

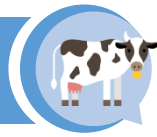


China Modern Dairy Holdings Ltd.
中國現代牧業控股有限公司
Stock Code 股份代號：1117

2018

Annual Results Announcement





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金奖

Content



1 Financial Results



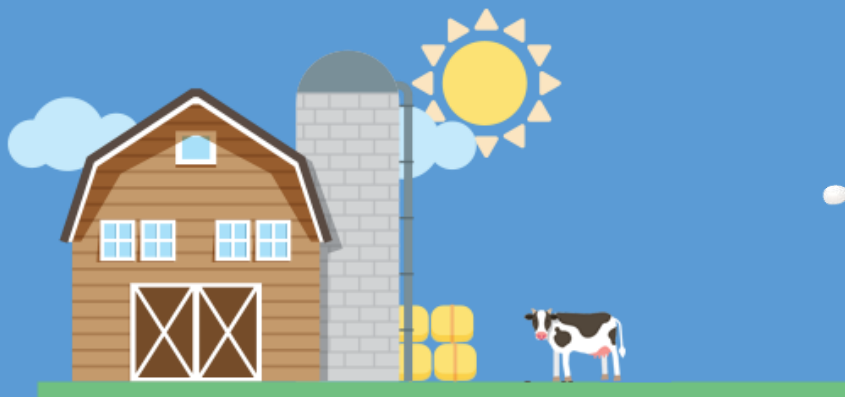
2 Business Updates



3 Industry Overview



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PART 01

Financial Results



2018 Annual Results Review



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RMB: Million

2018

2017

Changes

	2018	2017	Changes
Revenue	4,957	4,784	3.6%
Cost of Sales	-3,411	-3,353	1.7%
Gross Profit	1,546	1,431	8.1%
Cash EBITDA ⁽¹⁾	1,528	1,082	41.3%
Cash EBITDA margin	30.8%	22.6%	8.2%
Net Profit to the Parent Company	-496	-975	49.1%
Impairment loss on trade receivables	-368	-495	/
Asset Impairment Losses	-36	-	/
Foreign Exchange Losses	-92	8	/
Goodwill Impairment	-26	-	/
One-off Share Option Expenses	-	-93	/
Normal Operating Net Profit	15	-415	+430
Normal Operating Profits of Raw Milk	-3	-183	+180
Normal Operating Profits of Liquid Milk	18	-232	+250
Free Cash Flow	344	-472	+816

Operating Cash Inflow YoY

180.7%

Revenue YoY

3.6%

Losses Decrease YoY

49.1%

Liquid Milk Business

Up to

18 million

Free Cash Flow Up to

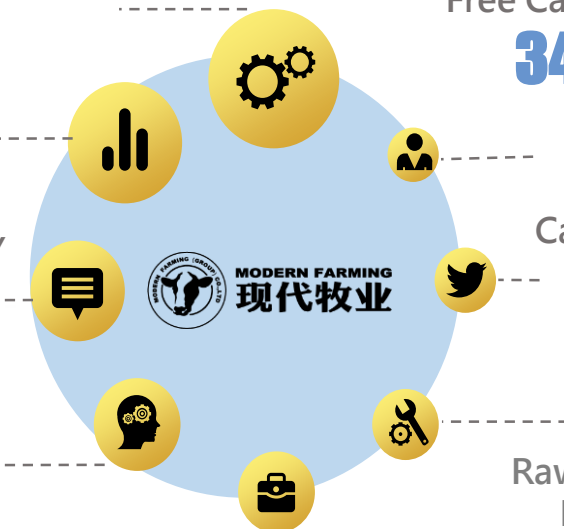
344 million

Cash EBITDA YoY

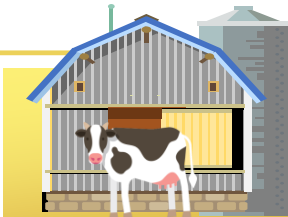
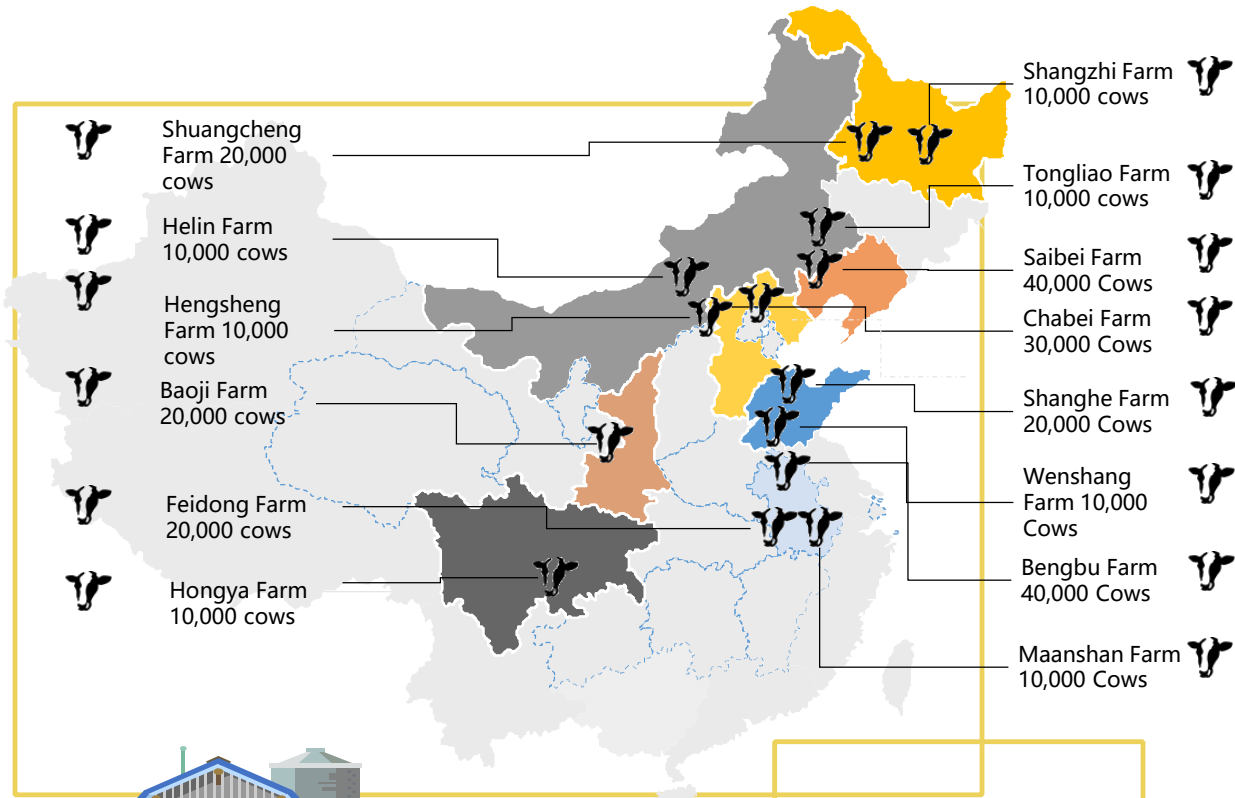
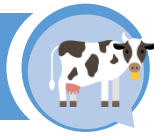
41.3%

Raw Milk Nearly Breakeven

-3 million

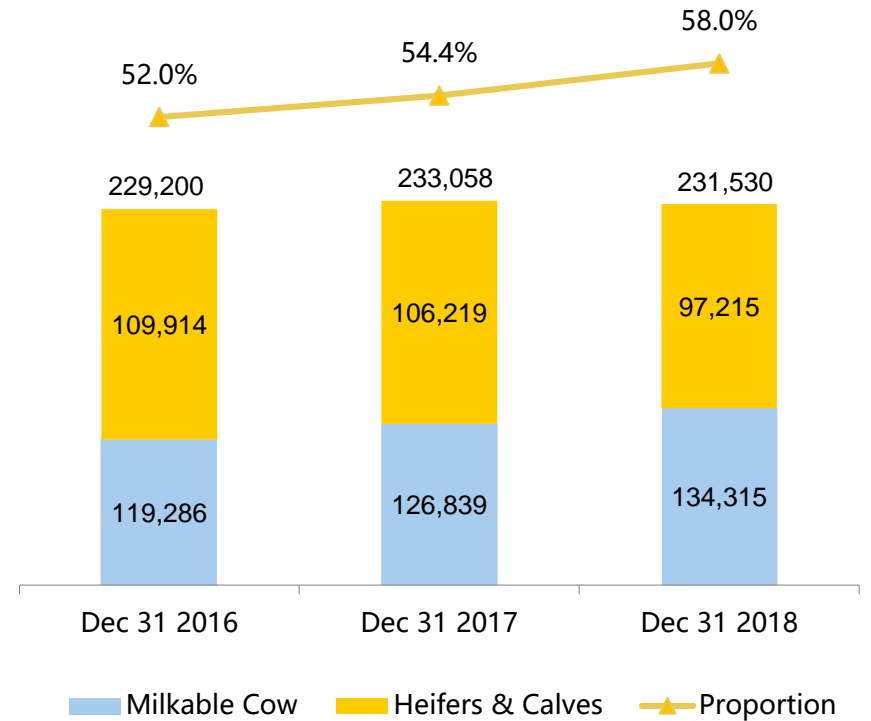


(1) Cash EBITDA is Losses before Finance Costs and Tax after adding back: i) Depreciation; ii) Amortization; iii) Loss Arising from Changes in Fair Value Less Costs to sell of dairy cows; iv) Other Gains and Losses; v) Impairment losses, net of reversal.

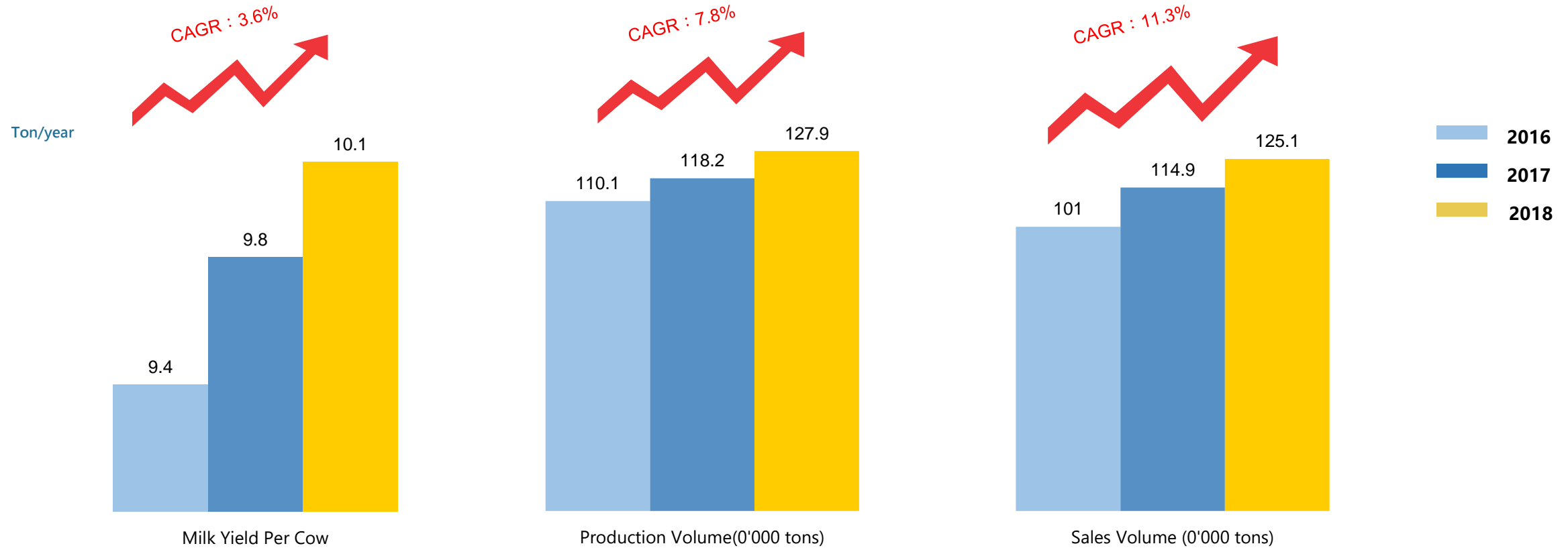


We have 26 farms with scale of 10,000 cows under operation, locating at 7 provinces, evenly in South and North of China.

Herd Size & Proportion of Milkable Cows

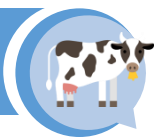


Steady Increase of Production and Sales Volume



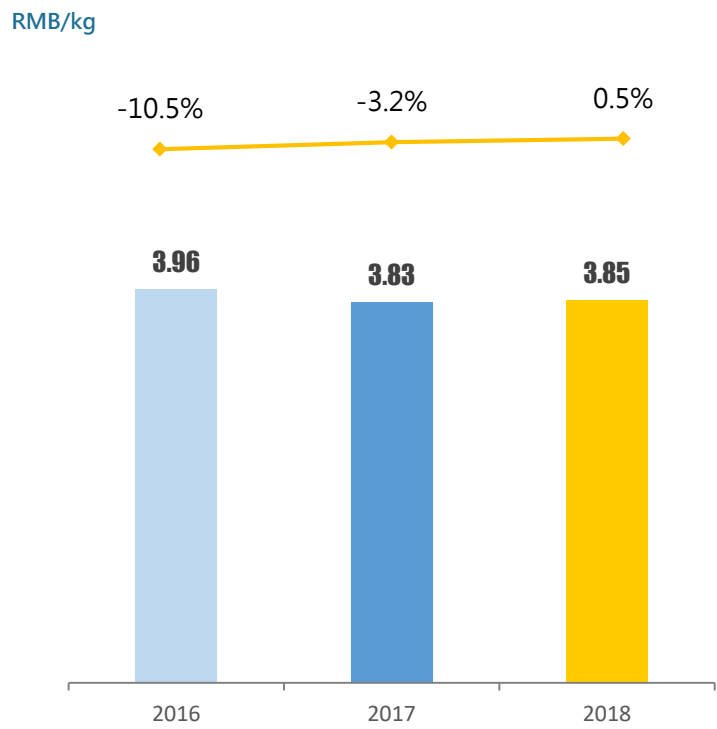
Note: Sales volume includes external sales and sales to branded liquid milk.

Stable Increase of Raw Milk Sales and GP Margin

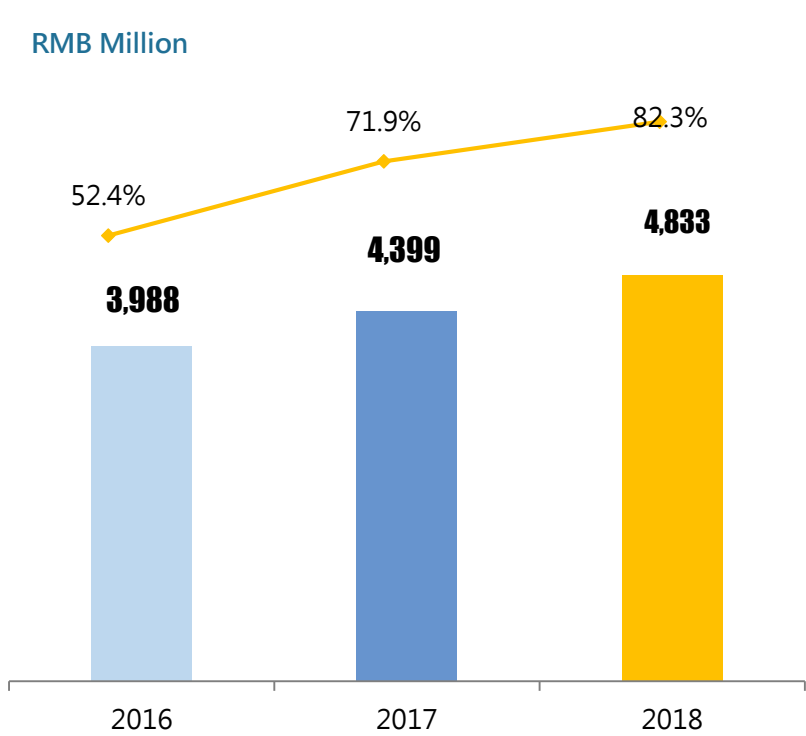


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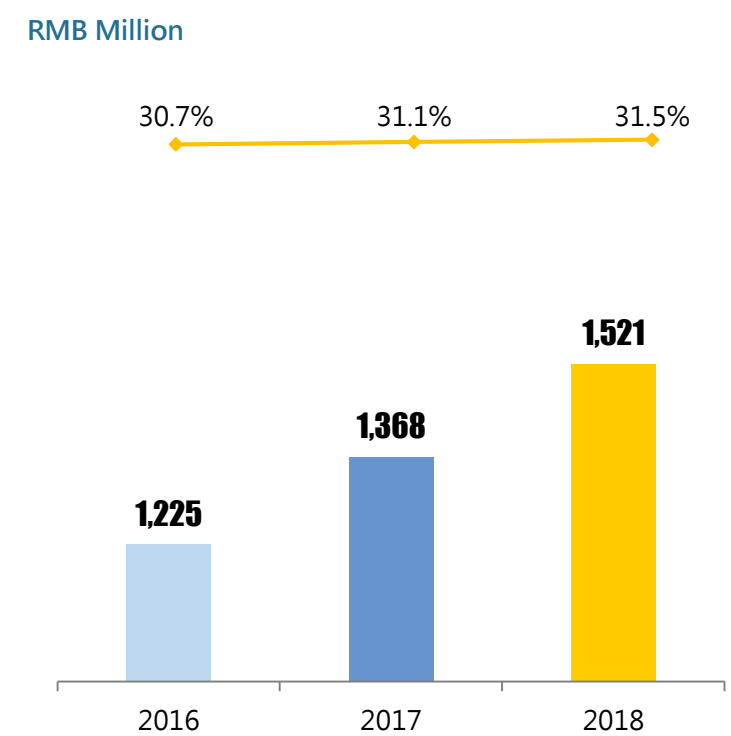
External Raw Milk Price and YoY Growth %



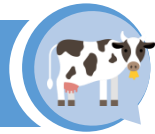
Raw Milk Sales & % to Mengniu⁽¹⁾



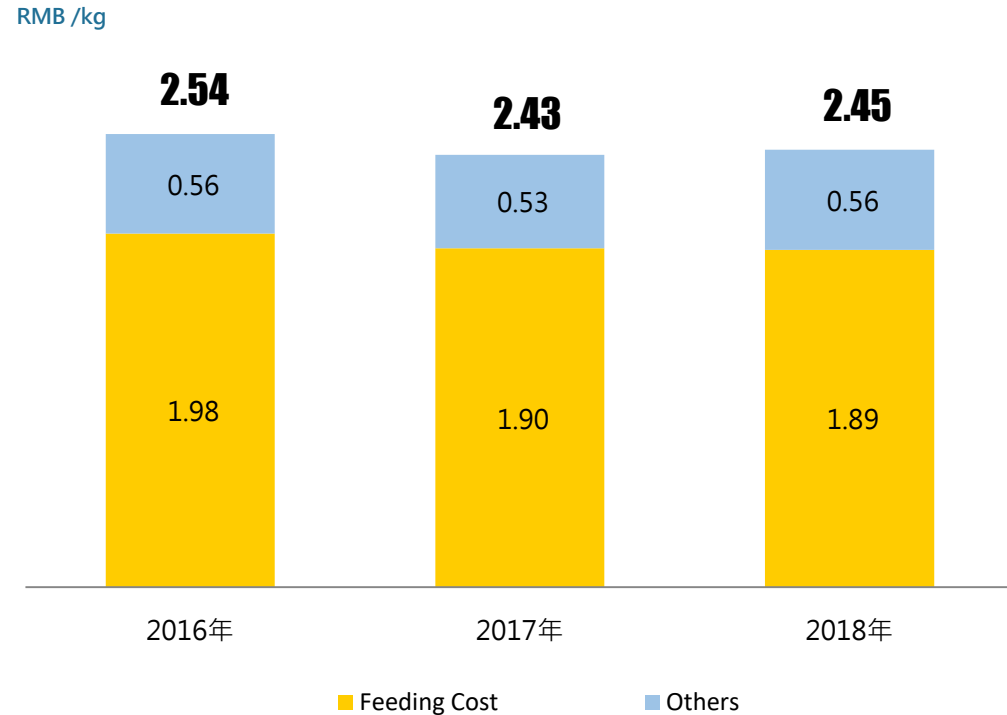
Raw Milk Gross Profit & GP Margin⁽²⁾



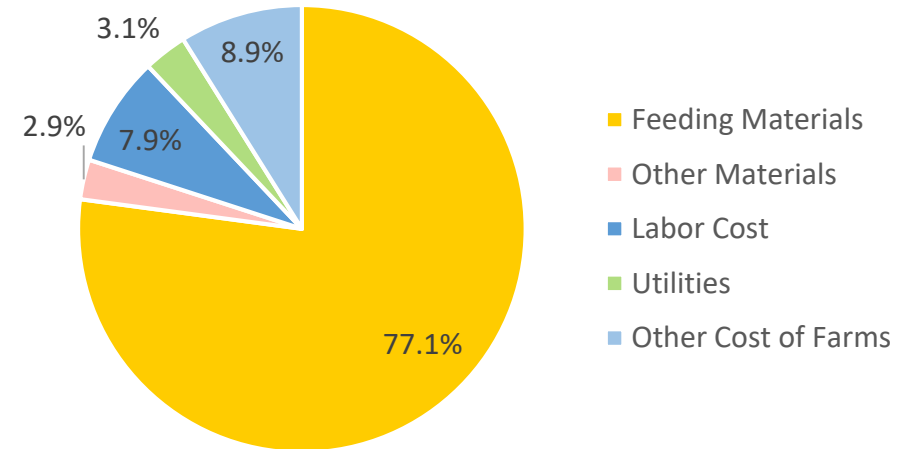
Note : (1) % to Mengniu = Sales Volume to Mengniu (excluding to JV factory)/ Total Production Volume
(2) Before eliminating sales and costs of internal supply of raw milk.



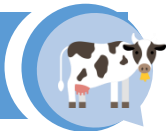
Cash-pay Cost



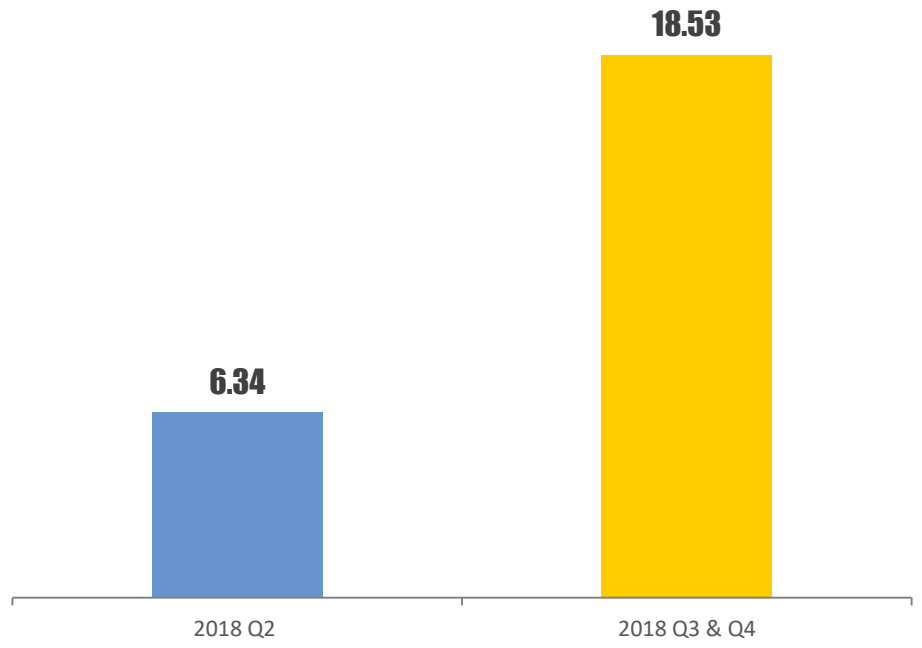
Breakdown of Cost



Despite the increasing feeding costs caused by the US-China trade war, the cash-pay cost per kg is well controlled at **2.45 yuan/kg** by improving the health and yield of cattle, and increasing the use of silage, ect.. The feeding cost was approximately the same as last year.



RMB Million



Since the second quarter of 2018, the Company's downstream associate factories with Mengniu was formally established. The branded liquid milk business was consolidated by the equity method, turned losses into profits, and reported a net profit of about **25 million** yuan.



In 2018, the annual sales amounted to **1.017 billion yuan**, an increase of **8% YoY**. The average retail price of branded milk rose to **18.64 yuan / liter**.

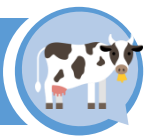


With the market strategy and channel advantages of Mengniu, branded liquid milk was re-launched with the positioning of **“15 years of insisting on only producing pasture milk”** and new packaging. High-calcium pure milk was launched in early 2019.



Branded liquid milk is expected to bring new growth highlights to the Group.





RMB Million	2018 (31 Dec 2018)	2017 (31 Dec 2017)	Changes
Biological Assets	7,717	7,751	-0.4%
Fixed Assets	3,921	4,699	-16.6%
Total Assets	15,946	16,718	-4.6%
Total Liabilities	9,391	9,629	-2.5%
Total Borrowings	7,148	7,539	-5.2%



The reduction in interest-bearing debts is due to increment in free cash flow and the disposal of two downstream factories.

Cash Flow and Capex

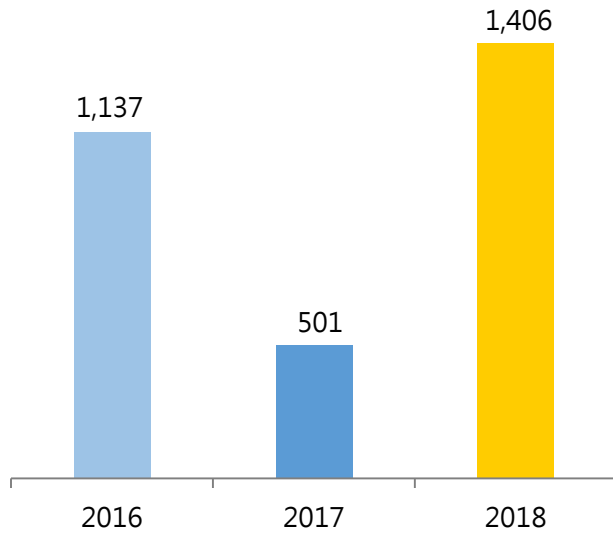


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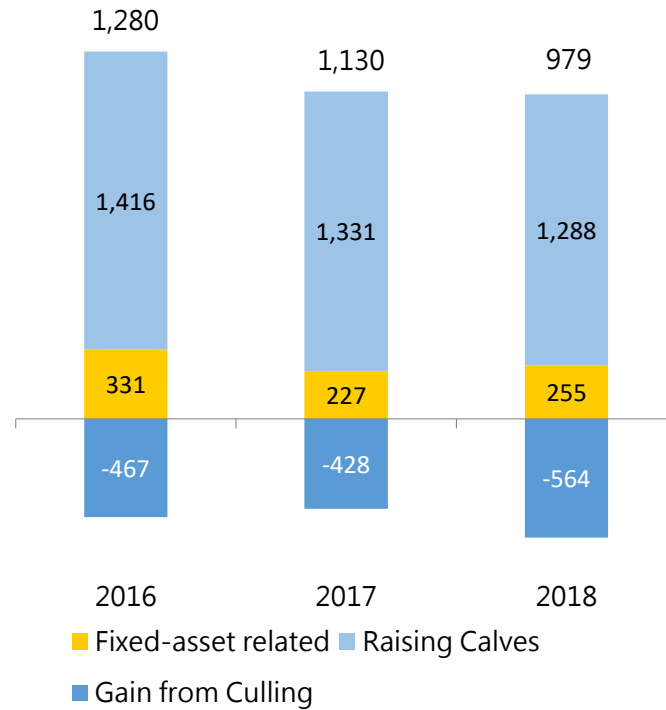
Net Cash Inflow from Operating Activities

RMB Million



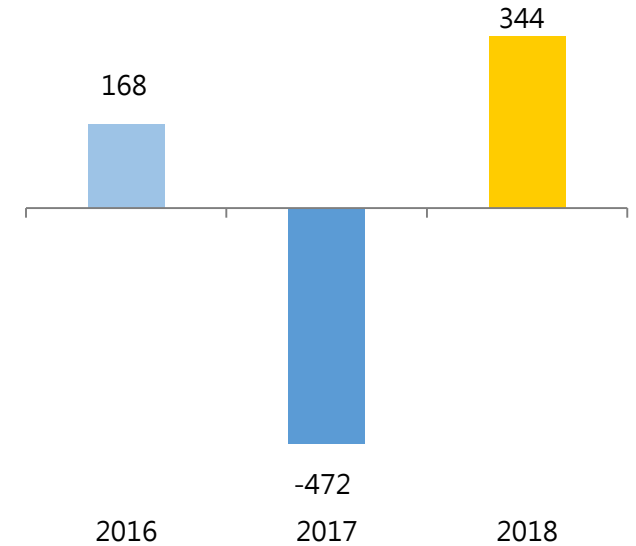
Capex

RMB Million



Free Cash Flow

RMB Million





Inventory Turnover

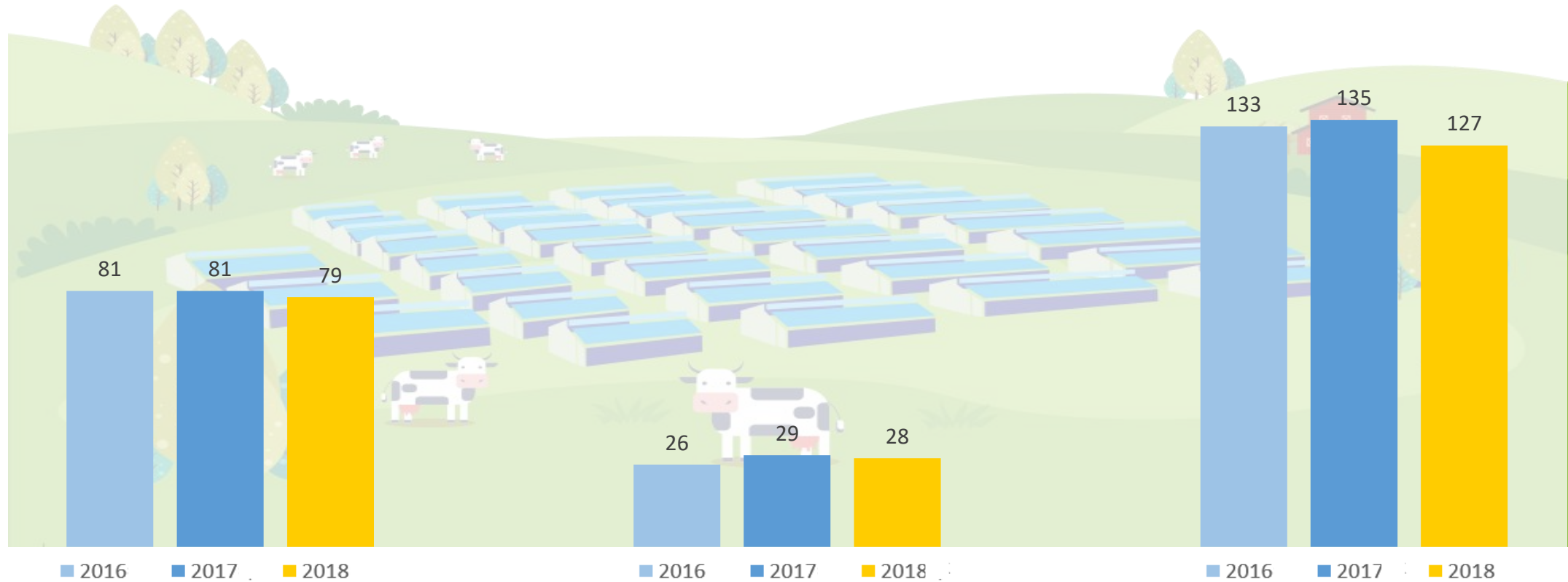


Trade Receivable Turnover⁽¹⁾



Trade Payable Turnover

Days



Note: (1) The ratio of 2017 excludes the impact of a one-off early payment of raw milk.



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PART 02

Business Updates





Improve Efficiency

- ✓ Increase silage usage;
- ✓ Increase the proportion of roughage;
- ✓ Increase batch culling;
- ✓ Apply for government subsidies.



Reduce Cost

- ✓ Formulate equipment efficiency improvement plan, adjust electricity consumption nature and reduce unit price;
- ✓ Control debt size and reduce financial costs.



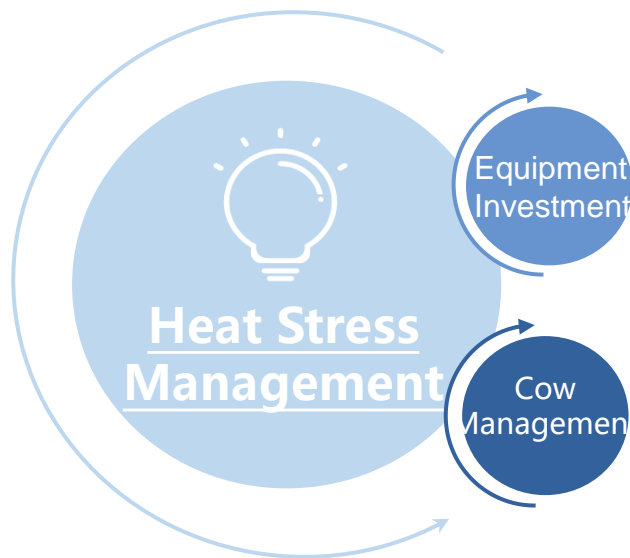
Substitute Materials

- ✓ Seek domestic equivalent drugs instead of imported drugs to control drug costs;
- ✓ Look for domestic quality alfalfa and oat grass to replace imported ones.



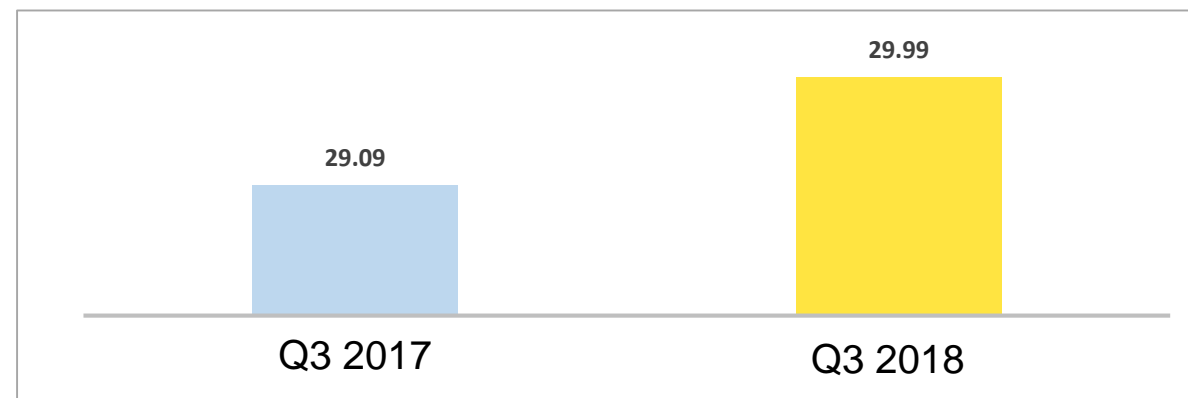
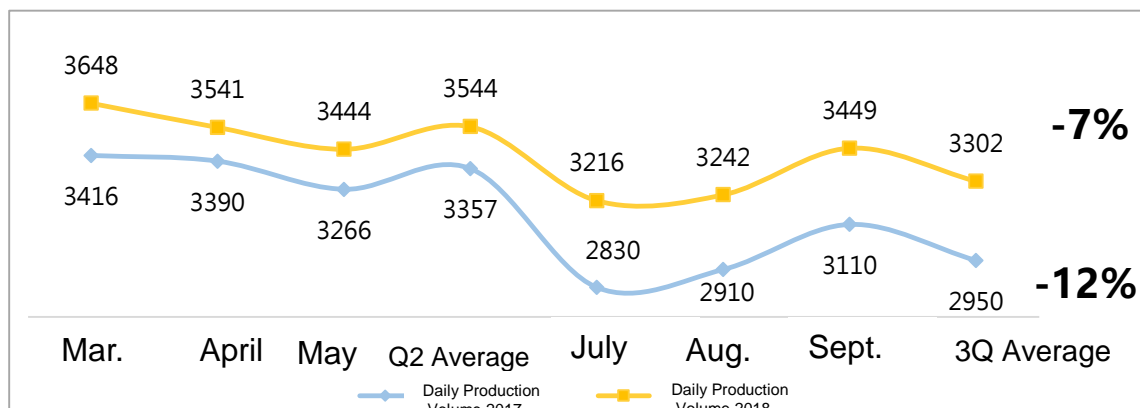
Stop Ingredients

- ✓ Develop new resources in areas and pastures, improve the quality of feed, and stop using some ingredients in the formula.



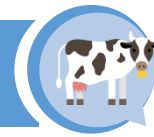
In 2018, the Group invested a total of 88.13 million yuan in heat stress management including wind turbines, power distribution, spray system, etc.

Based on actual situations, timely adjust the feeding formula and frequency of feeding; improve the welfare of cows including bed and ventilation.

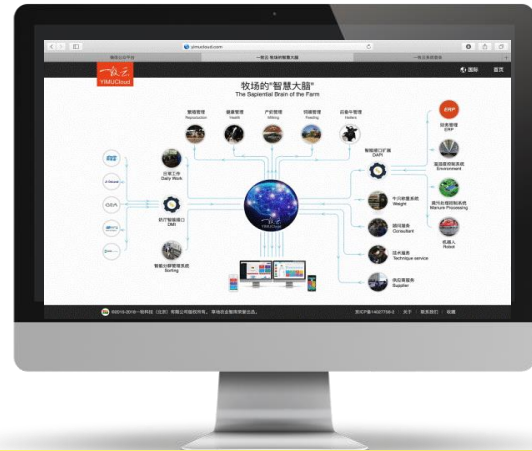


During the heat stress period of 2018 (July-September), the Group's total output increased by **352 tons/day** compared with the same period in 2017, and the volatility decreased by **500bps**.

During the heat stress period of 2018 (July-September), the average yield per lactating cows increased by **0.90kg** YoY.



The system enables an efficient data collection and intelligent analysis to form the “brain and nervous system” of the farm, to promote the value link and system coupling of people, cattle, farms, and to realizes the farms’ s value and sustainable profitability.



“YimuCloud” System



Production Management

Integrate the Afimilk, Delaval, BouMatic, estrus monitoring, precision feeding systems in different farms to break the “information island” and establish an efficient information collection system

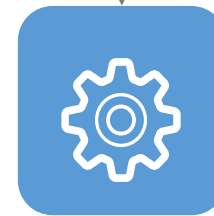


Smart Recognition

The DSmart cattle intelligent identification management system replaces the traditional paper worksheets. By scanning the electronic ear tags worn by the cows, the cattle is automatically identified. The corresponding procedure is shown, and the results is recorded.

Precision Feeding

Fully compatible with various brands and models of TMR, the system uses industrial-grade vehicle-mounted intelligent control terminals to assist front-line production employees to achieve precise mixing, feeding, residual material processing, and inventory management.



Analytical Decision-making

Provide early alert and suggestions to achieve scientific decision-making based on production logic and artificial intelligence algorithms of big data analysis.





Realize the transparency of logistics, ensure food safety, personnel safety, property safety, and enhance the competitiveness of enterprises.

Transparent Management

- Transparent transportation process
- Transparent supply and demand information
- Transparent material information

Efficient Routes Planning

- Optimize transportation routes
- Overall scheduling
- Guarantee Production Needs

Safety Control & Time Management

- Multi-level early alerts
- Efficiency forecast and evaluation
- Efficiency board and reports

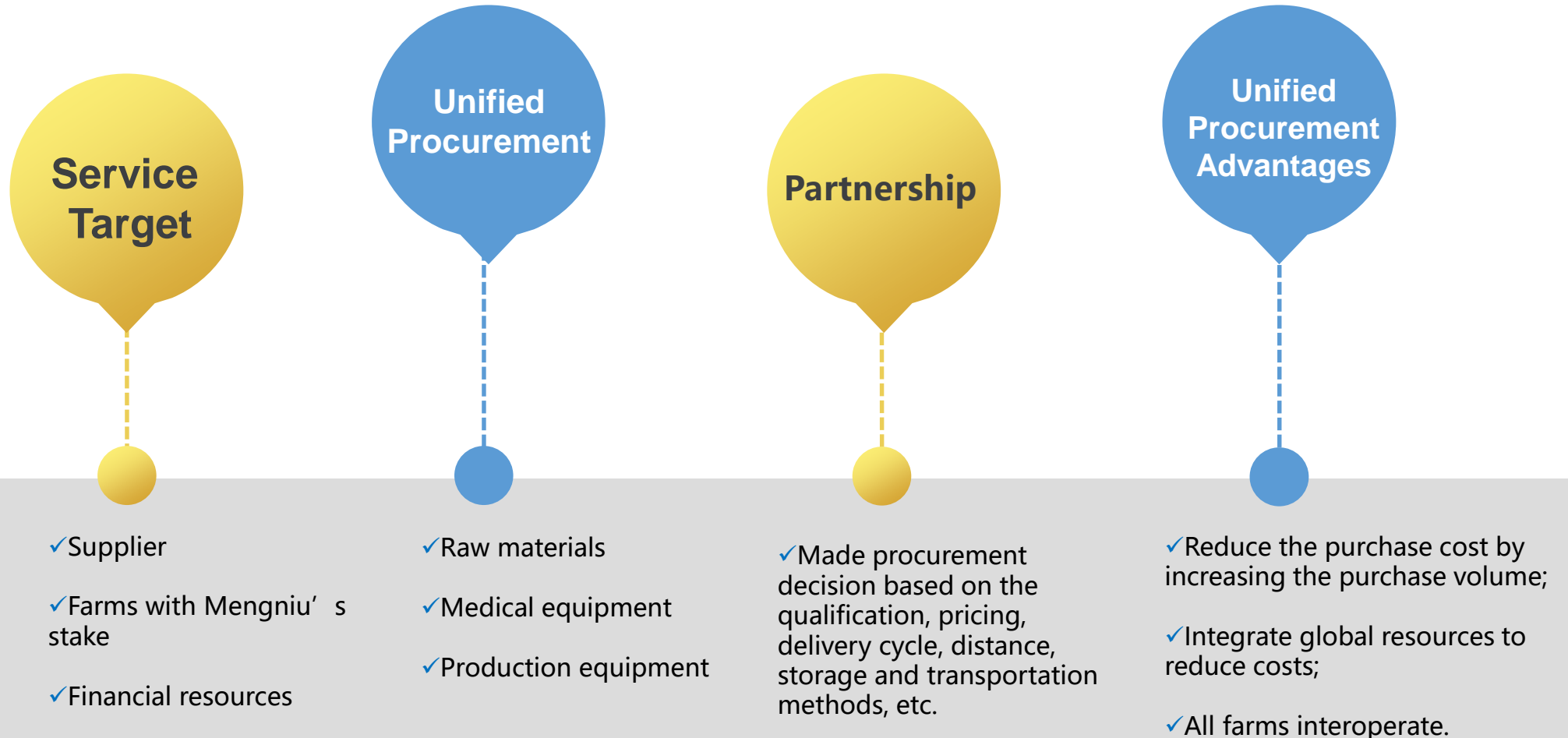
Cost Analysis

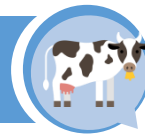
- Billing rule maintenance
- Transportation node analysis
- Cost and profit analysis



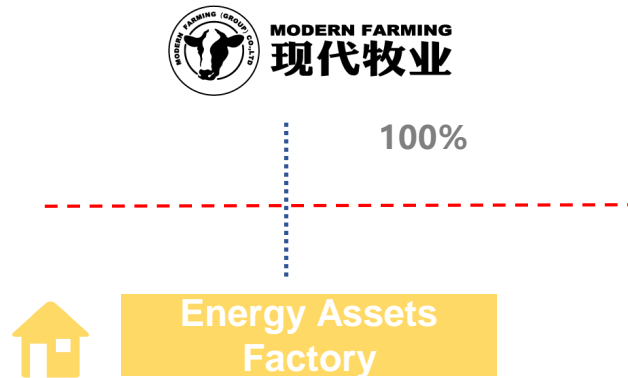


Consolidate and streamline the procurement process for farms with Mengniu's stake in holdings.
Conduct procurement through the Aiyangniu Platform.

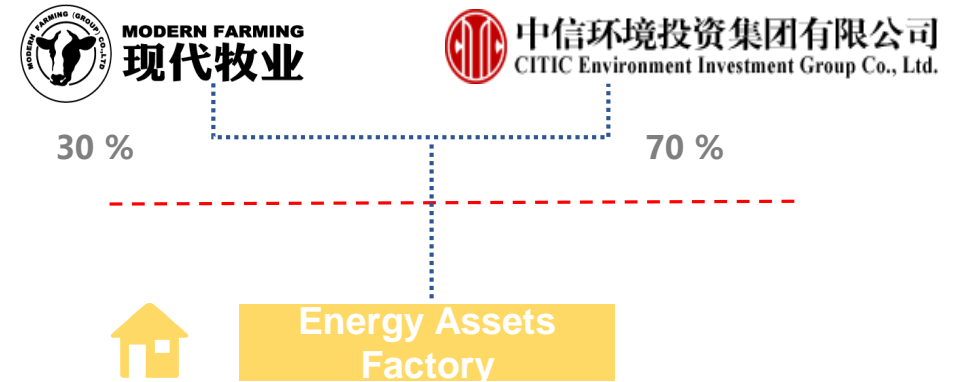




Shareholding Structure
before the JV



Shareholding Structure
after the JV



Signed a letter of intent with the CITIC Environment to plan the sale of the company's non-core energy assets.



The introduction of a professional team can help to improve the efficiency of energy assets, reduce interest-bearing liabilities and financial leverage.



Brand Strategy

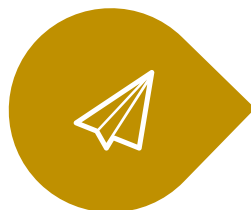
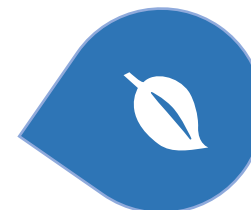
- Targeting more potential markets and position as the first domestic medium and high-end brand.
- Pure milk won the Gold Prize of the “Monde Selection” for five consecutive years.
- Position the brand on producing high quality pasture milk for 15 years to build core competitiveness.



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Communication Strategy

- Integrate Mengniu's superior media resources to expand communication and enhance brand power.
- Enhance the brand attitude of Modern Farming



Product Strategy

- Clarify the competitiveness of products and differentiate promotion strategies.
- Optimize brand image and unify terminal image.



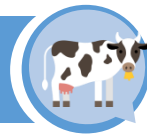
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PART · 03

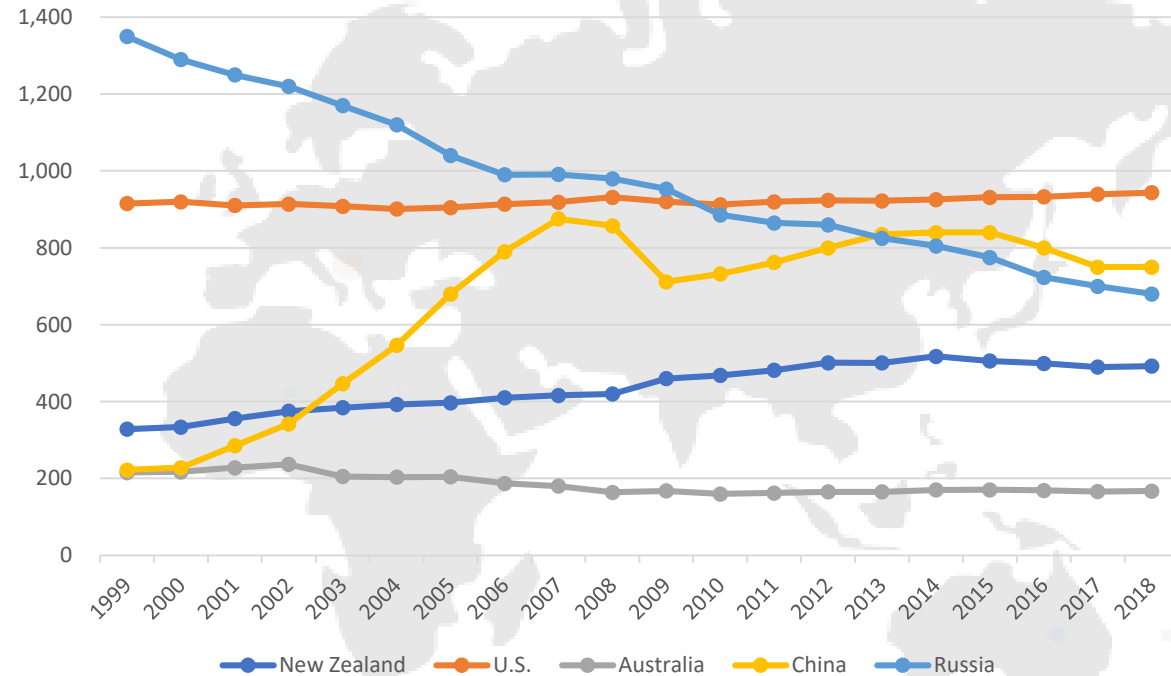
Industry Overview





Number of Dairy Cows in Main Global Production Areas (1)

0'000 heads

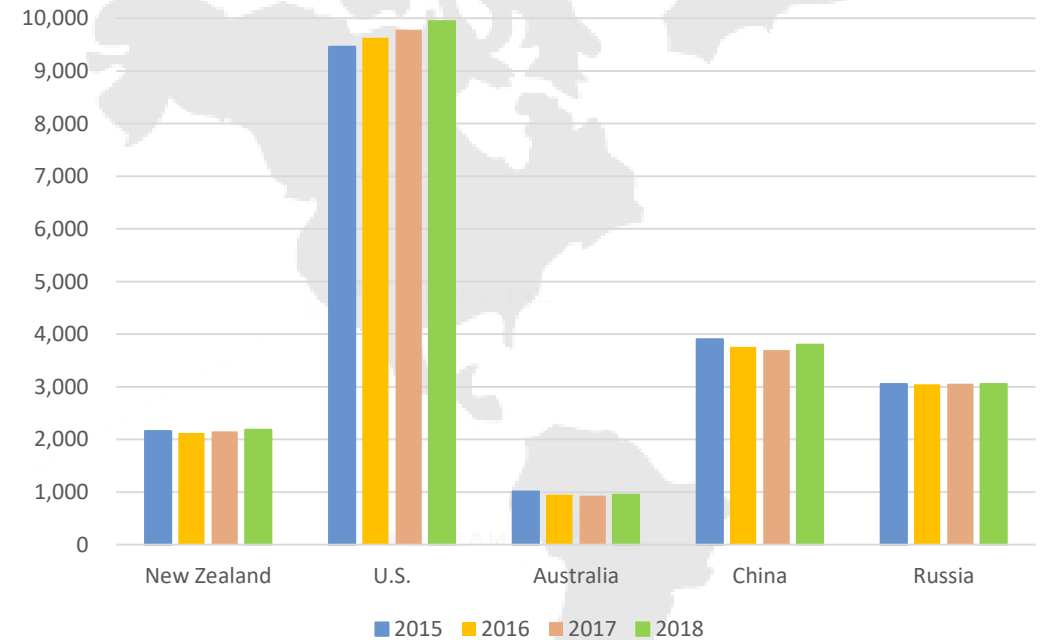


□ The herd size in global major production areas is stable, but witnesses a decline in China.



Stable Raw Milk Production Volume in Main Areas(2)

0'000 tonne

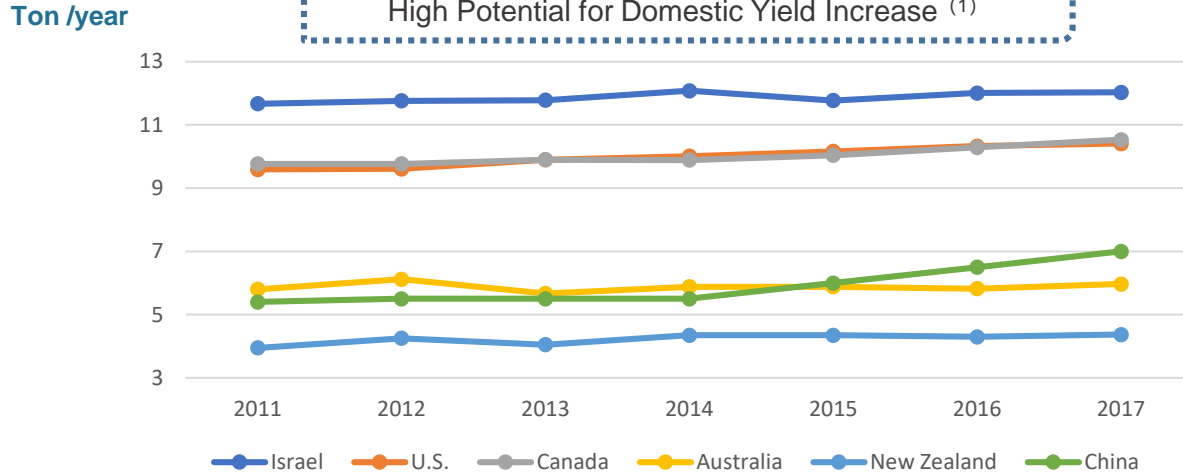


Domestic Dairy Industry Overview

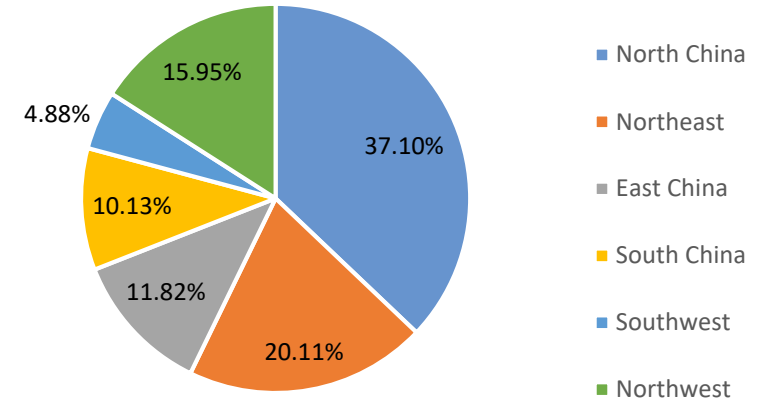


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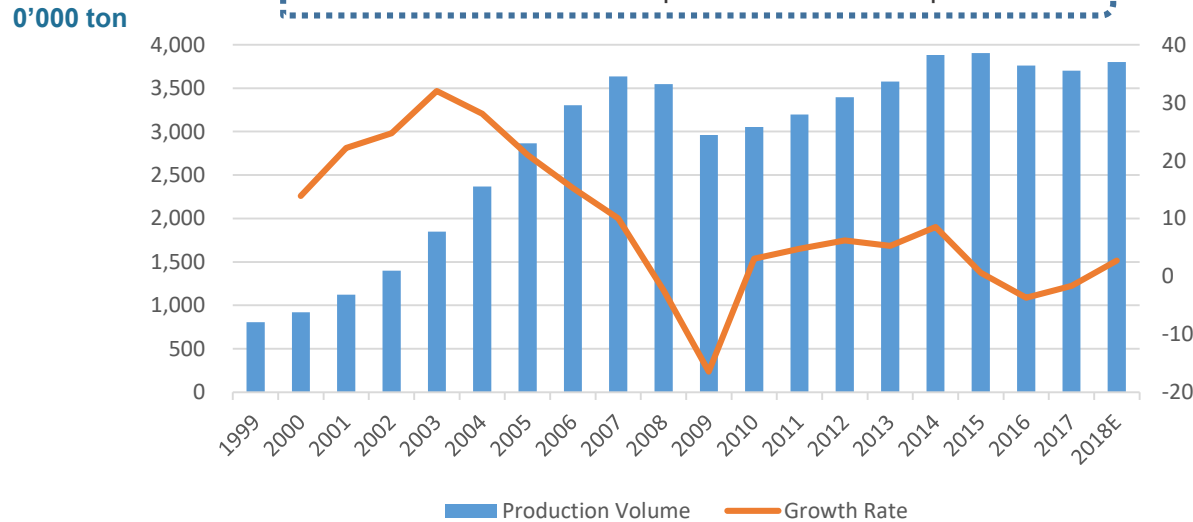
High Potential for Domestic Yield Increase ⁽¹⁾



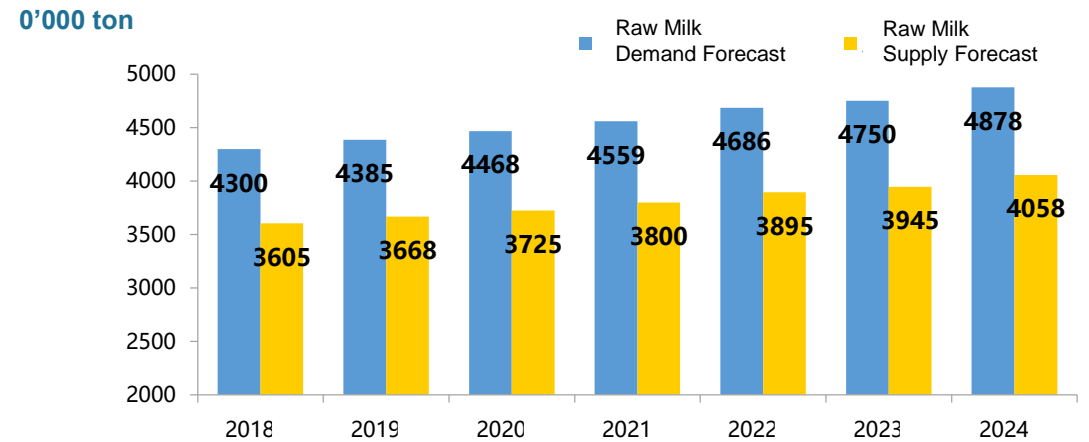
Domestic Raw Milk Production Distribution ⁽¹⁾



Stable Increase of Consumption of Domestic Liquid Milk ⁽²⁾



Significant Domestic Imbalance of supply & demand ⁽³⁾

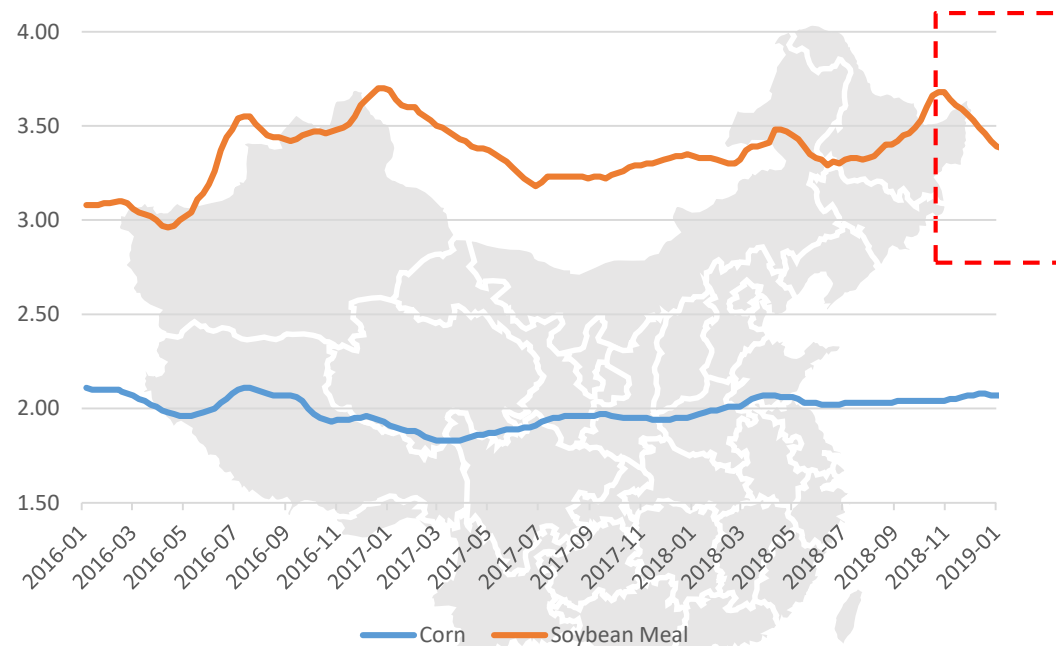


Source : (1) Holstein Magazine (2) Euromonitor (3) China Industry Information Network (中国产业信息网)



Stable Domestic Corn price and Recent Declining Soybean meal Price ⁽¹⁾

yuan/kg

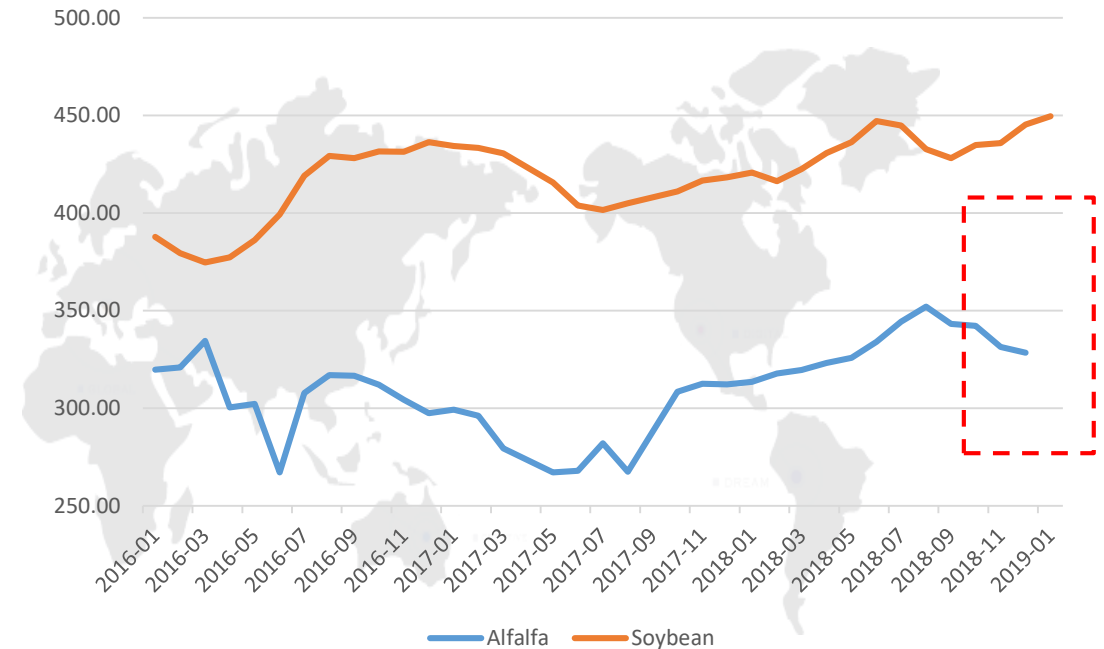


- Stable domestic corn price recently.
- Affected by African swine fever, the number of domestic pigs decreased, making domestic soybean meal prices adjust from high levels.

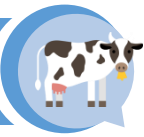


Prices of imported alfalfa and soybean prices were on the rise in 2018 ⁽²⁾

US Dollar/Ton

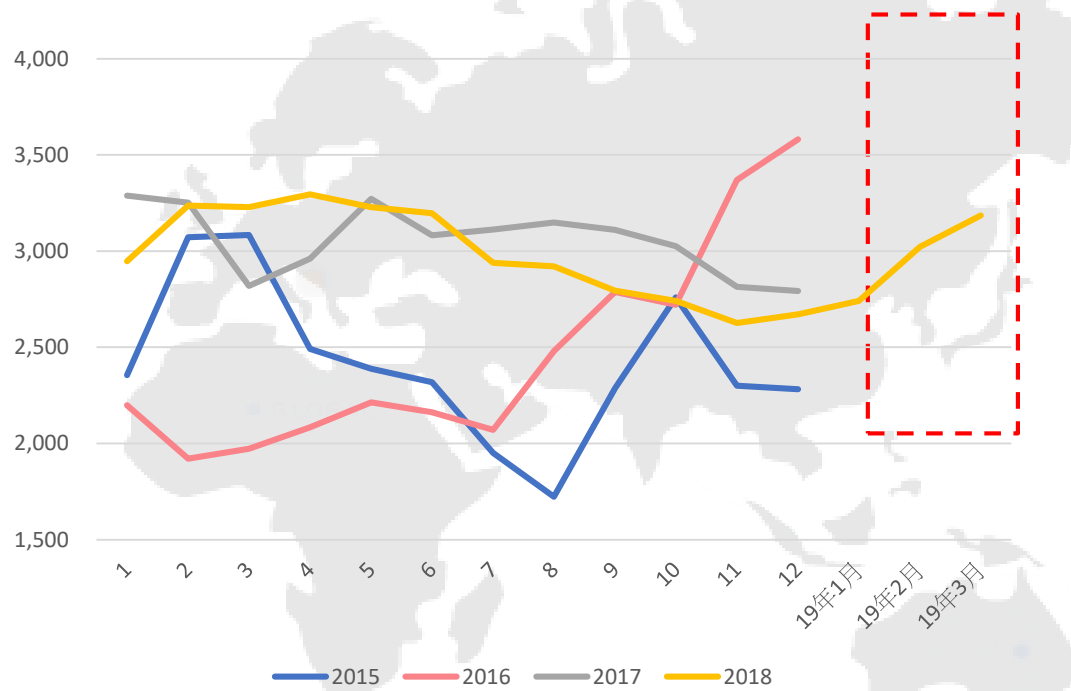


- Affected by the import tariffs in 2018, the price of imported alfalfa and soybeans marked an increase.
- Price of imported alfalfa declined at the end of 2018.



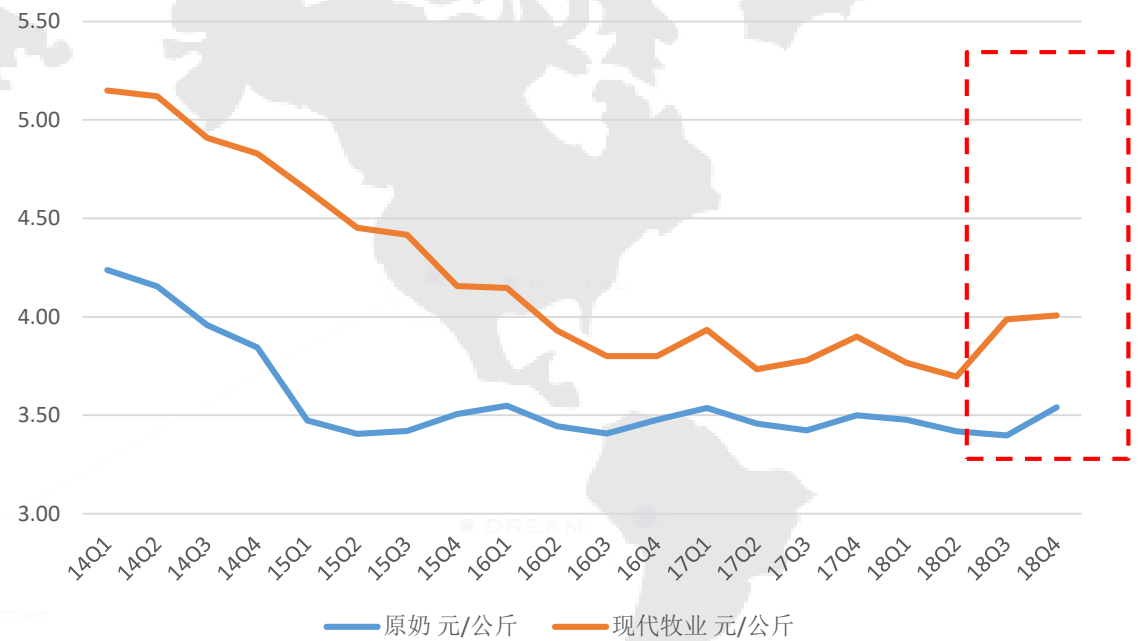
International Raw Milk Price Rebounds in 2019⁽¹⁾

US Dollar/ton



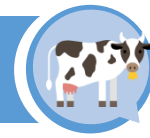
International auction price of whole milk powder has rebounded significantly in 2019.

Domestic Raw Milk Price Rebounded in 2018⁽²⁾



In the second half of 2018, domestic raw milk prices rebounded significantly.
Price of China Modern Dairy enjoys premium to the market.

资料来源: (1) CLAL (2) 农业部



The first draft of the new national standard was released for public comments. It emphasizes on the grading system of raw milk, the specification of processing technology, and the labeling of dairy products.



Premier Li Keqiang organized the State Council Executive Meeting to discuss the rejuvenation of dairy industry.



The State Council issued the "Opinions on Promoting the Revitalization of Dairy Industry to Ensure the Quality and Safety of Dairy Products" .



The revitalization of dairy industry is listed as one of the 10 key targets in the No. 1 Central document in 2019.

2018.2

2018.5

2018.6

2019.2

2019 THANK YOU



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