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Content

1. Financial Results
2. Business Updates
3. Industry Overview
PART 01

Financial Results
## 2018 Annual Results Review

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

### Observations
- **Operating Cash Inflow YoY**: 180.7%
- **Revenue YoY**: 3.6%
- **Losses Decrease YoY**: 49.1%
- **Free Cash Flow Up to**: 344 million
- **Cash EBITDA YoY**: 41.3%
- **Liquid Milk Business Up to**: 18 million
- **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.
Note: Sales volume includes external sales and sales to branded liquid milk.
Stable Increase of Raw Milk Sales and GP Margin

External Raw Milk Price and YoY Growth %

<table>
<thead>
<tr>
<th>Year</th>
<th>RMB/kg</th>
<th>YoY Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.96</td>
<td>-10.5%</td>
</tr>
<tr>
<td>2017</td>
<td>3.83</td>
<td>-3.2%</td>
</tr>
<tr>
<td>2018</td>
<td>3.85</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Raw Milk Sales & % to Mengniu (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>RMB Million</th>
<th>% to Mengniu</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3,988</td>
<td>52.4%</td>
</tr>
<tr>
<td>2017</td>
<td>4,399</td>
<td>71.9%</td>
</tr>
<tr>
<td>2018</td>
<td>4,833</td>
<td>82.3%</td>
</tr>
</tbody>
</table>

Raw Milk Gross Profit & GP Margin (2)

<table>
<thead>
<tr>
<th>Year</th>
<th>RMB Million</th>
<th>GP Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,225</td>
<td>30.7%</td>
</tr>
<tr>
<td>2017</td>
<td>1,368</td>
<td>31.1%</td>
</tr>
<tr>
<td>2018</td>
<td>1,521</td>
<td>31.5%</td>
</tr>
</tbody>
</table>

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.
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, etc.. The feeding cost was approximately the same as last year.
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.
## Balance Sheet Overview

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Biological Assets</td>
<td>7,717</td>
<td>7,751</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>3,921</td>
<td>4,699</td>
<td>-16.6%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>15,946</td>
<td>16,718</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>9,391</td>
<td>9,629</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Total Borrowings</td>
<td>7,148</td>
<td>7,539</td>
<td>-5.2%</td>
</tr>
</tbody>
</table>

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

### Net Cash Inflow from Operating Activities

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Cash Inflow (RMB Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,137</td>
</tr>
<tr>
<td>2017</td>
<td>501</td>
</tr>
<tr>
<td>2018</td>
<td>1,406</td>
</tr>
</tbody>
</table>

### Capex

<table>
<thead>
<tr>
<th>Year</th>
<th>Capex (RMB Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,280</td>
</tr>
<tr>
<td>2017</td>
<td>1,330</td>
</tr>
<tr>
<td>2018</td>
<td>979</td>
</tr>
</tbody>
</table>

#### Breakdown of Capex
- Fixed-asset related
- Raising Calves
- Gain from Culling

### Free Cash Flow

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flow (RMB Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>168</td>
</tr>
<tr>
<td>2017</td>
<td>-472</td>
</tr>
<tr>
<td>2018</td>
<td>344</td>
</tr>
</tbody>
</table>
Note: (1) The ratio of 2017 excludes the impact of a one-off early payment of raw milk.
PART 02

Business Updates
Various approaches to reduce costs

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

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

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**.

<table>
<thead>
<tr>
<th>Mar.</th>
<th>April</th>
<th>May</th>
<th>Q2 Average</th>
<th>July</th>
<th>Aug.</th>
<th>Sept.</th>
<th>3Q Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>3648</td>
<td>3541</td>
<td>3444</td>
<td>3544</td>
<td>3216</td>
<td>3242</td>
<td>3449</td>
<td>3302</td>
</tr>
</tbody>
</table>

**-7%**

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2017</td>
<td>Q3 2018</td>
</tr>
<tr>
<td>29.09</td>
<td>29.99</td>
</tr>
</tbody>
</table>

**-12%**
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 realize the farms’ value and sustainable profitability.

**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.

**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.

**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 are recorded.

**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.
Enhance Logistics System to Strengthen Advantage

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
Synergize Mengniu to Reduce Procurement Costs

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

Service Target

- Supplier
- Farms with Mengniu’s stake
- Financial resources

Unified Procurement

- Raw materials
- Medical equipment
- Production equipment

Partnership

- Made procurement decision based on the qualification, pricing, delivery cycle, distance, storage and transportation methods, etc.

Unified Procurement Advantages

- Reduce the purchase cost by increasing the purchase volume;
- Integrate global resources to reduce costs;
- All farms interoperate.
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.
Synergize Mengniu to Build Modern Farming Brand

**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.

**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.
PART 03

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

Source: (1) United States Department of Agriculture (2) CLAL
Domestic Dairy Industry Overview

High Potential for Domestic Yield Increase (1)

Stable Increase of Consumption of Domestic Liquid Milk (2)

Domestic Raw Milk Production Distribution (1)

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 recently.

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

- Price of imported alfalfa declined at the end of 2018.

Source: (1) Ministry of Agriculture (2) China Customs

Prices of imported alfalfa and soybean prices were on the rise in 2018.

- Affected by the import tariffs in 2018, the price of imported alfalfa and soybeans marked an increase.
International auction price of whole milk powder has rebounded significantly in 2019.

In the second half of 2018, domestic raw milk prices rebounded significantly.

Price of China Modern Dairy enjoys premium to the market.
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