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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- For the six months ended 30 June 2019, the Group made revenue of RMB39,857.2 million (2018: RMB34,474.3 million), representing an increase of 15.6% as compared to the same period last year. Profit attributable to owners of the Company increased by 33.0% year-on-year to RMB2,076.9 million (2018: RMB1,562.0 million).
- Mengniu's four business divisions, namely room temperature, chilled, milk formula and ice cream products, advanced in steady strides together with the new business divisions such as cheese, fresh milk and overseas business. The Group also exerted in stimulating their growth potential. Through the construction of stronger brand image, launching of quality new products, as well as strengthening of channel distribution power, its growth in revenue was higher than industry and its net profit margin continued to grow, which contributed to a continued and stable high-quality growth.
- During the period, room temperature product business actively focused on such star brands as *Milk Deluxe*, *Just Yoghurt* and *Fruit Milk Drink*, steadily pushing up its market share. The chilled product business focused on the two star brands *Champion* and *Yoyi C*, to develop functional products while maintaining and expanding its leading market share. The milk formula business continued to adjust its sales channel and product strategies and increased efforts in publicity through different channels, such that the growth in sales volume was facilitated. For ice cream products, efforts were devoted to the flagship brand *Suibian*. By a series of marketing events, the brand's chic image was reinforced.
- Mengniu was named on the "Global Dairy Top 20" list published by Rabobank for the eleventh consecutive year and to be among the top 10 for the third consecutive year. Mengniu was placed 27th on BrandZ™'s list of most valuable Chinese brands, plus retained the top spot on the list of brand contribution, and was named for the first time the Most Trend-setting Brand. Mengniu again was placed second on the list of Kantar Worldpanel's "Most Chosen Brands in China". In addition, for the first time, Mengniu was named among the Brand Finance Global 500.
- Mengniu received the "Asia Responsible Enterprise Award 2019 – Social Empowerment Category" from Enterprise Asia, the "2019 Top 60 Brands for Chinese Corporate Citizens' Responsibility" from the China Corporate Citizen Responsibility Brand Summit and the "Climate Leader Plant Award" from the Energy Foundation and China Council for an Energy Efficient Economy.

* For identification purposes only

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2019, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	<i>Notes</i>	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue	4	39,857,239	34,474,336
Cost of sales		<u>(24,278,510)</u>	<u>(20,952,057)</u>
Gross profit		15,578,729	13,522,279
Other income and gains	4	292,973	267,221
Selling and distribution expenses		(11,317,690)	(9,975,083)
Administrative expenses		(1,585,750)	(1,360,443)
Impairment losses on financial and contract assets, net		(88,817)	(42,476)
Other expenses	5	(575,646)	(465,851)
Interest income		510,908	398,429
Finance costs	7	(321,917)	(226,497)
Share of profits/(losses) of associates		<u>103,140</u>	<u>(100,514)</u>
Profit before tax	6	2,595,930	2,017,065
Income tax expense	8	(435,298)	(358,502)
Profit for the period		<u>2,160,632</u>	<u>1,658,563</u>
Attributable to:			
Owners of the Company		2,076,926	1,562,013
Non-controlling interests		<u>83,706</u>	<u>96,550</u>
		<u>2,160,632</u>	<u>1,658,563</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	<i>11</i>		
Basic		<u>0.531</u>	<u>0.400</u>
Diluted		<u>0.531</u>	<u>0.400</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Profit for the period	<u>2,160,632</u>	<u>1,658,563</u>
Other comprehensive loss		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	(34,791)	(87,974)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	(12,988)	17,838
Share of other comprehensive loss of associates	<u>(3,742)</u>	<u>(12,794)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(51,521)	(82,930)
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(15,176)	(143,816)
Share of other comprehensive income of an associate	<u>78</u>	<u>–</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(15,098)</u>	<u>(143,816)</u>
Other comprehensive loss, net of tax	<u>(66,619)</u>	<u>(226,746)</u>
Total comprehensive income for the period	<u>2,094,013</u>	<u>1,431,817</u>
Attributable to:		
Owners of the Company	2,008,499	1,353,331
Non-controlling interests	<u>85,514</u>	<u>78,486</u>
	<u>2,094,013</u>	<u>1,431,817</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		10,730,834	14,733,924
Construction in progress		1,495,644	2,203,125
Investment properties		64,231	73,785
Right-of-use assets	2(a)	1,336,319	–
Land use rights		–	1,120,666
Goodwill		4,334,109	4,681,492
Other intangible assets		2,157,831	2,298,075
Investments in associates		7,203,858	7,202,363
Deferred tax assets		1,042,350	1,041,626
Biological assets		–	1,136,600
Derivative financial instruments		10,271	28,598
Other financial assets		3,991,792	2,131,485
Long term prepayments		28,264	64,140
Total non-current assets		<u>32,395,503</u>	<u>36,715,879</u>
CURRENT ASSETS			
Other financial assets		14,616,086	11,819,198
Derivative financial instruments		20,944	49,212
Inventories		3,137,441	4,281,919
Trade and bills receivables	12	4,186,726	2,891,973
Prepayments, other receivables and other assets		2,696,859	2,777,593
Pledged deposits		337,895	623,495
Cash and bank balances		4,731,344	7,297,988
Assets of a disposal group classified as held for sale	9	<u>11,635,812</u>	–
Total current assets		<u>41,363,107</u>	<u>29,741,378</u>
CURRENT LIABILITIES			
Trade and bills payables	13	7,022,891	7,021,542
Other payables and accruals		8,106,414	10,889,417
Interest-bearing bank and other borrowings		9,150,242	6,522,915
Other loans		–	22,912
Derivative financial instruments		22,492	9,705
Deferred income		77,637	170,261
Income tax payable		298,094	472,366
Liabilities directly associated with the assets classified as held for sale	9	<u>10,314,969</u>	–
Total current liabilities		<u>24,677,770</u>	<u>25,109,118</u>
Liabilities directly associated with the assets classified as held for sale	9	<u>10,314,969</u>	–
Total current liabilities		<u>34,992,739</u>	<u>25,109,118</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

30 June 2019

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 (Audited) <i>RMB'000</i>
NET CURRENT ASSETS	6,370,368	4,632,260
TOTAL ASSETS LESS CURRENT LIABILITIES	38,765,871	41,348,139
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	4,993,571	8,192,400
Long term payables	–	814
Deferred income	255,233	856,120
Deferred tax liabilities	209,075	206,122
Derivative financial instruments	–	17,457
Other financial liabilities	1,632,671	1,610,947
Total non-current liabilities	7,090,550	10,883,860
NET ASSETS	31,675,321	30,464,279
EQUITY		
Equity attributable to owners of the Company		
Share capital	357,902	357,602
Treasury shares held under share award scheme	(176,518)	(218,717)
Other reserves	11,812,341	12,450,930
Retained earnings	14,699,475	12,622,549
Non-controlling interests	4,982,121	5,251,915
TOTAL EQUITY	31,675,321	30,464,279

NOTES:

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised International Financial Reporting Standards ("IFRSs") effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015 – 2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics, and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) <i>RMB'000</i> (Unaudited)
Assets	
Increase in right-of-use assets	1,684,269
Decrease in land use right	(1,120,666)
Decrease in prepayments, other receivables and other assets	(145,397)
Decrease in long term prepayments	<u>(29,681)</u>
Increase in total assets	<u><u>388,525</u></u>
Liabilities	
Increase in interest-bearing bank and other borrowings	<u>388,525</u>
Increase in total liabilities	<u><u>388,525</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>RMB'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	615,360
Weighted average incremental borrowing rate as at 1 January 2019	<u>4.68%</u>
Discounted operating lease commitments as at 1 January 2019	546,069
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(136,115)
Commitments relating to leases of low-value assets	<u>(21,429)</u>
Lease liabilities as at 1 January 2019	<u><u>388,525</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follows:

	Right-of-use assets						
	Building					Total	Lease Liabilities
	and structures	Plant and machinery	Office equipment	Motor vehicles	Land use rights		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2019	59,319	273,032	15,771	462	1,335,685	1,684,269	388,525
Additions	45,611	118,703	–	–	35,409	199,723	180,802
Acquisition of a subsidiary	–	–	–	–	24,003	24,003	–
Depreciation charge	(13,895)	(53,394)	(4,278)	(89)	(20,767)	(92,423)	–
Interest expense	–	–	–	–	–	–	8,132
Payments	–	–	–	–	–	–	(73,162)
Transfer to assets of a disposal group classified as held for sale	(594)	(4,050)	(11,493)	–	(463,116)	(479,253)	(87,584)
As at 30 June 2019	90,441	334,291	–	373	911,214	1,336,319	416,713

The Group recognised rental expenses from short-term leases of RMB125,688,000, leases of low-value assets of RMB15,290,000 and variable lease payments not based on index or rate of RMB25,642,000 for the six months ended 30 June 2019.

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk (“UHT milk”), milk beverage and yogurt
- Ice cream products segment – manufacture and distribution of ice cream
- Milk powder products segment – manufacture and distribution of milk powder
- Others segment – principally the Group’s cheese and plant-based nutrition product business and trading business

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit before tax except that interest income, finance costs, share of profits/losses of associates, income tax expense, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present the revenue, profit and certain asset and liability information for the Group's operating segments:

Six months ended 30 June 2019

	Liquid milk products RMB'000 (unaudited)	Ice cream products RMB'000 (unaudited)	Milk powder products RMB'000 (unaudited)	Others RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue:					
Sales to external customers	33,109,037	2,185,977	4,237,839	324,386	39,857,239
Intersegment sales	452,751	38,520	16,395	151,045	658,711
	<u>33,561,788</u>	<u>2,224,497</u>	<u>4,254,234</u>	<u>475,431</u>	<u>40,515,950</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(658,711)</u>
Revenue					<u>39,857,239</u>
Segment results	1,803,933	231,784	224,078	(507)	2,259,288
<i>Reconciliation:</i>					
Interest income					510,908
Finance costs					(321,917)
Share of profits of associates					103,140
Corporate and other unallocated expenses					<u>44,511</u>
Profit before tax					2,595,930
Income tax expense					<u>(435,298)</u>
Profit for the period					<u><u>2,160,632</u></u>
At 30 June 2019 (unaudited)					
Segment assets	43,288,455	2,357,852	11,885,470	714,887	58,246,664
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(16,114,712)
Corporate and other unallocated assets					19,990,846
Assets related to a disposal group					<u>11,635,812</u>
Total assets					<u>73,758,610</u>
Segment liabilities	20,985,440	2,566,499	2,350,903	1,093,995	26,996,837
<i>Reconciliation:</i>					
Elimination of intersegment payables					(16,114,712)
Corporate and other unallocated liabilities					20,886,195
Liabilities related to a disposal group					<u>10,314,969</u>
Total liabilities					<u><u>42,083,289</u></u>

Six months ended 30 June 2018

	Liquid milk products <i>RMB'000</i> (unaudited)	Ice cream products <i>RMB'000</i> (unaudited)	Milk powder products <i>RMB'000</i> (unaudited)	Others <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Segment revenue:					
Sales to external customers	28,931,560	2,239,829	2,946,532	356,415	34,474,336
Intersegment sales	<u>374,421</u>	<u>60,375</u>	<u>44,882</u>	<u>219,000</u>	<u>698,678</u>
	29,305,981	2,300,204	2,991,414	575,415	35,173,014
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(698,678)</u>
Revenue					<u>34,474,336</u>
Segment results	1,569,044	265,113	(4,608)	(10,535)	1,819,014
<i>Reconciliation:</i>					
Interest income					398,429
Finance costs					(226,497)
Share of losses of associates					(100,514)
Corporate and other unallocated expenses					<u>126,633</u>
Profit before tax					2,017,065
Income tax expense					<u>(358,502)</u>
Profit for the period					<u><u>1,658,563</u></u>
At 31 December 2018 (audited)					
Segment assets	41,610,178	1,976,935	15,468,072	670,430	59,725,615
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(13,248,319)
Corporate and other unallocated assets					<u>19,979,961</u>
Total assets					<u>66,457,257</u>
Segment liabilities	20,424,553	2,382,259	5,118,045	1,119,178	29,044,035
<i>Reconciliation:</i>					
Elimination of intersegment payables					(13,248,319)
Corporate and other unallocated liabilities					<u>20,197,262</u>
Total liabilities					<u><u>35,992,978</u></u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of the revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Sale of goods	39,841,760	34,449,507
Consigned processing services	15,479	24,829
	<u>39,857,239</u>	<u>34,474,336</u>
	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income and gains:		
Government grants related to		
– Recognition of deferred income	(a) 52,919	39,689
– Income and biological assets	(b) 118,800	95,302
Gain on disposal of a disposal group classified as held for sale	9 –	34,991
Foreign exchange gains, net	30,307	9,405
Net fair value gain on exchangeable bonds	–	3,492
Others	90,947	84,342
	<u>292,973</u>	<u>267,221</u>

Notes:

- (a) The Group has received certain government grants in forms of property, plant and equipment donations and cash donations to purchase items of property, plant and equipment. These grants are initially recorded as deferred income. The grants relating to property, plant and equipment are amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with estimated useful lives of the assets.
- (b) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy product industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. OTHER EXPENSES

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Write-down of inventories to net realisable value	46,326	97,202
Provision for other intangible assets	1,332	–
Losses on disposal of items of property, plant and equipment	18,076	11,604
Donations	9,121	5,930
Educational surcharges, city construction tax, and other taxes	254,952	233,169
Losses arising from changes in fair value less cost to sell of dairy cows	94,098	52,682
Net fair value loss on forward currency contracts	3,199	1,626
Net fair value loss on exchangeable bonds	48,028	–
Net fair value loss on a convertible promissory note	165	1,045
Net fair value loss on warrants and subscription rights of warrants	29,123	–
Others	71,226	62,593
	<u>575,646</u>	<u>465,851</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cost of inventories sold	24,264,843	20,944,161
Realised and unrealised fair value gains of commodity futures contracts, net	–	(6,394)
Cost of consigned processing services	13,667	14,290
Cost of sales	<u>24,278,510</u>	<u>20,952,057</u>
Impairment of financial and contract assets, net:		
Impairment of trade receivables, net	88,806	41,733
Impairment of financial assets included in prepayments, other receivables and other assets, net	11	743
	<u>88,817</u>	<u>42,476</u>
Depreciation of property, plant and equipment	966,505	840,178
Depreciation of right-of-use assets	92,423	–
Depreciation of investment properties	1,146	1,318
Amortisation of land use rights	–	14,335
Amortisation of other intangible assets	44,583	31,643
Outsourcing expenses	(a) 130,991	145,149
Other rental expenses	(b) 166,620	–
Minimum lease payments under operating leases	–	160,245
Display space leasing fees	1,268,898	1,315,087
Employee benefit expense (including directors' and senior executive's emoluments)	3,428,547	2,729,576
	<u>3,428,547</u>	<u>2,729,576</u>

Notes:

- (a) For the purpose of promoting operation efficiency, the Group outsourced the production of certain products. The amounts represent the total amounts paid by the Group for purchasing outsourcing services.
- (b) The Group recognised rental expenses from short-term leases of RMB125,688,000, leases of low-value assets of RMB15,290,000 and variable lease payments not based on index or rate of RMB25,642,000 for the six months ended 30 June 2019.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended	
	30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans	204,491	165,070
Interest on US\$500,000,000 3.50% bond due 2018	–	61,731
Interest on US\$500,000,000 4.25% bond due 2023	75,415	–
Interest on super short-term commercial papers	6,247	–
Interest on lease liabilities	8,132	–
Interest on long term payables	305	924
Net fair value loss/(gain) on interest rate forward contracts	27,327	(1,228)
	<u>321,917</u>	<u>226,497</u>

8. INCOME TAX EXPENSE

Under the Law of the People's Republic of China on Corporate Income Tax ("PRC CIT Law"), except for certain preferential tax treatment available to certain subsidiaries of the Group, the entities within the Group are subject to PRC corporate income tax ("CIT") at a rate of 25% (2018: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	For the six months ended	
	30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
Current income tax charge	632,979	680,801
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	(197,681)	(322,299)
	<u>435,298</u>	<u>358,502</u>

During the period, certain PRC subsidiaries were subject to tax concessions in accordance with (i) the PRC corporate income tax law; (ii) "The notice of tax policies relating to the implementation of western China development strategy"; and (iii) "The notice of preferential tax policy for preliminary processing of agricultural products".

9. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 30 June 2019, Inner Mongolia Mengniu Dairy (Group) Company Limited (“Inner Mongolia Mengniu”), a subsidiary of the Company, entered into a share transfer agreement to dispose of approximately 51% of the equity interests of Shijiazhuang Junlebao Dairy Co., Ltd. (“Junlebao”) to third parties for an aggregate cash consideration of approximately RMB4,011,319,000. The transaction is expected to be completed within one year. As such, Junlebao was classified as a disposal group held for sale as at 30 June 2019.

The major classes of assets and liabilities of Junlebao from the perspective of the Group’s consolidated financial statements classified as held for sale as at 30 June 2019 are as follows:

	30 June 2019 RMB’000 (Unaudited)
Assets	
Property, plant and equipment	4,568,736
Right-of-use assets	479,253
Construction in progress	737,382
Investments in associates	42,035
Other intangible assets	196,444
Biological assets	1,276,000
Other financial assets	845,844
Goodwill	355,859
Deferred tax assets	265,734
Long term prepayments	76,698
Inventories	881,816
Trade and bills receivables	307,428
Prepayments, other receivables and other assets	595,677
Pledged deposits	239,198
Cash and bank balances	797,123
	<hr/>
	11,665,227
Less: Intra-group receivables	<u>(29,415)</u>
Assets classified as held for sale	11,635,812
Liabilities	
Trade and bills payables	1,643,692
Other payables and accruals	3,316,504
Interest-bearing bank and other borrowings	4,526,055
Other loans	22,912
Deferred income	717,303
Income tax payable	22,679
Deferred tax liabilities	65,824
	<hr/>
Liabilities directly associated with the assets classified as held for sale	10,314,969
Net assets directly associated with the disposal group	<u><u>1,320,843</u></u>

On 22 December 2017, Yashili International Holdings Ltd. (“Yashili”) entered into an agreement to dispose of a piece of land of Scient (China) Baby Nourishment Co., Ltd. (“Scient China”), together with the property, plant and equipment on the land. As such, the related assets and liabilities were classified as a disposal group classified as held for sale as at 31 December 2017. During 2018, the transaction had been completed with a disposal gain of RMB34,991,000 recognised in other income and gains (note 4) of the Group.

10. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

During the six months ended 30 June 2019, the Company declared and paid a final dividend of RMB0.181 (six months ended 30 June 2018: RMB0.12) per ordinary share as proposed for the year ended 31 December 2018 to the shareholders of the Company.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The basic earnings per share amount for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share amount is as follows:

	For the six months ended 30 June	
	2019	2018
	Number of shares	Number of shares
	(in thousand)	(in thousand)
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	3,927,708	3,927,361
Effect of share options exercised	1,446	–
Effect of shares purchased under share award scheme	<u>(20,553)</u>	<u>(24,615)</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u><u>3,908,601</u></u>	<u><u>3,902,746</u></u>

(b) Diluted earnings per share

The diluted earnings per share amount is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A reconciliation of the weighted average number of shares used in calculating the diluted earnings per share amount is as follows:

	For the six months ended 30 June	
	2019	2018
	Number of shares (in thousand) (Unaudited)	Number of shares (in thousand) (Unaudited)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,908,601	3,902,746
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	3,275	–
Adjustments for share award scheme	2,092	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	3,913,968	3,902,746
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND BILLS RECEIVABLES

The Group normally allows a credit limit to its customers which is adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivables. The trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	3,658,145	2,524,831
4 to 6 months	420,853	308,887
7 to 12 months	88,453	38,067
Over 1 year	19,275	20,188
	<hr/>	<hr/>
	4,186,726	2,891,973
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2019, the bills receivables amounting to RMB273,067,000 (31 December 2018: Nil) were pledged to secure interest-bearing bank and other borrowings.

13. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited)
Within 3 months	5,622,443	5,988,352
4 to 6 months	1,229,752	809,406
7 to 12 months	146,268	193,712
Over 1 year	24,428	30,072
	7,022,891	7,021,542

The Group's trade payables are unsecured, non-interest-bearing and payable on demand.

Included in the above balances, bills payable with an aggregate balance of approximately RMB597,420,000 (31 December 2018: RMB606,299,000) were secured by the pledged deposits amounting to approximately RMB264,036,000 (31 December 2018: RMB254,977,000). Except for the above, bills payable were unsecured, non-interest-bearing and payable when due ranging from 3 to 12 months.

14. CONTINGENT LIABILITIES

During the period, a non-controlling shareholder of the Group alleged that the Group has breached the investment deed associated with the associate, thereby entitling it to exercise the put option right to sell its equity interests in the associate to the Group. The Directors, based on the advice from the Group's legal counsel, believe that the Group has not breached the investment deed and accordingly, did not provide for any claim in these financial statements.

15. EVENT AFTER THE REPORTING PERIOD

On 18 July 2019, the Company issued five-year bonds due 2024 with an aggregate principal amount of US\$500,000,000 at 99.572% of the face value to refinance the Company's existing loans. The bonds bear interest at the rate of 3.000% per annum, payable semi-annually in arrears.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2019, the Chinese government's policy to promote high quality economic growth was starting to show effects. Tax and fee reductions saw enterprises made more revenue and people made more income and in turn drove increase in consumption. During the period, China's GDP was approximately RMB45.09 trillion, representing an increase of 6.3% year-on-year, and its Total Retail Sales of Consumer Goods amounted to approximately RMB19.52 trillion, up by 8.4% year-on-year.

During the period, the dairy industry of China continued to welcome the advent of promising opportunities. Regarding the consumption market, with the living standard of the Chinese people improving and emergence of the young middle class, consumption upgrade, product innovation and thriving new retail have now become the main drivers of the fast-moving consumer goods market. Consumers have growing demand for high-end, premium, diverse and branded products, and in the dairy product market, consumers are drawn to healthy, high-quality and safe products, which sped up the structural upgrade of dairy product consumption. High-end dairy products, such as high-end pure milk, organic milk, room temperature and chilled yogurt, chilled fresh milk, cheese products, as well as organic formula and goat milk powder, have stood out as growth engines of the industry. Sizeable enterprises have been pursuing product upgrade and innovation, which has helped hasten development of the entire industry.

As the consumption power of third-tier and fourth-tier cities was enhanced, growth in retail sales on liquid milk and dairy products was significantly higher than that of first-tier and second-tier cities. Consumers in rural areas were gradually concerning on brand consumption. Due to the formation of consumption habit in dairy products, leading dairy enterprises strived to invest in brand promotion while strengthening channel penetration in counties, villages and towns, which contributed to the upgrade of consumption settings in village, town and rural areas.

The country attaches great importance to the development of dairy industry. Recently, a variety of policies were introduced to promote the revitalization of dairy industry. In order to consistently implement the "Opinions on Promoting the Revitalization of Dairy Industry to Guarantee the Quality and Safety of Dairy Products" by the General Office of the State Council of the PRC, the nine departments including the Ministry of Agriculture and Rural Affairs jointly issued the "Several Opinions on Further Promoting the Revitalization of the Dairy Industry" in the end of 2018, thereby optimizing the production layout of dairy industry, innovating the development model of dairy industry, establishing a sound system of production and operation based on the large-scale breeding of dairy farms, and closely linking the benefits of each sector along the industry chain, so as to strengthen the consumers' confidence in dairy products. It is targeted that the production volume of dairy products will reach 45 million tonnes across the country in 2025, such that the quality, effectiveness and competitiveness of the dairy industry

development in our country can be practically improved. In March 2019, the Ministry of Agriculture and Rural Affairs announced “The action plan for Promoting Dairy Brand” which entails strengthened preferential policies in relation to investment and financing, and supply of production essentials as well as policy support to encourage social capital involvement, support development of dairy brands, perfect standard system, as well as strengthen dairy brand protection. And, in May, the National Development and Reform Commission together with various departments announced the “The Action Plan for Promoting Domestic Infant Milk Powder” focusing on “quality enhancement, industry upgrade and brand cultivation” of domestic infant milk formulas. The aims of the plan are to help the steady increase in production volume of domestic infant milk formulas and ultimately ensure local products consistently account for above 60% of all the infant milk formulas sold in China. With safe and reliable product quality and stable enhancement of the product quality, there will be a significant improvement in consumers’ confidence and satisfaction towards the products. Further optimization of the structure of industry and continuous enhancement of the concentration of industry and level of technical capacity will lead to further strengthening of the product competitiveness, significantly better performance in both the market sales volume and ranking of infant milk formulas of Chinese brands in the domestic market.

In addition, at present, dairy industries in different parts of the world are developing at different pace. Relative to their counterparts in Europe and North America, emerging dairy product markets, especially those in Asia, are lagging behind, meaning that they have ample room for development. As a leading dairy enterprise in China, Mengniu will continue to push for internationalization, aiming to integrate into the global market, and capture relevant business opportunities to develop into a world-leading Chinese dairy product enterprise.

BUSINESS REVIEW

In the first half of 2019, Mengniu’s four business divisions, namely room temperature, chilled, milk formula and ice cream products, advanced in steady strides together with the new business divisions such as cheese, fresh milk and overseas business. While reinforcing the advantages of its traditional businesses, the Group also exerted in stimulating their growth potential. Through the construction of stronger brand, launching of quality new products, as well as strengthening of channel distribution power, Mengniu continued to obtain stable high-quality growth as its growth in revenue was higher than industry average and its net profit margin continued to grow during the period.

During the period, Mengniu's room temperature product business actively focused on such star brands as *Milk Deluxe*, *Just Yoghurt* and *Fruit Milk Drink*, continuing to reinforce and enhance their high-end brand image while steadily pushing up its market share. The chilled product business focused on the two star brands *Champion* and *Yoyi C*, developed functional products and launched various new products, fostering growth of the business, maintaining and expanding the leading market share of the products. The infant milk formula business of Yashili International Holdings Ltd ("Yashili": stock code: 1230) focuses on the mother-and-baby store channels, while the adult milk formula and nutritional products focus on the KA channels with all-out efforts, along with gradual fadeout of products with low output value and gross profit and increased efforts in publicity through different channels, such that the growth in sales volume of milk formula is facilitated. For ice cream products, efforts were devoted to the flagship brand *Suibian*. By integrating all marketing resources and leveraging the brand ambassadors' vast fan base, and complemented with a series of marketing events, the brand's image was reinforced.

In addition, the Group continued to upgrade its quality and safety system following international and national standards. Via projects such as "Dairy Cattle Research Institute" and "Aiyangniu" integrated procurement platform, it was able to improve milk source management and operating capability. Mengniu also actively implemented its corporate digitalization strategy, promoting projects such as the digital milk source project, intelligent supply chain project and consumer Big Data project, and also strategic channel building initiatives such as Route to Market ("RTM") and "Penetration into Towns and Villages" project. Efforts were also made to expand e-commerce business. As such, Mengniu managed to continue to enhance product quality, operating efficiency as well as sales capability.

The Group continued to reinforce its international brand image. Apart from being the sole representative of the Chinese dairy industry attending the World Economic Forum Annual Meeting in Davos, it also became an official partner of the 14th National Winter Games in 2020 during the period.

The market position of Mengniu has kept climbing thanks to its premium product quality and international brand image. In 2019, Mengniu was named on the "Global Dairy Top 20" list published by Rabobank for the eleventh consecutive year and to be among top 10 for the third consecutive year. Mengniu for the fifth consecutive year made it on BrandZ™'s list of top 100 most valuable Chinese brands (placing 27th), plus retained the top spot on the list of brand contribution, and was named for the first time the Most Trend-setting Brand. Also, for the ninth consecutive year, Mengniu scored top ranking in the yogurt industry on the China Brand Power Index (C-BPI) list 2019 published by the Ministry of Industry and Information Technology of the PRC and *Yoyi C* retained its champion title in the probiotics drinks industry on the C-BPI list. Besides, Mengniu continued to top the list for ice cream brands for the second consecutive year.

According to the Asia Brand Footprint 2019 published by Kantar Worldpanel, Mengniu again was placed second on the list of “Top 10 Most Chosen Brands in China”. In addition, for the first time, Mengniu was named among the Brand Finance Global 500.

Business Division Performance

Room Temperature Product Business

During the first half of 2019, Mengniu’s room temperature product business continued to focus on its star brands such as *Milk Deluxe*, *Just Yoghurt* and *Fruit Milk Drink* to strengthen precise brand marketing, aiming to continuously consolidate and enhance the high-end brand image of the products. In addition, it pushed to effectively boost Point of Sales (“POS”) coverage and control, as well as sales efficiency by continuing to cultivate RTM and implement the “Penetration into Towns and Villages” and “Smart Network Action” projects. During the period, the market share of room temperature products increased steadily, with satisfactory sales revenue growth achieved by various product brands such as *Milk Deluxe* high-end pure milk, *Mengniu* pure milk, *Just Yoghurt* room temperature yogurt and *Fruit Milk Drink* milk beverage.

During the period, *Milk Deluxe* kept strengthening its high-end product image. Leveraging the popular “Super Vocal” and “Back to Field Season 3” programs produced by Hunan Television, it launched fully revamped packaging and the “Scan the Code to Win a Field Trip” activity, which bolstered sales. To satisfy consumers’ needs for products of diversified flavors, *Just Yoghurt* added to its series the salted caramel, chocolate, red jujube and medlar flavors in the first half year, which performed satisfactorily since launch. Sustainable efforts were devoted to promoting the grapefruit flavor of *Just Yoghurt Xiaomanyao* launched in end of last year, which were tied in with brand marketing as well as online and offline promotion including “Produce Camp 2019”, and the new flavor quickly become a popular new product. *Just Yoghurt* fruit pulp flavor yogurt introduced the yellow peach and oat flavor, bringing a new growth driver to the room temperature yogurt category. The *Fruit Milk Drink* milk beverage series developed new mango flavor and launched new mango and passion fruit flavor product for the high-end colorful fruit pulp series, zesting up the brand.

Chilled Product Business

During the period, Mengniu’s chilled product business delivered remarkable performance in product innovation, cultivating RTM and operating efficiency. The market share of chilled products continued to grow and lead, with sales growing faster than the industry average. With consumer demand for healthy products increasing, the chilled product business focused on two star brands, namely *Champion* and *Yoyi C*, to develop functional products, and enhancing product categories, tastes and packaging, as well as strengthening related consumer education. Through sponsoring the popular TV program “Sing! China” produced by Zhejiang Television, the functional yogurt *Champion* increased its brand awareness and maintained steady growth during the period. All *Yoyi*

C series took on new packaging to emphasize the “live bacteria” concept and packaging with ambassadors’ images was launched, aiming to strengthen the market leadership of the brand.

During the period, a variety of new chilled products of Mengniu achieved good performance, contributing to the growth of the chilled product business. Among them, *Yoyi C* introduced a new passion fruit flavor in its offerings, which has rapidly seized market share since launch. In addition, the *Yoyi C LC-37* series was dressed in new packaging that focuses on “Enhance Digestive System Health in 14 Days”, aiming to develop a professional and functional image and strengthen value marketing. Since its launch in February, *Mengniu* Nordic cheese flavor yogurt was widely accepted by consumers. The chilled product business enhanced its premium value via multi-dimensional value marketing module such as vivid and standardized displays and diverse means for marketing, which rapidly expanded the beverage market.

Milk Formula Business

For milk formula business, Yashili, in which Mengniu holds approximately 51% stake, owns brands including *Yashily*, *Reeborne*, *Dumex*, *Doraler* and *Arla Baby & Me*, which are positioned in agreement with its comprehensive product strategies and are managed to cover all-tier markets: mid-range, high-end and super high-end. By the end of June 2019, Yashili had completed registration of 54 formulas in 18 product series, including its cooperative brand *Arla*. With the progressive introduction of industry upgrade policies by the government this year, it is expected that the industry concentration will be enhanced and Yashili will continue to be benefited as an outstanding milk formula enterprise.

During the period under review, Yashili has adjusted its channel strategy, with focus of the infant milk formula business placed on the mother-and-baby store channels and focus of adult milk formula and nutritional products placed on the KA channels with all-out efforts. In addition, Yashili continued to adjust its product strategy and gradually fade out products with low production value and gross profit. In addition, with comprehensive upgrade of brand image, appointment of new brand ambassador as well as the advantage from being named “Craftsmanship Brand” by CCTV last year and the implementation of omni-media marketing plan this year that more efforts are put in promoting through CCTV and other online and offline marketing channels, leading to the increase in brand awareness and the growth in sales volume accordingly.

Ice Cream Business

Ice cream business focused on its flagship brand *Suibian*, aiming to consolidate marketing resources to reinforce the positioning of chocolate ice cream. By adopting brand ambassadors’ images on the packaging, the chic image of the brand reached the fan base of the ambassadors. It also made efforts in title sponsoring variety shows, advertising at top sports events and mounting large-scale promotions. In addition, to

expand traditional channels, the business continued to implement RTM strategy, aiming to develop markets of low-tier cities and quickly increase POS number. There was a key breakthrough for modern channels in 2019, focusing on five aspects, which were developing sales points, deploying exclusive customers, expanding systematic direct sales, focusing on star products and carrying out innovative project promotion, in the bid to enlarge sales share of modern channels. As for specialty channels, by focusing on customer deployment, increasing the proportion of exclusive customers and stepping up cooperation with theme parks, such channel sales were enhanced.

Cheese Business

The cheese market in China has rich development potential. To capture the huge market opportunities, Mengniu and Arla Foods, which is the largest dairy enterprise in Europe, have jointly set up a cheese company to facilitate in-depth cooperation on several aspects, including production techniques, raw materials and product lines, so as to expedite deployment of the *Arla* and *Mengniu* cheese brands and increase market share effectively. In the first half of 2019, the sales revenue of *Mengniu* cheese showed robust growth, with sales revenue of children cheese products surged significantly. Mengniu also upgraded its key products during the period, in which Golden Cheese Bar for Children's Growth introduced a new vanilla ice cream flavor to meet the consumers' need for various flavors, which is expected to become a sales growth driver in the second half year. In addition, the professional catering brand *Arla Pro* under Arla Foods introduced two new products, namely the shredded mozzarella and UHT cream (frozen). In addition, a full range of customized blended mozzarella cheeses will be launched in the second half year to satisfy the demand of various consumption scenarios so as to further demonstrate the advantages of the products.

Fresh Milk Business

During the period, the total sales revenue of fresh milk business saw breakthrough growth with market share increased significantly. Mengniu focused on two major brands, namely *Shiny Meadow* and *Modern Meadow*, which target the mid-range to high-end fresh milk markets, constantly improving product quality and supply chain efficiency to meet consumers' demand for fresh and healthy products. The *Shiny Meadow* 720 ml medium-size packaged fresh milk and 0% fat fresh milk were added in the *Shiny Meadow* series. *Modern Meadow* also launched a new grain milk series and quickly grasped share in the mid-range to high-end fresh milk market.

As of the first half of 2019, Mengniu's fresh milk products were sold in key cities in 16 provinces in the country, basically achieving comprehensive coverage of all the core cities in Eastern China. The factories of the Group in Qingyuan and Tianjin had also started operation in the first half year, currently enabling the fresh milk business to integrate production, supply and sales that covers key cities in Eastern, Central, Southern and Northern China.

Overseas Business

Mengniu has been actively expanding its overseas business coverage. As of the first half of 2019, more than 30 kinds of its room temperature, chilled and ice cream products were sold in 11 countries and regions including Indonesia, Hong Kong, Macau, Singapore, Malaysia, Myanmar, the Philippines, Cambodia, Mongolia, Australia and Canada. And, after its *Yoyi C* factory in Indonesia commenced operation in November last year, sales of its low temperature probiotics and chilled yogurt products started in December last year and achieved satisfactory growth during the period. Currently, Mengniu is moving forward with selling room temperature probiotics and milk beverage products in the Indonesian market to increase market penetration, which will help enhance its competitiveness in the Southeast Asian market and execute its internationalization strategy.

Quality Management

In the first half of 2019, Mengniu continued to align with the quality management models of leading international enterprises and actively responded to requirements of the three-year quality assurance plan, based on the national laws and regulations like the “Food Safety Law” and following seven international and national standards including ISO9001, FSSC22000 and HACCP to perform its 3.0 upgrade of quality and safety system. The upgraded quality and safety system entails 26 modules and 88 management essentials, and including the upgrade and optimization of 11 critical processes in relation to quality indicator design and product perfection, enhancing quality control throughout the entire industrial chain.

The milk source business division has been stringently guarding the quality and safety of dairy products and has continued to promote modernization of the management standard of its ranches as milk source base, focusing on forage planting management, ranch construction, dairy cattle breeding, milk production, storage and transportation, procurement management as well as monitoring improvement so as to ensure it has a complete and comprehensive industrial chain standardized and on par with international requirements. In the first half year, Mengniu continued to pride a 100% passing rate for random inspection carried out on raw milks procured from its milk source departments by 48 inspection bodies.

As for the room temperature product business division, it continued to adhere to the management direction of “striving for excellent quality” and has fully implemented 22 quality management measures, succeeding in ensuring that all seven core quality performance indicators were met. The division continuously improved the quality of pure milk through such initiatives as equipment modification, verification and testing, and work to address odors. The division also modified the Ultra-heat Treatment (UHT) facilities in a good number of its factories.

The chilled product business division was able to prevent food safety risks and optimize the product design process by taking reference of excellent international management experience and requirements, introducing four major quality tools, and continuing to implement Danone Group's newly revised Food Safety Item ("FSI") standards. The division also promoted "Neptune cleaning verification" to prevent problems, including microbial growth, in the production process. Moreover, the division also enhanced product design procedures and raised the bar for management of distributor admission and participated in early-stage development of the Dealer Management System (MDG), with quality requirements included in the initial design stage to facilitate systematic customer management using information technology.

The ice cream business division, following the country's "Cold Chain Logistics Development Plan of Agricultural Products", has drawn up the work program to improve warehousing and cold chain transportation. As such, it has achieved intelligent monitoring of product warehousing, transportation and temperature of the cold chain at the retail-end, clarified management responsibilities and brought in various types of intelligent temperature monitoring methods, helping guarantee food quality and safety.

Mengniu continued to help its new business divisions like overseas business, fresh milk and e-commerce to work on their quality and safety management systems, and establish organizational structure, among others, to implement the three-year quality assurance plan, and provide specific guidance on such aspects as personnel, equipment and craftsmanship.

Milk Source Management

In the first half of 2019, in support of the circular to "Opinions on Promoting the Revitalization of Dairy Industry to Guarantee the Quality and Safety of Domestic Dairy Products", which was issued by the State Council of the PRC, and "Several Opinions on Further Promoting the Revitalization of the Dairy Industry", Mengniu was active in cutting costs and enhancing efficiency as well as boosting operational capability of ranches. With the support of three major service platforms, namely the "Dairy Cattle Research Institute", the "Intelligent Digital Milk Source Ranch" and the "Aiyangniu" integrated procurement platform, it achieved high-quality development. Besides, via incorporating six interconnected systems and measures including implementing lean management, nurturing technicians, pursuing reasonable and scientific pricing, etc., it helped ranches lower costs and enhanced operational capability.

In May 2019, Mengniu set up the "Dairy Cattle Research Institute" in the Horinger county, Hohhot city. The institute, which serves as a National Technical Standard Innovation Base, has the technical support of an Innovation Management Committee, with the core expert team making up of 25 top local and overseas industry experts in specialty areas spanning the entire industrial chain. It also cooperates strategically with 50 top enterprises and academic institutes in the world. At present, the institute has under it a China-Denmark Research and Development Demonstration Farm, the Practice

Teaching Base of China Agricultural University and the National Key Laboratory Test Base of Inner Mongolia University. Moreover, it is a strategic cooperation partner of the Global Dairy Research Institute and is working with the National Technical Standard Innovation Base on setting up a quality milk source innovation base, and at the same time pursuing strategic cooperation with top international enterprises such as DeLaval, Alltech and Zoetis in the realm of technological research and development.

As a forerunner in the dairy industry in embracing digitalization, Mengniu has developed “Intelligent Digital Milk Source Ranch” management platform, capable of offering a set of solutions for ranch operation and management by employing four major information technologies including cloud computing, IoT, Big Data and Artificial Intelligence, helping enhance industrial chain management. The platform enables visible, controllable and predictable ranch management, effective trimming of operational cost of ranches and control of management risks. Mengniu looks forward to adopting the “dairy cattle + Internet” model to aid the entry of China’s dairy industry into the 4.0 era and empower ranches in China to compete in the global market.

In order to make the best ranch service standard, promote cost reduction and efficiency of ranches, increase output per cow and profit for achieving win-win between the ranches and the Group, Mengniu gathered top-notch dairy industry experts from across the country and established the 100-people strong specialized and advanced milk source talent nurturing project team – which has initiated training on livestock rearing, veterinary and equipment use to help ranches achieve standardization, professionalism and lean optimization of ranches in terms of management and operation, contributing to the talent pool and enhancing competitiveness of the industry.

The China-Denmark Dairy Technical Cooperation Center jointly established by Mengniu and its Danish partner Arla Foods has set up three “China – Denmark Model Ranches”, where advanced knowledge and practical experience of Danish ranches in technical management, innovative research and development, as well as organic production, etc., are introduced to help strengthen the professional skills of ranch personnel, lower production cost of ranches and raise the utilization rate of dairy cattle, ranch workforce and resources.

To give purchasers and vendors an open, fair and impartial environment for price negotiation, Mengniu has established the “milk association + dairy enterprise + ranch” interest-linked pricing mechanism. The reference pricing standard takes into consideration domestic and international market conditions, cost of milk per kilogram of ranches, as well as domestic and overseas pricing rules. The mechanism offers a scientific and reasonable price settlement system for raw fresh milk to all ranches in the country, creating a long-lasting and effective collaborative and win-win edifice that can drive high quality development of the dairy industry in China.

Corporate Digital Strategy

In the first half of 2019, Mengniu sped up implementing its digital strategy, allowing it to leverage modern information technology to steadily build up its differentiated competitive strengths and foster and lead the development of the “new digital era for the dairy industry”. During the period, Mengniu gradually realized close connection with customers, cost leadership and excellent management via informatization of its entire industrial chain, putting effort into the “customer ecosystem”, “operational ecosystem” and “management ecosystem”.

The intelligent supply chain project pursued by Mengniu is crucial to the Group’s digital transformation and it started operation in the first quarter of 2019. Using cloud computing and Big Data technology, end-to-end synergy has been achieved in terms of commercial flow, information flow, capital flow and logistics flow from upstream to downstream of the supply chain, giving the Group a complete – from “breeding-planting-procurement-production to warehousing-sales-delivery to point of sales” – industrial chain information platform. The project has helped Big Data gathering of the dairy industry and the development of the Group’s digital milk source financial supply chain platform, intelligent supply chain platform and consumer Big Data platform. Mengniu’s intelligent supply chain platform operates on an innovative “digital drive + operational capability” service mode, that can empower upstream and downstream cooperation in the dairy ecosystem, giving maximum play to and reaping value from Big Data application and in turn facilitating the overall effective operation of the Group.

In the first quarter of 2019, Mengniu’s digital milk source project started its delivery and operation. This project integrated lean management into the digital milk source information platform, providing an efficient and convenient management tool for enhancing internal operation of the milk source department and management of ranches. The project succeeded in creating a full supply chain information platform that connects “cattle” – “ranch” – “dairy enterprise” and “third party”, maximizing the sharing of raw milk supply chain information.

To more precisely understand consumer demands, carry out demand-oriented research and development, and production, Mengniu steadily pushed forward its consumer Big Data project. Aiming to facilitate development of products that can better match consumer needs, the project is building a consumer behavior analysis system and a consumer data processing center to conduct in-depth user analysis, helping formulation of communication targets and relevant core messages for precisely defined markets and continuous optimization of sales and marketing content placement strategy. With those data and information, the Group will be able to effectively reach consumers and satisfy their requirements and pursue product innovation and service enhancement.

In the future, against the backdrop of China rolling out her “Intelligent Manufacturing 2025 National Strategy”, Mengniu, which is an Intelligent Manufacturing Pilot Demonstration Enterprise and a key support unit for Intelligent Manufacturing in the Dairy Industry recognized by the Ministry of Industry and Information Technology, will speed up digital transformation on the fronts of product quality, sales and marketing, supply chain and management, realizing its “four online” goal, wherein the four being consumers, channels, production and logistics, and organization, to help it achieve the objectives of its “2020 Informatization Strategy” and become a “Digital Mengniu capable of nurturing the world”.

Branding Strategy

Mengniu continued to reinforce its image as a global brand, seeking to display the glamor of the *Mengniu* brand on the international stage. Mengniu was the only representative of the Chinese dairy industry at the World Economic Forum Annual Meeting at Davos in January 2019 and was able to forge strategic partnership with the organization to drive globalization of the dairy industry. In April, Mengniu became an official partner of the 14th National Winter Games in 2020, which agrees with its brand philosophy of embracing health and quality.

For room temperature product business, the business division focused on star brands such as *Milk Deluxe*, *Just Yoghurt* and *Fruit Milk Drink* and implemented precise brand marketing, continuing to enhance their high-end brand image. *Milk Deluxe*, through title sponsoring “Super Vocal”, the first Bel Canto program in the country, and the popular variety show “Back to Field Season 3”, both produced by Hunan Television, was able to effectively enhance its high-end brand image and brand exposure, and effectively boosted sales volume while penetrating into youth market. *Fruit Milk Drink* was the title sponsor of “Qing Chun You Ni”, an iQiyi variety show designed to inspire young people, targeting young people and aiming for enormous viewer count. Brand topics were related at different stages in the broadcast process. Brand message was innovatively placed in the program content and complemented with marketing events such as applet voting to productively enhance product sales and power of the brand. *Just Yoghurt Xiaomanyao* title sponsored the youth reality show “Produce Camp 2019” produced by Tencent Video, with the promotional focus on the new red grapefruit flavor. The new product, at the support of online and offline marketing, recorded increase in sales.

For chilled product business, adhering to its comprehensive strategic plan, Mengniu implemented a series of synergistic and highly effective online and offline brand upgrading and marketing activities. For *Yoyi C*, efforts were made including brand advertising, collaborating with the popular Zhejiang TV variety show “Trump Card 4” and kicking off brand ambassador fan base marketing, to the end of rejuvenating the brand. At the same time, influential platforms and quality media were engaged to bring out core benefits of the product, thereby strengthen the professional and healthy image of the brand. And, for *Champion*, the Group focused on Jianzihao products and worked

hard on education and publicity of the health benefits of the functional yogurt so as to enhance awareness and reinforce the “professional and functional” positioning of the brand.

As for the milk formula business, after being named the “Craftsmanship Brand” by CCTV in 2018, Yashili continued to strengthen its efforts in promotion at CCTV and placed more advertisements at CCTV in 2019 at channels for news, drama and youth including CCTV-1, CCTV-13, CCTV-8 and CCTV-14, which fully cover the consumer base of distributors and mothers. Along with the utilization of promotion channels of diversified media for marketing, the brand awareness of Yashili continues to be enhanced.

Ice cream business focused on the star brand *Suibian*, with new idol groups appointed as the brand ambassador to leverage their vast fan base for marketing, strengthening the positioning of its chocolate ice cream and creating “hip and hot” ice cream products. To continuously enhance *Suibian*’s brand power, resources were put into advertising at premier sports events and major promotional activities were mounted. In the second half of 2019, *Suibian* brand exclusively sponsored the variety show “Attention Visitors!”, which was broadcasted on Zhejiang TV and was expected to further boost brand exposure during the peak seasons of sales.

Regarding overseas business, Mengniu developed its star brand *Yoyi C* into its first overseas brand. Since its factory in Indonesia commenced operation in December last year, in order to develop *Yoyi C* into the “Number One” yogurt brand in Southeast Asia, Mengniu has implemented a series of measures such as launching new products, strengthening new brand image, and advertising on television, highlighting the slogan “Refreshingly tasty. Activate your gut health!”, which continuously enhanced the reputation of *Yoyi C* brand overseas.

Sales Management

During the period, all business divisions of Mengniu worked together to implement the RTM strategy and pursued the “Penetration into Towns and Villages” project at full force, striving to increase sales volume of the traditional POS in towns and villages and exploring room for business in rural markets. The “Penetration into Towns and Villages” project, being a key measure of channel penetration, boasted significant progress in the first half year, achieving apparent breakthrough in coverage of rural areas, towns and administrative villages, with the number of new sales points significantly increasing. As at the end of June, the “Penetration into Towns and Villages” project achieved coverage of over 4,000 towns, adding more than 200,000 stores. Mengniu fully exploited its channel resources and brand advantages to commence collaboration with lst.1688.com of Alibaba, empowering distributors via the digital reform of channels. Mengniu will also upgrade and transform the sales process of products by utilizing the big data, deeply integrate online services, offline experience and modern logistics, and better meet the needs of consumers in terms of content, form and experience, while strengthening channel

penetration in counties, villages and towns. As for the room temperature business division, it deployed RTM by defining more precisely its different business partners, increasing staffing and the proportion of directly controlled sales points, thereby strengthened POS control and achieved significant year-on-year sales growth.

In addition, the smart network system was swiftly launched online in various markets, and simultaneously the Customer Relationship Management (“CRM”) online payment settlement system began operation to tackle practical requirements of sales management and finance, as such realized precision marketing tying together people, store and money and strengthened its control over channels and POS to help it gradually realize highly effective distribution and all-channel marketing.

In the first half year, the chilled product business division focused on enhancing the penetration of new products at the retail-end, developing stores and customer platforms, and hastening RTM deployment and development of emerging channels and sales points, thus further enhanced overall market share and maintained market leadership of its products. At the same time, via continuous deployment of production lines and route optimization, it managed to enhance product freshness and lower product transportation cost, resulting in improved efficiency.

As for milk formula business division, adhering to the channel strategy of “Focus on the Mother-and-baby Store Channel for Infant Formula Products, KA Modern Trade Channel for Nutritional Products, and All-round Development for New Channels and New Products”, Yashili continued to thoroughly implement the organization structure of business divisions by product line-based management and promote the exploration of channels and synergistic development with each of the product lines. Yashili worked closely with Alibaba and enhanced the development of e-commerce channels through digital media platforms such as Tmall New Retail and Alimama.

Regarding growing its traditional channels, the ice cream business division devoted major effort on developing the county network, speeding up brand penetration at the retail-end, increasing the number of sales points and securing many more collaborative clients. As for modern channels, it focused on five aspects to enhance market share, including expansion of new sales points, deploying exclusive customers, expanding systematic direct sales, focusing on star products and mounting innovative promotion. For special channels, designated personnel were assigned to manage special projects tailored for theme parks, theaters, restaurants and corporate group purchases, which led to a breakthrough in such channel sales volume.

For e-commerce business, Mengniu launched various phases of core marketing activities on the e-commerce platforms including Tmall, JD.com and Suning. At the same time, Mengniu leveraged the popularity and powerful draw of such television programs as the “Idol Producer” and “Produce Camp 2019” and by actively conducting online marketing interactions with consumers, boosted online sales of the *Just Yoghurt* and *Fruit Milk Drink* brands.

The e-commerce division of Mengniu also started close business collaboration with mainstream e-commerce platforms, exploiting Alibaba's Big Data to empower product sales and product innovation, seeking to excavate new e-commerce business opportunities. In the first half year, both the number of online consumers of Mengniu products and online flagship store members soared to new heights. On the 618 Mid-year Shopping Festival day, Mengniu prided total sales of more than RMB100 million on all its e-commerce platforms together, two times that of last year, ranking first in the liquid milk industry. During the period, Mengniu's sales revenue from e-commerce has accomplished a growth of over 60%.

FINANCIAL REVIEW

Revenue

Benefiting from product innovation, proactive brand marketing and excellent sales execution, sales volume grew during the period. The Group made revenue of RMB39,857.2 million for the six months ended 30 June 2019 (2018: RMB34,474.3 million), an increase of 15.6% year-on-year. The revenues of liquid milk and milk formula businesses recorded a year-on-year increase of 14.4% and a growth of 43.8%, respectively, while the revenue of ice-cream recorded a year-on-year decrease of 2.4%.

Gross Profit

Despite the raw milk price increased as compared with the same period last year, with satisfactory sales growth and a notably improved product mix, the Group's gross profit for the period increased to RMB15,578.7 million (2018: RMB13,522.3 million) and gross profit margin slightly narrowed by 0.1 percentage points to 39.1% as compared with the same period last year (2018: 39.2%).

Operating Expenses

To raise channel sales and brand competitiveness, the Group continuously embarked actively on channel development and strengthened its brand promotion strategies during the period, which led to an increase in operating expenses to RMB13,567.9 million (2018: RMB11,843.9 million), down to 34.0% expressed as a percentage of the Group's revenue (2018: 34.4%).

During the period, selling and distribution expenses increased by 13.5% to RMB11,317.7 million (2018: RMB9,975.1 million), a decrease of 0.5 percentage points to 28.4% expressed as a percentage of the Group's revenue (2018: 28.9%).

As for advertising and promotion expenses of the period, they increased by 10.5% to RMB4,880.4 million (2018: RMB4,418.0 million), down to 12.2% expressed as a percentage of the Group's revenue (2018: 12.8%). Administrative and other operating expenses, including impairment losses on financial and contract asset, increased by 20.4% to RMB2,250.2 million (2018: RMB1,868.8 million), accounting for 5.6% (2018: 5.4%) of the Group's revenue.

Profit from Operating Activities and Net Profit

During the period, with the overall revenue of the Group increased and benefited from optimized products structure and economies of scale, the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA"), increased by 28.5% to RMB3,511.6 million (2018: RMB2,732.6 million) and EBITDA margin was 8.8% (2018: 7.9%).

Profit attributable to owners of the Company increased by 33.0% year-on-year to RMB2,076.9 million (2018: RMB1,562.0 million). Basic earnings per share was RMB0.531 (2018: RMB0.400), up by 32.8% year-on-year.

Income Tax Expenses

For the six months ended 30 June 2019, income tax expense of the Group was RMB435.3 million (2018: RMB358.5 million), representing a 21.4% increase year-on-year. Effective income tax rate was 16.8% (2018: 17.8%), down by 1.0 percentage points year-on-year, mainly due to the share of financial results of associates turning loss into profit during the period.

Capital Expenditure

For the six months ended 30 June 2019, capital expenditure ("CAPEX") of the Group was RMB2,141.5 million (2018: RMB1,665.9 million), an increase of 28.6% year-on-year. Of the total, RMB1,691.8 million was spent on building new production facilities and modifying existing ones and related investments, whereas RMB382.6 million was spent on addition in biological assets, and RMB67.1 million was invested in equities.

Working Capital, Financial Resources and Capital Structure

For the six months ended 30 June 2019, the Group recorded net cash inflow from operating activities of RMB2,640.3 million (2018: RMB3,400.3 million), a decrease of 22.4% as compared with the corresponding period last year. It was mainly due to the increase in prepayment of raw milk supplies compared to that of the corresponding period last year and increase in the proportion of revenue from branches and subsidiaries of sales companies, which resulted in increase in trade and bills receivable.

For the six months ended 30 June 2019, outstanding interest-bearing bank and other borrowings of the Group decreased to RMB14,143.8 million (31 December 2018: RMB14,715.3 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB9,150.2 million (31 December 2018: RMB6,522.9 million). More than 60% of the interest-bearing bank and other borrowings were bearing interest at fixed rates. The decrease in interest-bearing bank and other borrowings was mainly from the net effect of the bank borrowings of Junlebao classified as liabilities of disposal groups classified as held for sales, and the Group's additional financing during the period.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as at 30 June 2019 were RMB9,412.5 million (31 December 2018: RMB7,417.3 million).

The Group's total equity as at 30 June 2019 amounted to RMB31,675.3 million (31 December 2018: RMB30,464.3 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 44.7% (31 December 2018: 48.3%). The decrease was mainly due to the bank borrowings of Junlebao classified as liabilities of disposal groups classified as held for sale.

Finance costs of the Group were RMB321.9 million (2018: RMB226.5 million), approximately 0.8% expressed as a percentage of the revenue (2018: 0.7%), up by 0.1 percentage points year-on-year.

PRODUCTS

Mengniu is committed to product innovation and R&D, aiming at increasing competitiveness through developing differentiated and high-end products, and enhancing such aspects as product category, flavor and packaging. Alive to consumers' demand for personalized products, Mengniu has developed functional and customized products that promise consumers better experiences.

The principal businesses of the Group are liquid milk, ice cream, milk formula and other products. Their performances during the period are outlined below:

Liquid Milk

Revenue amounted to RMB33,109.0 million (2018: RMB28,931.6 million), accounting for 83.1% of Mengniu's total revenue (2018: 83.9%).

UHT Milk

Milk Deluxe launched the upgraded product Organic Milk last year in the “DreamCap™” packaging with the traditional drinking straw replaced, providing more practical and convenient consumption experience to consumers. Upgraded package for *Milk Deluxe* Milk featuring the “DreamCap™” was also launched in July, thus improving the convenience of drinking milk and redefining “better” milk. The product mix of *Mengniu* UHT milk was further optimized after new packaging for four products, namely *Mengniu* Pure Milk, high calcium milk, low fat high calcium milk and skimmed milk was successfully launched in 2018.

Mengniu’s *Future Star* series focuses on A2β- Casein Pure Milk, which is made with premium milk in limited supply from designated ranches, aiming to raise the quality of children milk products.

Key products:

- *Milk Deluxe*
- *Mengniu* Pure Milk
- *Student’s Milk*
- *Future Star*

Room Temperature Yogurt

Just Yoghurt light flavor yogurt introduced the new PET bottle product Xiaomanyao last year, making the room temperature product easier to carry and consume. The grapefruit flavor made of Israeli jam was also launched in the end of last year. The *Just Yoghurt* fruit pulp series launched the yellow peach and oat flavor in January this year, presenting consumers with another innovative product like no other. In addition, its diamond shaped packaging product series had salted caramel flavor yogurt and chocolate flavor yogurt introduced in May, followed by red jujube and medlar flavor yogurt in June, this year.

Key products:

- *Just Yoghurt* light flavor yogurt
- *Just Yoghurt* fruit pulp flavor yogurt

Room Temperature Milk Beverage

During the period, the *Fruit Milk Drink* milk beverage series launched mango flavor. *Fruit Milk Drink* high-end colorful fruit pulp series, which targets the high-end milk beverage market, was also launched with mango and passion fruit flavor, thus providing consumers with a product that is rich in texture.

In addition, Mengniu introduced *Mengniu GO* Chang probiotics beverage in April this year. The product is made of fermented imported probiotics, plus special probiotics, which filled the gap in the room temperature probiotics beverage market.

Key products:

- *Fruit Milk Drink* milk beverage
- *Fruit Milk Drink* high-end colorful fruit pulps series
- *Suan Suan Ru* nutritious milky drink

Chilled Yogurt

During the period, *Champion* BB-12 stepped up promotion of the features of the “BB-12” bacteria and launched new product packaging to strengthen its marketing positioning as a “professional and functional” yogurt.

Mengniu Nordic Cheese Flavor Yoghurt was launched in February this year. It contains selected Danish cheeses, Canadian mixed berries, alphonso mango and Vietnam passion fruit, and is made with the technique of Danone Group from France. The product is rapidly gaining shares in the beverage market.

The *Bio* product series is positioned at the high-end yogurt market, with its features being a French meal replacement and fruit yogurt. The launch of new products such as *Kaquzi* grain mix flavored yoghurt and *Bio* Shuangcenglaoru effectively facilitated the expanding of high-end product range of *Bio* and perfecting its product mix.

Key products:

- *Champion*
- *Mengniu* European Charcoal Yogurt
- *Mengniu* Nordic Cheese Flavor Yoghurt
- *Milk Deluxe* Yogurt
- *Bio*

Chilled Milk Beverage

Yoyi C launched the new passion fruit flavor in January this year, which has become the second biggest revenue generator in the *Yoyi C* family. In addition, *Yoyi C* adopted a new packaging in March this year to highlight its core “live bacteria” selling point, aiming to strengthen its leadership among probiotics products.

Key products:

- *Yoyi C*
- *Yoyi C LC-37*

Fresh Milk

Mengniu’s *Shiny Meadow* fresh milk targets the high-end market. It is produced employing the low-temperature membrane condensation technology and Swedish cream separation technology, enabling it to retain the highest proportion of natural nutrients in quality fresh milk. In addition, the 720 ml medium size *Shiny Meadow* fresh milk and *Shiny Meadow* 0% fat fresh milk were launched in the first half of 2019.

In the first half of 2019, the *Modern Meadow* fresh milk introduced a new grain milk product category, which swiftly grasped share in the mid-range to high-end fresh milk market.

Key Products:

- *Shiny Meadow* fresh milk
- *Shiny Meadow* 0% fat fresh milk
- *Modern Meadow* fresh milk

Ice Cream

Revenue amounted to RMB2,186.0 million (2018: RMB2,239.8 million), accounting for 5.5% of Mengniu’s total revenue (2018: 6.5%).

During the period, *Suibian* ice cream upgraded its packaging design adopting its brand ambassadors’ image which matches the chic image of the brand itself. Production techniques were also improved to strengthen the star brand position of the ice cream.

The high-end ice cream brand *Deluxe* launched wonder color crunchy ice cream last year, coming in three popular flavors, namely matcha, tiramisu and toffee, to please consumers’ palates.

Key products:

- *Suibian*
- *Deluxe*
- *Mood for Green*
- *Mengniu Ice+*
- *Mengniu Russian style milk ice cream brick*

Milk Formula

Revenue amounted to RMB4,237.8 million (2018: RMB2,946.5 million), accounting for 10.6% of Mengniu’s total revenue (2018: 8.5%).

Yashily, a brand focusing on the nutrition research of Chinese babies for 36 years, boasts its production base in New Zealand, sources milk with superior quality from New Zealand and concurrently implements quality inspection standards of both China and New Zealand, thereby striving to become a world-class “infant formula expert in China”. *Yashily* has invited Ms. Yao Chen to act as its global brand ambassador, seeking to upgrade brand image to be a wise choice for mothers.

Reeborne brings purity and cleanliness from the Austrian Alps: animal farms at an elevation of 1,680 meters, pastures, and Simmental dairy cows raised healthily on these pristine lands. Strict standards for organic products are followed in milk sources, pasture, feeding, production and transportation, and organic nutrition formulae are ensured to be safe and natural.

Originating from Europe, *Dumex*, with over 50 years of research on breast milk and over 20 years of research on immune and digestive system, has continued its innovation in product categories from milk to goat milk, and committed to studying the immune system with an aim to become the nutrition expert of immune system of infants.

Arla Baby & Me represents organic milk formula originally canned and imported from the world’s largest organic dairy producer in Denmark, which has adhered to good nutrition from natural ingredients for 130 years. The organic milk formula of *Arla Baby & Me* has obtained three major organic certifications, and contains no hormone, fertilizer or pesticide. Such milk formula is directly made of fresh milk from the Northern European farms, with full control of the supply chain. It is positioned for the ultra-high-end market with its organic formula containing high DHA, full lactose and a golden ratio of probiotics. “Dedicated to the Danish royal family, Arla is professional in organic products.”

Originating from Australia, *Doraler* milk formula contains 100% whole goat milk protein, which is easy to be digested as its natural attributes and to be absorbed by human body. *Doraler* upholds the brand philosophy of “Freedom, Bravery and Exploration” and advocates “Freedom to Grow, Be Loved by Nature”.

Yashili’s products also include various milk powder products for adults, such as *Mengniu* brand adult milk formula, *Youyi* brand adult milk formula, and *Yourui* brand milk formula for the middle-aged and elderly, and various dissolvable products such as *Zhengwei* brand oatmeal and *Yashily* infant nutritional rice cereal.

Key products:

- *Yashily* Kieember and Kieevagour
- *Mengniu* Reeborne
- *Dumex* *Diamor*
- *Arla* *Baby & Me*
- *Doraler*

Other Products

Revenue amounted to RMB324.4 million (2018: RMB356.4 million), accounting for 0.8% of Mengniu’s total revenue (2018: 1.1%)

Cheese

In the first half year, Mengniu launched over 10 cheese products including new ones and old ones with packaging upgraded. Among them, taste upgrade was completed for the prime product *Future Star* golden cheese bar for children’s growth, matching consumers’ taste preference. At the same time, the new product vanilla ice cream flavor golden bar, is an innovation of Mengniu in taste in the cheese bar product category.

In the first half year, Mengniu collaborated with Arla Foods to introduce two new products, namely *Arla* shredded mozzarella and UHT cream (frozen), under the professional catering brand *Arla Pro*.

Key Products:

- *Future Star* cheese for children’s growth
- *Mengniu* Lao Qu Bei
- *Arla* shredded mozzarella

PRODUCTION

Mengniu deploys its production capacity taking into account the potential of relevant markets and its own product strategy. As at 30 June 2019, Mengniu had 43 production bases in China and one in New Zealand, and together with the production base in Indonesia, which commenced operation at the end of November 2018, it had a total annual production capacity of 10.27 million tons (December 2018: 9.75 million tons).

SOCIAL RESPONSIBILITY

In the first half of 2019, Mengniu actively strived to achieve its corporate mission of “focusing on nutrition and health, delivering a drop of happiness for every moment and every day to more people”, implementing a series of corporate social responsibility activities and charitable programs in areas of “inclusive nutrition”, “mutual growth”, “supporting the army and military families” and “disaster relief”, ultimately helping development of local communities and the industry and building itself into a model corporation that prides sustainable development.

In the first half of 2019, Mengniu continued with its “Inclusive Nutrition Plan” and, by defining precisely the recipients and strictly controlling the donation procedures, it was able to effectively give care to those in need in the society. During the period, via this plan, Mengniu donated a total of 2.53 million packs of student milk to close to 40,000 students from 126 schools in 63 cities and 77 counties. Simultaneously, embracing the cause of “aiding intellectual growth by promoting nutrition knowledge”, Mengniu arranged lectures on knowledge of nutrition and health in different places across the country and invited school principals and members of parent associations to visit Mengniu’s factories for promoting knowledge of nutrition and health.

While working hard on enhancing its economic efficiency, Mengniu has continued to push for ever better “mutual growth” with its partners. In the first half of 2019, through its “University of Ranchers” project and “Aiyangniu Integrated Procurement Platform”, Mengniu strived to achieve win for all in the industrial chain. To help upstream ranch owners and milk source technicians upgrade breeding and rearing techniques and the operational standard of ranches, Mengniu continued to promote the “University of Ranchers” project. In April and June 2019, free exclusive activities were organized in Jiaozuo and Ulanhot, respectively to provide ranchers with advanced management techniques and share with them relevant experience to enhance their professional skills.

In addition, on 12 June 2019, Mengniu has made its “Aiyangniu Integrated Procurement Platform” online that integrated innovatively the livestock industry with the Internet, creating a shared smart one-stop platform for all in dairy industry ecosystem to use. Via the platform, global industry resources are consolidated, aiding procurement of all ranch resources, hastening transaction, lowering procurement costs.

In the first half of 2019, Mengniu was devoted to taking initiatives in “supporting the army and military families”. It donated a total of RMB500,000 to the family care fund of the navy to help soldiers serving on the Chinese aircraft carrier Liaoning, and whose families were in financial difficulty, helping in certain extent alleviate the concern of servicemen in the navy. Moreover, Mengniu put forth the “Veterans 999 Charity Milk Program” which provides free milk products over the long term to 999 families of veterans in financial difficulty across the country, helping improve the quality of life of the veterans.

As a corporate citizen, Mengniu is dedicated to honoring its social responsibility, actively using its internal and external resources to support society members who are affected by disasters. On 17 June 2019, an earthquake hit Changning County in Yibin City, Sichuan, killing and injuring many. Mengniu responded swiftly and organized and carried out disaster relief work, including continuous follow-up on and repeated provision of supply of relief resources. It donated over 100,000 packs of milk in total to help the victims.

Mengniu has incorporated delivery of social responsibility into its corporate strategies and in management of daily operation, promoting care and love for the society across its industrial chain aiming for sustainable development. Boasting commendable charitable and sustainable development performances, during the period Mengniu received the “Asia Responsible Enterprise Award 2019 – Social Empowerment Category” from Enterprise Asia, the “2019 Top 60 Brands for Chinese Corporate Citizens’ Responsibility” from the China Corporate Citizen Responsibility Brand Summit and the “Climate Leader Plant Award” from the Energy Foundation and China Council for an Energy Efficient Economy.

HUMAN RESOURCES

As at 30 June 2019, the Group had a total of 44,162 employees in Mainland China, Hong Kong, Oceania and Southeast Asia, including 3,180 working for Yashili. Total staff cost for the period (including salaries of directors and senior executives) amounted to approximately RMB3,428.5 million (2018: RMB2,729.6 million).

At the end of 2018, Mengniu completed transfer of the organizational shared services for its pilot scheme during the first phase of the construction of its Human Resources Shared Services Center (“HRSSC”). And, in the first half of 2019, HRSSC strived to ensure that the daily operation of its first phase services were smooth. Capable of effectively easing daily administrative works of the Group’s Human Resources Business Partners (“HRBP”) and Centers of Expertise (“COE”), HRSSC will contribute to changing the Group’s human resources service mode to comprise three major service centers. In March 2019, Mengniu commenced preparation for launch of the second phase online service of HRSSC, aiming to continuously optimize and enhance operational processes on the basis of phase one, pushing forward with improving the employee self-service functions and user experience. At the completion of phase two, the center is expected to be able to serve 20,000 staff around the country.

During the period, Mengniu kicked off its “Key Talent Evaluation System” project, which involves collaboration with a top international human resources management consultancy organization, helping it integrate its talent deployment philosophy, five-element leadership model and talent evaluation standards systematically into its talent management process. In addition, for better internal staff deployment, Mengniu formulated the “Selection, Promotion and Appointment Method of Mengniu’s Managers”, and in recruiting outside talent, it optimized the “Mengniu Recruitment Management System”. To speed up deployment of talent in middle and senior management positions and to promote internal talent training, besides launching the “Blue Ocean Plan” in early 2019, Mengniu established the “Plan for Recruiting Additional Staff” to bring in from outside groups of marketing, R&D and new retail talent to support rapid business development.

Furthermore, the Group started the “Stand Ready to Do” corporate culture workshops at full strength in the first half of 2019 to promote the embrace of the Mengniu spirit and core values among all employees. At the same time, its “Executive Culture Lecture Theatre” is becoming a routine program, with two core senior management executives giving two series of lecture to front-line staff at respective factory in the first half year, involving teaching and learning on site as well as online. To date, the cumulative online learning rate has reached more than 560,000 times.

During the first half year, to achieve its three-year strategic objectives, Mengniu further optimized its incentive system, implementing tiered management, rationalizing incentive distribution and organization performance plans, tying closer incentives for individuals and performance of the relevant organization, therefore empowering performance of business units. During the period, with the long-term incentive plan in place, a total of 8,201,104 shares were granted under the share award scheme, to employees participated in the scheme.

PROSPECTS

With the growing Chinese population, the people earning more income and healthier diet concepts taking root, the dairy consumption market has continued to manage solid growth, which not only has driven development of the dairy industry, but also created new consumer market demand. In addition, the Chinese government introduced various regulations and policies, all to the end of boosting high quality development of the dairy industry. With Mengniu's heading for its 20th year of development, being the leading enterprise of the Chinese dairy industry, and leveraging its international standards, digital means, high standard of management and precise layout of product strategy, Mengniu has launched premium products and built a top dairy brand while making progress steadily along the path of sustainable, high-quality and international constructive development.

On the front of product strategy deployment, Mengniu has its focus on development of star dairy products. As at 30 June 2019, the Group had signed through its subsidiary a contract to dispose of all of its 51% equity interest in Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao"), the aim of which is to optimize its brand portfolio and that it may put attention on the development of its core businesses and core brands. Thus, after the transaction is completed, Mengniu will have a more streamlined business and be able to gather resources to bolster star dairy products that boast high growth and strong profitability outlook, thereby allow it to cement the market position of its core brands.

In the future, the Group will devote major effort on developing high growth potential product types such as liquid milk, milk formula and cheese, and especially liquid milk products of star brands like *Milk Deluxe* and *Just Yoghurt*, etc. Chilled yogurt products, in particular of such star brands as *Champion* and *Yoyi C*, etc., will also be a main development focus of the Group. The Group will also continue to strengthen its research and development capability, seek to develop unique core techniques that it may constantly pursue dairy product innovation, and in turn develop leading brands for each of its product category.

In addition, Mengniu will continue to take to greater depth RTM transformation, channel penetration management, empowering distributors, improving its supply chain model, optimizing team organization structure and enhancing network coverage, so as to achieve more effective channel and POS control. It will also continue to seek to fully utilize consumer Big Data to gain better yet consumer related insights. By using B2B platform, it will strive for channel penetration, aiming for higher distribution rates at traditional POS, as well as expand e-commerce business and explore new retail development opportunities.

On overseas business development, since it has established the factory in Indonesia at the end of last year and for the first time named its star product brand *Yoyi C* as the parent brand for its overseas market, Mengniu will speed up business development in Southeast Asia and other overseas markets, pushing to build an Oceania Center to attain “dual overseas centers” deployment. The internationalization process of Mengniu will move onto another new stage.

Mengniu has been on the road to become a world-renowned brand in dairy industry in 2019, Looking forward, in the next 20 years, with the support of its three strategic shareholders COFCO, Danone Group and Arla Foods, Mengniu will hold fast to the belief of “Born for Greatness” and, with ever better quality, vision and ambitions, thereby promoting the construction of “Global Dairy Community” and striving to be the centermost on the stage of the global dairy industry.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance practices.

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2019, except that the Group has deviated from the Code Provision A.5.1 with the reasons explained below.

Code Provision A.5.1 of the CG Code provides that an issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. The Company deviates from this provision as less than half of the members of the Nomination Committee are independent non-executive Directors during the six months ended 30 June 2019. The Directors are of the view that each of Mr. Tim Ørting Jørgensen and Mr. Pascal De Petrini is able to carry out his responsibilities as a member of the Nomination Committee in the best interest of the Shareholders notwithstanding that he is not an independent non-executive director as required under Code Provision A.5.1.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The

Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Yau Ka Chi (chairman), Mr. Julian Juul Wolhardt and Mr. Zhang Xiaoya.

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2019.

SCOPE OF WORK OF ERNST & YOUNG

The unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies for the six months ended 30 June 2019 have been reviewed and agreed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2019 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.mengniuir.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report of the Company will be despatched to shareholders and available at the aforesaid websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. Jeffrey, Minfang Lu and Mr. Meng Fanjie; the non-executive directors of the Company are Mr. Chen Lang, Mr. Niu Gensheng, Mr. Tim Ørting Jørgensen and Mr. Pascal De Petrini; and the independent non-executive directors of the Company are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders and the public for their continued support, and to all staff for their hard work and commitment.

By order of the Board
China Mengniu Dairy Company Limited
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

Hong Kong, 28 August 2019