CHINA MENGNIU DAIRY COMPANY LIMITED
(2319.HK)

2019 INTERIM RESULTS
AUGUST 2019
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Management Team

◆ Mengniu

Lu Minfang  Chief Executive Officer & Executive Director
Meng Fanjie  Vice President & Executive Director
Zhang Ping  Chief Financial Officer
Gao Fei  Vice President
Wen Yongping  Vice President
Li Pengcheng  Vice President
Chris Kwok  Financial Controller & Company Secretary

◆ Yashili

Chopin Zhang  Chief Executive Officer & Executive Director
Wen Jieping  Chief Financial Officer
2019 Marks Mengniu’s 20th Anniversary

1999
- Mengniu started from here

2004
- Listed on Main Board of HKEx (stock code: 2319.HK)

2014
- Included into Hang Seng Indexes

>46% revenue CAGR over the past 20 years

~ 18% net profit CAGR since IPO year

( RMB billion)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>0.3</td>
<td>1.1</td>
<td>2.4</td>
<td>3.0</td>
<td>/</td>
<td></td>
</tr>
</tbody>
</table>

~ 17X* growth in Market Cap since IPO year

( HKD billion)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>6.8</td>
<td>28.0</td>
<td>35.8</td>
<td>62.7</td>
<td>95.8</td>
<td>119.0</td>
</tr>
</tbody>
</table>

*Calculated based on the market cap by December 31 of 2004 and June 30 of 2019.
Financial Overview
## Financial Highlights

<table>
<thead>
<tr>
<th>(RMB Million)</th>
<th>1H2018</th>
<th>1H2019</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>34,474.3</td>
<td>39,857.2</td>
<td>+15.6%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>13,522.3</td>
<td>15,578.7</td>
<td>+15.2%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>39.2%</td>
<td>39.1%</td>
<td>-0.1ppt</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1,945.6</td>
<td>2,420.3</td>
<td>+24.4%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>5.6%</td>
<td>6.1%</td>
<td>+0.5ppt</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,732.6</td>
<td>3,511.6</td>
<td>+28.5%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>7.9%</td>
<td>8.8%</td>
<td>+0.9ppt</td>
</tr>
<tr>
<td>Profit Attributable to Owners of the Company</td>
<td>1,562.0</td>
<td>2,076.9</td>
<td>+33.0%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>4.5%</td>
<td>5.2%</td>
<td>+0.7ppt</td>
</tr>
<tr>
<td>Basic EPS (RMB)</td>
<td>0.400</td>
<td>0.531</td>
<td>+32.8%</td>
</tr>
</tbody>
</table>
# Revenue Breakdown by Segments

<table>
<thead>
<tr>
<th></th>
<th>1H2018</th>
<th>1H2019</th>
<th>+/-</th>
<th>% of Revenue</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquid Milk</strong></td>
<td>28,931.6</td>
<td>33,109.0</td>
<td>+14.4%</td>
<td>83.1%</td>
<td>-0.9ppt</td>
</tr>
<tr>
<td><strong>Ice Cream</strong></td>
<td>2,239.8</td>
<td>2,186.0</td>
<td>-2.4%</td>
<td>5.5%</td>
<td>-1.0ppt</td>
</tr>
<tr>
<td><strong>Milk Formula</strong></td>
<td>2,946.5</td>
<td>4,237.8</td>
<td>+43.8%</td>
<td>10.6%</td>
<td>+2.1ppt</td>
</tr>
<tr>
<td><strong>Others (1)</strong></td>
<td>356.4</td>
<td>324.4</td>
<td>-9.0%</td>
<td>0.8%</td>
<td>-0.2ppt</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34,474.3</td>
<td>39,857.2</td>
<td>+15.6%</td>
<td>100%</td>
<td>/</td>
</tr>
</tbody>
</table>

(1) Others refer to cheese, plant-based nutritional food business, etc.
Market Share Increased Steadily

### UHT Products

<table>
<thead>
<tr>
<th></th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>22.7%</td>
<td>20.7%</td>
</tr>
<tr>
<td>A</td>
<td>7.2%</td>
<td>6.8%</td>
</tr>
<tr>
<td>B</td>
<td>36.4%</td>
<td>38.8%</td>
</tr>
<tr>
<td>C</td>
<td>28.3%</td>
<td>28.5%</td>
</tr>
</tbody>
</table>

### Chilled Yogurt

<table>
<thead>
<tr>
<th></th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>30.8%</td>
<td>30.1%</td>
</tr>
<tr>
<td>A</td>
<td>10.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>B</td>
<td>21.7%</td>
<td>20.2%</td>
</tr>
<tr>
<td>C</td>
<td>33.0%</td>
<td>34.5%</td>
</tr>
</tbody>
</table>

### Fresh Milk

<table>
<thead>
<tr>
<th></th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>43.8%</td>
<td>42.9%</td>
</tr>
<tr>
<td>A</td>
<td>8.8%</td>
<td>8.8%</td>
</tr>
<tr>
<td>B</td>
<td>41.0%</td>
<td>39.1%</td>
</tr>
<tr>
<td>C</td>
<td>2.4%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

### E-commerce (Liquid Milk)

<table>
<thead>
<tr>
<th></th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mengniu</td>
<td>42.9%</td>
<td>40.5%</td>
</tr>
<tr>
<td>A</td>
<td>6.3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>B</td>
<td>21.4%</td>
<td>24.3%</td>
</tr>
<tr>
<td>C</td>
<td>24.0%</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

Data Source: (1) Nielsen offline retail data; (2) Nielsen online retail research
Cash Flow and CAPEX

**Net Cash Inflows from Operating Activities**

<table>
<thead>
<tr>
<th>(RMB Million)</th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,400.3</td>
<td>2,640.3</td>
<td></td>
</tr>
</tbody>
</table>

**Capital Expenditure - Property, Plant & Equipment**

<table>
<thead>
<tr>
<th>(RMB Million)</th>
<th>1H2018</th>
<th>1H2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,325.8</td>
<td>1,691.8</td>
<td></td>
</tr>
</tbody>
</table>
SG&A Expenses

### S&D

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenses (RMB Million)</th>
<th>As a % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H2018</td>
<td>9,975.1</td>
<td>28.9%</td>
</tr>
<tr>
<td>1H2019</td>
<td>11,317.7</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

### G&A

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenses (RMB Million)</th>
<th>As a % of Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H2018</td>
<td>1,360.4</td>
<td>3.9%</td>
</tr>
<tr>
<td>1H2019</td>
<td>1,585.7</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
Operational Efficiency Index

**Inventory Turnover**

(Days)

1H2018: 31.8
1H2019: 30.9

**Receivables Turnover** (1)

(Days)

1H2018: 15.6
1H2019: 16.7

**Payables Turnover** (2)

(Days)

1H2018: 58.5
1H2019: 58.5

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(1) Receivables Turnover = (Average Balance of Trade and Bills Receivables / Revenue) x Number of Days
(2) Payables Turnover = (Average Balance of Trade and Bills Payables / Cost of Sales) x Number of Days
2019 Review and Prospects

Striving for Robust and Quality Development
Challenges & Opportunities

**Challenges**

- Consumption power and consumer confidence dampened by economic slowdown
- Raw milk price hike is over expectation
- Competition remains intense
- “Two-child Policy” has not boosted birth rate, IMF sector will be under pressure

**Opportunities**

- Huge room for growth of dairy products per capita consumption & penetration of channels in lower tier cities
  - Today’s per capita consumption in China is 20kg+, only 1/3 of that of developed countries
- New retail and new logistics models bring new market opportunities
- Growth driven by product innovation & consumption upgrade
  - Consumption upgrade in higher tier cities + New Retail channels boosted demand for fresh dairy products
Strategic Focus: Building Core Competitiveness

Step up enhancing capability, focus on dairy business to build it bigger and stronger

1. Branding

2. Sales

3. Digitalization

4. R&D

5. Supply Chain

6. Organization & Culture
### 1. Continuous Improvement in Branding

**Mother Brand:** Possesses Top Global Sports Platform and Top Domestic Sports and Entertainment Resource

<table>
<thead>
<tr>
<th>Top Sports Event Partner</th>
<th>FIFA World Cup Global Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese Super League Official Partner</td>
<td>NBA China Partner</td>
</tr>
<tr>
<td>Shanghai Disney Official Partner</td>
<td>Universal Beijing Resort Official Partner</td>
</tr>
</tbody>
</table>

**Subsidiary Brands:** Brand Upgrade, Aggressively Activate Top Entertainment IPs

- Coca-Cola
-蒙牛
- VISA
- adidas
- McDonald’s
- Budweiser
- Inner Mongolia 2020
- NBA
- Universal Beijing Resort
- Shanghai Disney
- CSL
2. Keep Enhancing Sales Capability

- Increase POS Coverage
- Redesign RTM for Future Growth
- Empower Distributors
- Improve Supply Chain Model
- Optimize Sales Force Structure
- Reinforce Channel Management

To realize more effective and efficient channel & POS control
2. Keep Enhancing Sales Capability-
Empower Distributors

Implement Smart Network Project

- Standardize POS management
  - Map out Smart Network routes
- Visible POS execution
  - Convenient payment settlement
- Efficient management of order delivery
  - Inventory expiry warning
- In-depth analysis of business data
- Precise management of POS investment

By end of June, Smart Network was launched by 67%

Step Up Development of B2B New Retail Model

- Further deepen the strategic cooperation with lst.1688, booked over RMB 100 million of sales on June 18, one of the major e-commerce holidays in China, and active stores covered reached over 70,000
- Roll out “Penetration into Towns and Villages” project in full-force to bring distributors additional traditional POS sales volume. By end of June, the project covered over 4,000 counties and townships and added 200,000 stores
3. Digital Capabilities to Digitizing for Customers and Consumers

**Consumer Big Data**
- Integrate consumer data across all brands and engagement points to help all-round understanding of consumer groups
- Use labeling system to define and aid understanding of different consumer groups, and facilitate use of precise media to reach and interact with consumers

**PDB & Innovation**
- Conduct strategic cooperation with Alibaba to execute digital marketing strategy
- Establish Mengniu’s corporate digital marketing platform

**B2B**
- Use B2B platform like lst.1688 to drive channel penetration of traditional stores in counties or above
- Increase traditional POS coverage
- Accelerate market penetration by expansion and execution of “Penetration into Towns and Villages” project

**E-commerce**
- Online sales grew by 64% in 1H19, and sales as a % of total revenue increased from 3.2% to 4.5%
- Explore new product types and new e-commerce channel opportunities

**New Retail**
- Roll out smart retail model for fresh milk products under the “Tian Xian Pei” (天鲜配) brand
- Expand vending machine sales model
4. Continue Strengthening R&D Capability

**Build Key Technology**
- Develop key dairy specific technologies
- Increase R&D investment in basic nutrition

**Establish International Cooperative Platform**
- Establish Mengniu Nutrition & Health Research Institute
- Set up overseas science & research cooperation network

**Develop Sustainable Packaging**
- Strengthen research on sustainable packaging
- Reduce or replace use of plastics
- Increase use of recyclable, renewable and reusable packaging

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**Product Innovation Matching Consumption Trends**

- **Just Yoghurt**
  - grapefruit, yellow peach oat flavor
- **Fruit Milk Drink**
  - passion fruit and mango flavor
- **Mengniu cheese yogurt**
- **Shiny Meadow**
  - fat-free fresh milk
- **Modern Meadow**
  - fresh milk drink
5. Keep Enhancing Operating Capability

Assure Access to High-quality Milk Source at Home and Worldwide

- Completed the acquisition of the downstream business of Shengmu organic milk and locked the organic raw milk supply; China Modern Dairy further improved milk yield by 0.3 tons to 10.6 tons/cow/year, with milk yield and raw milk quality leading the industry
- Maintain 100% raw milk supply from scaled ranches, increase proportion of raw milk from self-controlled + large ranches
- Deploy premium milk sources worldwide
- Establish AI YANG NIU platform to help upstream ranches improve profitability

Proactively Invest in Production Capacity and Key Resources to Ensure Future Growth

- Optimize deployment of production lines in existing plants
- Expand production capacity, especially that of fresh dairy products, to meet business development needs
- Build a smart supply chain system to realize better defined cost control
6. Strong Organization Assures Long-Term Development

1. Focus on building a strong pool of talent in branding, R&D and digital marketing
   ● Optimize top talents’ training program, strengthen training and reserve of talent

2. • Build a more agile & responsive organization and operation model to support breakthrough growth of new and small business units
   • Innovate incentive mechanism, and emphasize performance-based incentive
   • Execute “Employee Happiness Plan” to improve all employees’ welfare

3. • Born for Greatness, return of “Wolf Culture”
   • Create a corporate culture that values integrity
Q&A