amount RMB'000	Sales Volume Tonne	ASP RMB/Tonne
IMF Products (including Adult Milk Power)	157,124	1,478	106,309	91,639	924	99,176
Dairy Ingredients	105,875	7,998	13,238	15,869	391	40,586
Total	262,999	9,476	27,754	107,508	1,315	81,755

Benefits of a JV with FrieslandCampina

- We announced on 8 October 2014 a proposed 50:50 JV with FrieslandCampina to produce and sell IMF products in China under an existing FrieslandCampina brand. Key terms of the proposed JV include:
 - FrieslandCampina will pay c. Rmb700m for its stake in the JV – Huishan will realise a gain of c. Rmb18m on this transaction
 - FrieslandCampina will acquire USD30m of Huishan shares on-market within 6 months
 - The JV does not restrict Huishan or FrieslandCampina from continuing to develop their existing IMF businesses
- The primary benefits of the proposed JV include:
 - Builds on the existing partnership in the production of non-dairy creamers
 - Secures additional demand for sales of premium raw milk
 - Utilises FrieslandCampina's existing brand, sales and distribution networks



50%



50%





Thank you!

