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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 2022

HIGHLIGHTS

- In the first half of 2022, the recurring COVID-19 pandemic in China and the global rise in inflation and raw material costs posed short-term challenges for the dairy industry. The Group actively responded to the challenges of the general environment, seized the opportunities of consumption upgrade, strengthened its business fundamentals, focused on product innovation, marketing innovation, service upgrade and channel expansion, and continued to enhance its products, branding, services and channels. After the impact of the pandemic was controlled, the Group achieved rapid business recovery. Revenue amounted to RMB47,722.3 million for the six months ended 30 June 2022 (2021: RMB45,905.2 million), representing a year-on-year increase of 4.0%. Profit attributable to owners of the Company increased by 27.3% year-on-year to RMB3,751.4 million (2021: RMB2,946.5 million).
- With industry-leading performance during the period, Mengniu's global dairy ranking improved to the 7th, and is the youngest among the top 10 enterprises. Also, Mengniu's brand value grew by 15% year-on-year, ranking first in China's dairy industry.

* For identification purposes only

- During the period, as *Milk Deluxe* and *Mengniu* pure milk as well as *Shiny Meadow* fresh milk maintained strong growth, and the chilled product business maintained leading position and gained market share, the Group's revenue from the liquid milk business increased to RMB39,665.3 million (2021: RMB39,448.1 million). The four major ice cream brands, namely *Suibian*, *Mood for Green*, *Ice+* and *Deluxe*, focused on product innovation and upgrades and strengthening channel control, leading to rapid growth in sales of ice cream that outperformed the industry. During the period, revenue from the ice cream business increased by 29.9% year-on-year to RMB3,903.5 million (2021: RMB3,003.9 million).
- In the first half of 2022, Mengniu has established a double-carbon strategic goal and is committed to the goal of “reaching peak carbon in 2030 and carbon neutrality in 2050”, which puts forward specific and industry-leading stage-by-stage goals for the carbon emission intensity per ton of dairy products. 15 specific carbon reduction measures will be adopted in six major aspects, including production, raw milk, packaging, transportation, products, and carbon offset to steadily step towards carbon neutrality in the entire industry chain.

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 2022, together with the comparative amounts. The interim results and interim financial information have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Unaudited)
Revenue	4	47,722,296	45,905,209
Cost of sales		<u>(30,263,491)</u>	<u>(28,352,576)</u>
Gross profit		17,458,805	17,552,633
Other income and gains	6	1,475,218	414,935
Selling and distribution expenses		(12,710,172)	(12,888,117)
Administrative expenses		(1,980,819)	(1,634,341)
Impairment losses on trade receivables, net		(42,647)	(76,625)
Loss on derecognition of financial assets measured at amortised cost	10	(33,312)	(12,655)
Other expenses	5	(498,583)	(462,685)
Interest income		626,010	476,512
Finance costs		(518,424)	(304,958)
Share of profits and losses of:			
A joint venture		—	(34,905)
Associates		<u>371,657</u>	<u>367,253</u>
Profit before tax	6	4,147,733	3,397,047
Income tax expense	7	(504,634)	(429,699)
Profit for the period		<u>3,643,099</u>	<u>2,967,348</u>
Attributable to:			
Owners of the Company		3,751,401	2,946,537
Non-controlling interests		<u>(108,302)</u>	<u>20,811</u>
		<u>3,643,099</u>	<u>2,967,348</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	9		
Basic		0.949	0.748
Diluted		<u>0.945</u>	<u>0.744</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Profit for the period	<u>3,643,099</u>	<u>2,967,348</u>
Other comprehensive income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(178,939)	(274,910)
Effective portion of changes in fair value of hedging instruments arising during the period	390,779	(28,225)
Share of other comprehensive income of associates	<u>—</u>	<u>1,030</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>211,840</u>	<u>(302,105)</u>
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation	(542,141)	41,882
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<u>4,360</u>	<u>(27,038)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>(537,781)</u>	<u>14,844</u>
Other comprehensive income, net of tax	<u>(325,941)</u>	<u>(287,261)</u>
Total comprehensive income for the period	<u>3,317,158</u>	<u>2,680,087</u>
Attributable to:		
Owners of the Company	3,414,612	2,689,738
Non-controlling interests	<u>(97,454)</u>	<u>(9,651)</u>
	<u>3,317,158</u>	<u>2,680,087</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
	<i>Notes</i>	
NON-CURRENT ASSETS		
Property, plant and equipment	17,333,656	17,335,240
Construction in progress	2,573,603	2,619,402
Investment properties	61,890	62,508
Right-of-use assets	2,108,851	2,142,140
Goodwill	4,882,569	4,857,687
Other intangible assets	8,030,809	7,999,443
Investments in associates	16,685,424	15,793,874
Deferred tax assets	1,647,199	1,561,308
Derivative financial instruments	370,361	11,119
Other financial assets	19,077,814	14,235,644
Long term prepayments	412,662	463,038
	<hr/>	<hr/>
Total non-current assets	73,184,838	67,081,403
CURRENT ASSETS		
Other financial assets	6,797,123	4,666,980
Derivative financial instruments	749	1,901
Inventories	6,237,585	6,485,485
Trade and bills receivables	10 5,298,545	4,159,688
Prepayments, other receivables and other assets	3,387,148	4,285,875
Pledged deposits	468,943	203,151
Cash and bank balances	9,799,370	11,216,861
	<hr/>	<hr/>
Total current assets	31,989,463	31,019,941
CURRENT LIABILITIES		
Trade and bills payables	11 8,992,198	8,803,902
Other payables and accruals	11,492,428	14,576,417
Interest-bearing bank and other borrowings	7,636,072	4,265,484
Derivative financial instruments	26,188	1,239
Income tax payable	192,290	221,206
Other financial liabilities	1,204,000	1,203,800
	<hr/>	<hr/>
Total current liabilities	29,543,176	29,072,048

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 30 June 2022*

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NET CURRENT ASSETS	<u>2,446,287</u>	<u>1,947,893</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>75,631,125</u>	<u>69,029,296</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	24,217,360	18,786,328
Convertible bonds	4,158,447	3,981,115
Deferred income	619,696	477,833
Deferred tax liabilities	2,497,975	2,456,217
Derivative financial instruments	1,181	36,305
Other financial liabilities	<u>175,003</u>	<u>1,292,066</u>
Total non-current liabilities	<u>31,669,662</u>	<u>27,029,864</u>
NET ASSETS	<u>43,961,463</u>	<u>41,999,432</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	359,903	359,774
Treasury shares held under share award scheme	(113,922)	(29,244)
Other reserves	10,436,146	12,057,667
Retained earnings	<u>28,193,200</u>	<u>24,437,587</u>
	38,875,327	36,825,784
Non-controlling interests	<u>5,086,136</u>	<u>5,173,648</u>
TOTAL EQUITY	<u>43,961,463</u>	<u>41,999,432</u>

NOTES:

1 BASIS OF PREPARATION

The consolidated financial information of China Mengniu Dairy Company Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2022 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 24 August 2022.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial information is unaudited, but has been reviewed by KPMG 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 (“HKICPA”).

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial information as comparative information does not constitute the Group’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2021 are available from the Company’s registered office. The predecessor auditor of the Company has expressed an unqualified opinion on those financial statements in their report dated 30 March 2022.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial information for the current accounting period:

- Amendments to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets, Onerous contracts — cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments has had a material effect on how to the Group's results and financial position for the current period have been prepared or presented in this interim 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, yogurt and fresh milk
- 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 business, manufacture of raw materials for daily products 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/loss before tax except that interest income, non-lease-related finance costs, share of profits/losses of associates and a joint venture, income tax expense, as well as head office and corporate income/expenses are excluded from such measurement.

Segment assets exclude investments in associates 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 2022 (unaudited)

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (Note 4):					
Sales to external customers	39,665,338	3,903,507	1,894,184	2,259,267	47,722,296
Intersegment sales	<u>624,754</u>	<u>23,497</u>	<u>152,419</u>	<u>615,262</u>	<u>1,415,932</u>
	40,290,092	3,927,004	2,046,603	2,874,529	49,138,228
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(1,415,932)</u>
Revenue					<u>47,722,296</u>
Segment results					
	2,272,054	511,059	(369,297)	(41,865)	2,371,951
<i>Reconciliation:</i>					
Interest income					626,010
Finance costs (other than interest on lease liabilities)					(505,863)
Share of profits of associates					371,657
Corporate and other unallocated income					<u>1,283,978</u>
Profit before tax					4,147,733
Income tax expense					<u>(504,634)</u>
Profit for the period					<u>3,643,099</u>
At 30 June 2022 (unaudited)					
Segment assets					
	64,818,867	5,356,952	16,615,964	2,419,807	89,211,590
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(30,064,772)
Corporate and other unallocated assets					29,342,059
Investments in associates					<u>16,685,424</u>
Total assets					<u>105,174,301</u>
Segment liabilities					
	29,728,377	3,353,218	6,161,989	1,935,661	41,179,245
<i>Reconciliation:</i>					
Elimination of intersegment payables					(30,064,772)
Corporate and other unallocated liabilities					<u>50,098,365</u>
Total liabilities					<u>61,212,838</u>

Six months ended 30 June 2021 (unaudited)

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (Note 4):					
Sales to external customers	39,448,116	3,003,898	2,547,324	905,871	45,905,209
Intersegment sales	<u>298,221</u>	<u>21,231</u>	<u>6,976</u>	<u>494,324</u>	<u>820,752</u>
	39,746,337	3,025,129	2,554,300	1,400,195	46,725,961
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(820,752)</u>
Revenue					<u><u>45,905,209</u></u>
Segment results	2,415,206	528,089	(130,057)	(72,351)	2,740,887
<i>Reconciliation:</i>					
Interest income					476,512
Finance costs (other than interest on lease liabilities)					(293,046)
Share of loss of a joint venture					(34,905)
Share of profits of associates					367,253
Corporate and other unallocated income					<u>140,346</u>
Profit before tax					3,397,047
Income tax expense					<u>(429,699)</u>
Profit for the period					<u><u>2,967,348</u></u>
At 31 December 2021 (audited)					
Segment assets	59,412,030	4,848,683	17,249,238	2,837,561	84,347,512
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(27,915,033)
Corporate and other unallocated assets					25,874,991
Investments in associates					<u>15,793,874</u>
Total assets					<u><u>98,101,344</u></u>
Segment liabilities	29,102,521	3,563,863	6,170,274	2,338,336	41,174,994
<i>Reconciliation:</i>					
Elimination of intersegment payables					(27,915,033)
Corporate and other unallocated liabilities					<u>42,841,951</u>
Total liabilities					<u><u>56,101,912</u></u>

4 REVENUE

An analysis of the revenue is as follows:

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Sale of goods	<u>47,722,296</u>	<u>45,905,209</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2022 (unaudited)

Segments	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods:					
Sale of products	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>2,259,267</u>	<u>47,722,296</u>
Total revenue from contracts with customers	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>2,259,267</u>	<u>47,722,296</u>
Geographical markets:					
The Chinese Mainland	<u>39,645,375</u>	<u>3,108,827</u>	<u>1,733,877</u>	<u>1,533,277</u>	<u>46,021,356</u>
Overseas	<u>19,963</u>	<u>794,680</u>	<u>160,307</u>	<u>725,990</u>	<u>1,700,940</u>
Total revenue from contracts with customers	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>2,259,267</u>	<u>47,722,296</u>
Timing of revenue recognition:					
Goods transferred at a point in time	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>2,259,267</u>	<u>47,722,296</u>
Total revenue from contracts with customers	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>2,259,267</u>	<u>47,722,296</u>

For the six months ended 30 June 2021 (unaudited)

Segments	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods:					
Sale of products	39,448,116	3,003,898	2,547,324	905,871	45,905,209
Total revenue from contracts with customers	<u>39,448,116</u>	<u>3,003,898</u>	<u>2,547,324</u>	<u>905,871</u>	<u>45,905,209</u>
Geographical markets:					
The Chinese Mainland	39,444,139	2,624,274	1,954,505	905,871	44,928,789
Overseas	3,977	379,624	592,819	—	976,420
Total revenue from contracts with customers	<u>39,448,116</u>	<u>3,003,898</u>	<u>2,547,324</u>	<u>905,871</u>	<u>45,905,209</u>
Timing of revenue recognition:					
Goods transferred at a point in time	39,448,116	3,003,898	2,547,324	905,871	45,905,209
Total revenue from contracts with customers	<u>39,448,116</u>	<u>3,003,898</u>	<u>2,547,324</u>	<u>905,871</u>	<u>45,905,209</u>

5 OTHER EXPENSES

	For the six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Write-down of inventories to net realisable value	107,883	84,178
Donations	43,875	14,904
Educational surcharges, city construction tax, and other taxes	247,535	250,787
Net fair value loss on forward currency contracts	—	10,635
Loss on partial disposal of equity interests in associates	—	10,584
Net fair value loss on convertible promissory notes	—	1,326
Foreign exchange losses, net	20,147	—
Loss on re-measurement of an equity interest in a joint venture upon a business acquisition	—	38,092
Net fair value loss on unlisted equity investment in Jilin Province Guangze Dairy Technology Co., Ltd. with put options	9,083	—
Others	70,060	52,179
	<u>498,583</u>	<u>462,685</u>

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Note	(Unaudited)	(Unaudited)
Cost of inventories sold	30,263,491	28,352,576
Impairment of trade receivables, net	42,647	76,625
Depreciation of property, plant and equipment	1,228,746	915,524
Depreciation of right-of-use assets	156,300	165,253
Depreciation of investment properties	2,258	1,903
Amortisation of other intangible assets	58,862	36,034
Outsourcing expenses	(a) 106,951	155,764
Other rental expenses	150,416	145,015
Display space fees	1,641,375	1,573,968
Employee benefit expense (including directors' and senior executive's emoluments)	4,061,412	3,525,431

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) Other income and gains mainly include net fair value gain on other financial liabilities of RMB773,945,000 (six months ended 30 June 2021: Nil) and gain on disposal of a subsidiary of RMB241,460,000 (six months ended 30 June 2021: Nil).

7 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
Current income tax charge	537,668	871,562
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	(33,034)	(441,863)
	<u>504,634</u>	<u>429,699</u>

- (i) The provision for Hong Kong Profits Tax is calculated by applying at 16.5% (2021: 16.5%) of the estimated assessable profits for the six months ended 30 June 2022.
- (ii) The provision for the PRC corporate income tax (“CIT”) is based on the statutory rate of 25% (2021: 25%) on the estimated taxable profits determined in accordance with the Law of the People’s Republic of China on Corporate Income Tax (“PRC CIT Law”), except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.
- (iii) During the six months ended 30 June 2022, certain PRC subsidiaries were subject to tax concessions in accordance with (a) the PRC CIT Law; (b) “The notice of tax policies relating to the implementation of western China development strategy”; and (c) “The notice of preferential tax policy for preliminary processing of agricultural products”.
- (iv) The provision for Australia, New Zealand and Indonesia Profit Tax is calculated by applying at 30%, 28% and 25%, respectively (2021: 30%, 28% and 25%), of the estimated assessable profits for the six months ended 30 June 2022.

8 DIVIDENDS

(a) Dividends payable to equity shareholders of the Group attributable to the interim period

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

(b) Dividends payable to equity shareholders of the Group attributable to the previous financial year, approved during the interim period

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year of RMB0.381 per ordinary share (the corresponding period in 2021: RMB0.268 per share).	<u>1,506,669</u>	<u>1,071,002</u>

9 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The basic earnings per share amounts 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 six months ended 30 June 2022.

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	
	2022	2021
	Number of	Number of
	shares	shares
	(in thousand)	(in thousand)
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	3,953,179	3,948,108
Effect of share options exercised	427	116
Effect of shares purchased under share award scheme	<u>(2,112)</u>	<u>(8,163)</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u><u>3,951,494</u></u>	<u><u>3,940,061</u></u>

(b) Diluted earnings per share

The diluted earnings per share amounts 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 after adjustment for the effects of all dilutive potential 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	
	2022	2021
	Number of	Number of
	shares	shares
	(in thousand)	(in thousand)
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,951,494	3,940,061
Effect of dilution — Weighted average number of ordinary shares:		
Share options	10,966	14,160
Share awards	5,925	6,049
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>3,968,385</u>	<u>3,960,270</u>

10 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 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	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	4,302,460	3,280,671
4 to 6 months	633,833	633,820
7 to 12 months	264,196	194,231
Over 1 year	98,056	50,966
	<u> </u>	<u> </u>
	<u>5,298,545</u>	<u>4,159,688</u>

The Group sold non-recourse trade receivables to a third party for cash proceeds for the six months ended 30 June 2022. These trade receivables have been derecognised from the consolidated statement of financial position, because the Group transfers substantially all of the risks and rewards, primarily credit risk.

11 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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	8,074,819	7,734,901
4 to 6 months	800,476	701,704
7 to 12 months	59,351	91,239
Over 1 year	57,552	276,058
	<u>8,992,198</u>	<u>8,803,902</u>

12 EVENTS AFTER THE REPORTING PERIOD

On 6 May 2022, the Group entered into a series of agreements with certain subsidiaries of Danone S.A. (together referred to as “Danone”). Pursuant to which, Danone will dispose 20% interest in all chilled business companies jointly held by Danone and the Group to the Group (the “Chilled Business JVs Acquisition”), the Group will dispose 100% equity interest in Dumex Baby Food Co., Ltd. to Danone (the “Dumex China Disposal”), and Danone will dispose 25% equity interest of Yashili International Holdings Ltd. (“Yashili”) to the Company (the “25% Yashili Acquisition”, together with the Chilled Business JVs Acquisition and the Dumex China Disposal, the “Transactions”). The Transactions, which constitute special deals under the Code of Takeovers and Mergers of Hong Kong, have been approved in the extraordinary general meeting of Yashili held on 16 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2022, total retail sales of consumer goods decreased slightly year-on-year due to the recurring COVID-19 pandemic outbreaks in multiple locations in China, declining logistics efficiency, and reduced consumer traffic in stores. At the same time, the global rise in inflation and raw material costs posed short-term challenges for the dairy industry. With the strong advocacy of the Chinese central government and various government departments, Chinese residents' awareness of milk consumption continues to increase, and a general consensus has been formed that the intake of high quality dairy protein is beneficial to improving nutrition and enhancing immunity. This has contributed to the strong recovery and upgrading of dairy consumption in China and the transformation of the dairy industry. In addition, national policies such as *The Initiative to Improve Competitiveness of The Dairy Industry* and *The Plan to Promote The Modernization of Agriculture* in "The 14th Five-Year Plan" have been released with the aim to strengthen the construction of dairy bases, optimize the product structure of dairy products, guide the dairy industrial chain, and support the improvement of dairy products processing, among other aspects of policy support and guidance.

During the period, the Group actively responded to the challenges of the general environment, seized the opportunities of consumption upgrade, strengthened its business fundamentals, focused on product innovation, marketing innovation, service upgrade and channel expansion, and continued to enhance its products, branding, services and channels. After the impact of the pandemic was controlled in May, the Group achieved rapid business recovery and strong growth in branded products such as *Shiny Meadow*, *Milk Deluxe* and *Mengniu* pure milk.

Milk has become a daily necessity for Chinese residents, and Mengniu, with its comprehensive supply chain and extensive sales channels, has made every effort to ensure adequate supply and price stability of dairy products in the areas affected by the pandemic. During the pandemic prevention and control period in Shanghai, Mengniu, as a main supplier, took the lead in opening the new business mode of community group purchase, maximizing the timeliness and efficiency of urban delivery, satisfying the milk demand of Shanghai families and significantly enhancing Mengniu's brand popularity and social reputation in the East China regional market. At the same time, Mengniu also accelerated the development of its O2O delivery business to meet consumers' needs for convenient shopping and multi-channel access.

Mengniu insists on pursuing a long-term brand strategy, continuing to inherit Mengniu's brand IP assets and the "born to excel" spirit and promoting Mengniu's brand awareness, reputation and global influence across the board through focusing on the aerospace development of China and important sports events such as the Women's Asian Cup and the Winter Olympics; innovating brand communication and marketing activities. In the 2022 Kantar BrandZ ranking of the most valuable global brands, Mengniu's brand value grew by 15% year-on-year, ranking first in China's dairy industry and was the only Chinese FMCG brand with double-digit growth.

Business Division Performance

Liquid Milk Business

Room Temperature Product Business

In the first half of 2022, despite the impact of the pandemic recurrence on social consumption and commodity supply, as well as the high comparative base for the first half of last year, room temperature liquid milk maintained positive sales growth, driven by the strong performance of UHT pure milk.

In 2022, *Milk Deluxe* continued to strengthen the brand's "better" proposition and enhanced the brand value through continuous efforts in brands, products and communication. *Just Yoghurt* focused on breakthroughs in differentiation. The new generation of healthy yogurt products is characterized by low sugar and low calories, offering low calory pressure and delicious taste. In 2022, *Fruit Milk Drink* focused on the launch of red grapefruit Sijichun with smiley packaging. The slogan "milk becomes more delicious with tea aroma and fruit pulp" was promoted to support the continuous growth of new products. Moreover, in line with the post-pandemic market trend, to meet the needs of consumers in lower-tier markets, the basic series will be upgraded thoroughly by improving the health attributes of product packaging and increasing the fruit pulp content, providing consumers with products of higher value and better value.

Due to the impact of the pandemic on the expansion of offline channels, the overall growth rate of online channels and new retail channels exceeded that of offline channels. In the first half of the year, Mengniu's home delivery business grew by over 35%, with an e-commerce market share of 27.7%, ranking first in terms of room temperature liquid milk e-commerce market share. The total number of online members increased from over 30 million at the end of 2021 to 42.7 million in June 2022.

Regarding market expansion, Mengniu continued to promote the expansion of services in traditional urban outlets. Through the construction of “store warehouses” in large and medium cities as well as the implementation of four key measures, namely “hierarchical channel management, reconstruction of value chain, integration of people, vehicles and goods, and digital management”, the difficulties in coverage, services and delivery faced by “grocery stores” in large cities were addressed, and the efficiency of in-depth distribution and the urban market coverage were improved. With respect to market penetration in towns and villages, adhering to the idea of “supporting customer sales and empowering customer management”, the sales management center of the room temperature business unit continued to promote investment in vehicles and manpower in disadvantaged markets, empowered distributor partners, strengthened the management of township business teams as well as outlet expansion, and further improved market coverage and market share in towns. Moreover, the Company comprehensively promoted cooperation with distributors leveraging the “Penetration into Towns and Villages” platform to develop village-level markets. In the first half of the year, the room temperature business unit reached over 100,000 administrative villages through the “Penetration into Towns and Villages” platform with 250,000 active outlets.

Chilled Product Business

During the period, despite the overall sluggish performance of the chilled product industry, a number of leading brands and product lines under the Group maintained their leading positions and gained market share. Our chilled products ranked first in the industry in terms of market share for the 18th consecutive year.

During the period, *Yoyi C* maintained its leading position in the market for medium and large bottles of lactic acid bacteria beverages, while 100ml *Youyi C* LC37 continued to gain market share. *Champion's* Every day's Fresh Yogurt developed successfully and seized market share in the mid- to high-end spoon eating yogurt market. The zero sucrose yogurt series refined its product lines in line with the industry trend, achieving three-digit growth year-on-year and occupying an important position in the zero-sugar market.

In order to continuously support the “Three Reductions & Three Kinds of Health (三減三健)” campaigns launched by the Chinese government and meet the growing consumer demand for lower sugar intake, the product lines of the zero sucrose and sugar-reduced product series were further enriched in 2022. During the period, *Mengniu* family-sized zero sucrose yogurt was launched to meet families' household needs. The Group also introduced the industry's first active probiotic sparkling water, a new 300ml *Yoyi C* probiotic sparkling beverage containing over 100 million active star probiotics proprietary to Mengniu, and launched the first healthcare yogurt in China, the *Champion* Jianzihao series, and various probiotic powder products.

In the first half of the year, *Yoyi C* focused on marketing in key cities. Through placing advertisements in outdoor media, the Group promoted *Yoyi C* products to more than 5 million households and over 2 billion person times, further improving its brand recognition and popularity. In addition, focusing on its core customers, the brand positioned itself as “probiotics tailor-made for Chinese people” and launched the annual brand promotion theme of “China is red”, including the Chinese women’s football-themed marketing campaign and the launch of the documentary, “A Journey of Probiotics Discovery”.

Fresh Milk Business

In the first half of 2022, Mengniu’s fresh milk business continued to lead the market. Its high-end brand, *Shiny Meadow*, and *Modern Meadow* fresh milk products achieved rapid growth far above the market level.

To cater to female consumers’ demand for low-fat products, a 4.0 low-fat fresh milk under *Shiny Meadow* was launched in March and its sales volume increased gradually. A sub-brand *Little Shiny Meadow* was also launched targeting youngsters in June, with a differentiated selling point of yummy light fresh milk. Moreover, in response to consumers’ need for basic fresh milk PET products, *Mengniu 780mL* fresh milk was launched with satisfactory sales performance. We continued to promote the *Modern Meadow* brand with the image of stars, namely Lionel Messi and Kylian Mbappé. In addition, the brand promotion during the Winter Olympics took advantages of the parent brand and leveraged the image of Eileen Gu to expand brand awareness and promote rapid sales growth.

The fresh milk business performed well in various channels, ranking first in China in terms of sales share in the systems of Sam’s Club, Yonghui Superstores and Sun Art Retail. Sales growth on leading e-commerce platforms such as JD.com and Tmall, as well as major fresh product e-commerce platforms, also significantly outperformed industry peers and maintained a leading position.

Milk Formula Business

In the first half of 2022, due to the on-going impact of declining births, the introduction of the New National Standards and other factors, the trend in China’s milk formula industry continued to show major enterprises improving quality and efficiency across various aspects, milk formula companies seeking product differentiation and accelerating the transformation into full-life-cycle nutritional product enterprises and domestic brands increasing their market share.

After decades of development, the overall domestic milk formula industry has entered a period of maturity and quality improvement as a result of factors including the evolution of birth trends, changes in consumption levels and parenting concepts, and the driving force of the internet industry. Major enterprises in the industry focus on continuous quality and efficiency improvement, product innovation, brand marketing, supply chain optimization and digitalization to effectively compete for market share.

In 2021, the National Health Commission and the State Administration for Market Supervision of the People's Republic of China jointly issued the *Food Safety National Standard for Infant Formula* (《食品安全國家標準嬰兒配方食品》) (GB10765-2021), *Food Safety National Standard for Older Infant Formula* (《食品安全國家標準較大嬰兒配方食品》) (GB10766-2021) and *Food Safety National Standard for Young Children Formula* (《食品安全國家標準幼兒配方食品》) (GB10767-2021) (the “New National Standards”). The New National Standards have regulations and restrictions on certain nutrients, resulting in more stringent product standards and enterprises pursuing product differentiation to compete in the market.

The on-going COVID-19 pandemic has caused consumers to pay more attention to improving their own immunity. Consumers' demand and requirements for professional nutritional products have been growing, leading to greater potential in this market segment.

In response to changes in market demand, many domestic milk formula enterprises are accelerating the transformation from traditional infant formula production into diversified, whole-family and full-life-cycle professional nutrition, which is considered the general trend of the future development of the milk formula industry.

Milk Formula Business of Yashili

The milk formula business of Yashili International Holdings Ltd (“Yashili”, stock code: 1230.HK), in which Mengniu holds approximately 51% equity interest, achieved revenue of RMB1,886.7 million in the first half of 2022.

In the first half of 2022, Yashili continued to develop its two major product categories, namely infant milk formula and nutritional products. Regarding infant milk formula, *Reeborne*, a core infant milk formula, completed the registration application under the New National Standards for several products. From the second half of 2022 to the first half of 2023, a number of upgraded new products under the New National Standards will be launched, comprehensively improving the quality of *Reeborne* brand series products, and the deepening and upgrading of services. Yashili continuously upgraded its nutritional products by developing and upgrading several kinds of children's milk powder to meet various nutritional needs in the first half of 2022 through the innovative application of M8 breast milk-derived probiotics. It also explored more diversified specifications for children's milk powder products to improve product portfolios and competitiveness. In addition, Yashili developed and upgraded a milk powder product series for the middle-aged and the elderly in the first half of 2022, and developed and launched *Tihuli*, an innovative formula milk powder that helps to improve immunity.

Yashili focused on the stable development of mother-and-baby channels and carried out omni-channel operations through large mother-and-baby chain stores, supermarkets, e-commerce and social new retail channels. On this basis, it developed and launched the can code service for milk powder products with the first-of-its-kind “three-in-one code” for multi-dimensional protection of channel rights. Furthermore, it cooperated with renowned domestic mother-and-baby chain organizations throughout the country to promote steady improvement in sales and operation.

Bellamy's Business

Bellamy's, an Australian organic infant milk formula and baby food provider, was acquired by the Group at the end of 2019. *Bellamy's* has adhered to the “Pursuing Organic, Naturally Organic” brand positioning and actively expanded its portfolio of high-end organic products.

COVID-19's on-going global spread and recent resurgence in China, combined with the declining birth rate in China, have intensified the challenges faced by the infant milk formula industry. Nonetheless, high-end organic milk formula and infant complementary foods and snacks still showed structural growth opportunities.

In the first half of 2022, despite the pressure on its sales, *Bellamy's* steadily promoted strategic measures and formulated long-term plans. During the period, the offline sales of milk formula achieved rapid growth through developing flagship stores, organizing organic festival brand weeks and other projects. The sales of *Bellamy's* complementary foods and snacks during the 618 Shopping Festival achieved the best result in its history, ranking second among organic rice cereal products on TMall. With the launch of new Chinese versions of complementary food products, *Bellamy's* will accelerate its development of complementary food and snack products and its expansion of market share in the second half of the year in order to further increase its brand share in the core market.

In the first half of the year, *Bellamy's* also explored cross-border emerging business channels such as Tik Tok and Kuaishou, and developed super high-end product lines. Its business contribution and market share continued to rise. During the 618 Shopping Festival, *Bellamy's* organic milk formula continued to rank first on cross-border platforms such as Alibaba and JD.com. In the second half of the year, *Bellamy's* will continue to focus on developing super high-end product lines, providing sales momentum for the brand's high-end transformation.

In addition, *Bellamy's* launched a number of new organic products in the first half of the year, including locally developed organic complementary foods and snacks, such as baby rice, baby noodles, baby rice crackers and sprouted rice puffs, and imported infant milk formula tailor-made for local needs. Moreover, *Bellamy's* is actively promoting the tripartite in-depth cooperation with COFCO Nutrition and Health Research Institute and Mengniu, which will continuously bring to the local market more innovations with differentiated added value that meet the needs of consumers.

Bellamy's steadily increased the brand's market share and consolidated its leading position as the No.1 organic milk formula in Australia, focusing on early-stage infants acquisition. In addition, as the first pure organic milk formula brand in Australia, the cross-border version of *Bellamy's* classic blue canned milk formula has obtained the registration license of the U.S. Food and Drug Administration (FDA), and will enter the US market in the second half of the year. In addition, *Bellamy's* will also launch a new high-end milk formula product globally in the second half of the year, further strengthening the brand's leading position in the global organic baby food category.

Ice Cream Business

In the first half of 2022, the four major ice cream brands, namely *Suibian*, *Mood for Green*, *Ice+* and *Deluxe*, focused on product innovation and upgrades, leading to rapid growth in sales of ice cream that outperformed the industry. During the period, based on its positioning of “competitive chocolate ice cream”, *Suibian* promoted sales growth through new products such as milk tea and cocoa flavored ice cream, and black forest/thick milk pudding flavored ice cream. *Mood for Green* introduced the “Zhiqing (植輕)” basil and apple flavored ice cream with real apple juice, attracting consumers with its sweet and sour taste, freshness, and stress relief. As a new generation high-end ice cream brand, *Deluxe* has launched new products such as Guoyuan matcha milk ice cream, traditional Chinese medicine black garlic milk ice cream and algal blue soda flavored milk ice cream, in order to promote upgrade and transformation, creating a “national brand” of high-end ice cream.

In addition, the Group and Moutai Group have joined forces to create innovative crossover products, delivering a perfect combination of Moutai with milk. At the end of May, Moutai officially launched “Moutai Ice Cream” in three flavors, namely classic original, vanilla and green plum. The ice cream combines the classic and delicious tastes of baijiu and ice cream through proprietary technology, creating a new experience for consumers and opening a new chapter of strategic cooperation and crossover innovation between the two parties. “Moutai Ice Cream” was well received by the market and became one of the hottest ice cream products of the period.

In terms of brand promotion and development, the ice cream business division created an innovative online and offline experience for its brands through various methods such as TV advertisements, online videos, building consumption scenarios, launching peripheral products, cooperating with famous IPs and creating their own IPs, in order to attract market attention and hence improve the brand image and drive sales growth.

As for new channel sales development, the ice cream business division achieved its business targets for the year in the first half of the year, recording rapid sales growth on e-commerce platforms. Efforts were also made to expand into corporate group buying, catering, scenic spots and other scenarios. In addition, the instant home delivery business was further developed to boost sales and raise market share on O2O platforms. With respect to refined channel management, the ice cream business division established a digital central control platform to fully cover the upstream and downstream supply chains, breaking the sales barrier and facilitating the digital transformation of traditional industries.

Cheese Business

With continuous upgrade of dairy consumption and the higher penetration rate of cheese in China, the cheese market continued its rapid growth momentum. According to industry data, the retail cheese market in China achieved a compound annual growth rate of near 25% over the past five years. Cheese consumption per capita in China also increased to 0.2kg in 2021. In the future, as cheese consumption becomes a habit in China, cheese consumption per capita will further increase.

At the end of 2021, the Group introduced the innovative room-temperature cheese product, *Mengniu* room temperature high-calcium cheese stick. With the breakthrough in room temperature storage technology, the cheese stick can be stored at room temperature and is easy to carry around as a portable snack. The introduction of this product greatly expanded the outdoor consumption scenarios for cheese sticks, allowing for further increase in their penetration rate. Leveraging the advantages of *Mengniu* in room temperature sales channels, the cheese business division consolidated its lower-tier extension and channel expansion efforts to enlarge network coverage in national and regional supermarkets, traditional stores and nursery stores. With the rapid increase in the number of its retail stores, the Group also saw the increase in the market competitiveness of its cheese sticks.

The entire casual cheese product series was upgraded in the first half of 2022 as a sub-brand, *Zhishifenzi* (芝士分子). Taking advantage of the popularity of Eileen Gu during the Winter Olympic Games, *Mengniu* invited Eileen Gu as its endorser to further strengthen the trendy and youthful image of the casual cheese snack series.

Catering to the needs of consumers, the Group further optimized the product structure and carried out product innovation and upgrade in domestic table cheese. Aside from the stable increase in the sales volume of *Mengniu*'s signature 愛氏晨曦 (*Ai Shi Chen Xi*) series of domestically produced butter products, the Group's diverse range of imported series, including mozzarella cheese, cream cheese and table cream, also met the needs of consumers for home baking in different scenarios.

Continuous product innovation, development and process enhancement were carried out for the 愛氏晨曦 (*Ai Shi Chen Xi*) cheese foodservice business, enabling optimization of product matrix and thus the rapid growth of its operating results. Leveraging its cutting-edge technologies, *Mengniu*'s large-package domestically-produced butter products are leading in the catering industry in terms of foodservice cheese.

On 9 July 2021, Mengniu became a substantial shareholder of Shanghai Milkground Food Tech Co., Ltd. (600882.SH) (“Milkground”), a leading cheese company in China with the premier research and development team and the largest production capacity in the country. At present, its cheese products and children’s cheese stick rank first in terms of market share in China. Through cooperating with Milkground, both the Group and Milkground will be able to gain advantages through sharing resources. The Group aims to expand its business into the domestic and global cheese market with enormous potential together with Milkground through business cooperation in multiple aspects and dimensions, including co-establishing sales channels, sharing marketing resources, and improving production capacity.

Quality Management

In the first half of 2022, the Group implemented a three-year strategic plan for quality management under the core concept of “consumers are at the heart of all our decisions”. The Group continued to promote the implementation of the Quality Management System 3.0 through launching core programs of quality culture, quality design, perfect products, consistent systems, standard management, quality tool management and talent training. Our quality design management systems cover all of the Group’s new products.

The Group continuously upgraded its management system based on eight advanced international standards and obtained 151 system certifications (including ISO9001, HACCP, FASS22000 and GMP), all of which remain valid. The Group applied for and successfully obtained two system certifications, namely BRC and IFS, for four factories in 2022.

In terms of product certifications, the Group continued to push forward the certification for student milk products and 14 organic products, with a 100% passing rate. The cheese business division, in particular, successfully obtained its first Chinese organic product certification. Six of the Group’s major product categories, including pasteurized milk and fermented milk, were the first in China to pass the EU standard product certification for food.

During the period, the Group’s milk source suppliers and products passed all random inspections by relevant government departments.

Milk Source Management

During the period of the “14th Five-Year Plan”, Mengniu has fully capitalized on its significant leading role in the agricultural industrialization of China to consolidate the foundation of the dairy industry in cooperation with its partners. With its continuous commitment to the “deployment of business layout and sharing of value chain”, Mengniu facilitated the “precise, efficient and green” development of China’s dairy industry in terms of “technical upgrade, digital innovation, feed cost reduction, procurement integration, financial support and synchronized growth”.

With the support of the *Nine Policies and Measures for Promoting the Revitalization of the Dairy Industry* (《推進奶業振興九條政策措施》), Mengniu has accelerated the establishment of its milk source bases according to the development of the dairy industry park project of China. Striving to achieve the strategic goal of “Creating a new Mengniu”, the Company has become a new driving force that contributes to the promising and robust development of the dairy industry. This year, Mengniu has continued to promote the “10,000-tonne milk” plan, pursuant to which 43 new dairy farms will be built in cooperation with upstream partners by the end of 2024. Owing to the support of the dairy industry revitalization policy, 34 dairy farms have been built or are under construction.

Since 2022, the milk source business division has promoted the development of dairy farms into modernized bases. Continuous efforts have been made to strengthen raw milk quality management, SOP, digitalized platforms and other aspects to achieve sustainable development of raw milk. Mengniu consistently achieved a 100% passing rate in randomized quality inspections of the Group’s milk bases conducted by governmental authorities.

Adhering to the core concept of “consumers are at the heart of all our decisions”, the milk source business division stepped up digitalization and informatization upgrade farms, raw milk quality profiling, efficient synchronized management, operation upgrade in line with EU standards and other initiatives. In an effort to ensure continuous upgrade of efficient dairy farming, the milk source business division provided dairy farm technical support and staff training for a total of 265 dairy farms. Feed testing and formulation optimization services were also provided for 168 community farms. The business division also attached great importance to the launch of the precision nutrition project and automated informatization upgrade projects, resulting in the increase of 1.3 kg in the average unit yield of the relevant dairy farms. In addition, in order to promote advanced dairy farming concepts, experience and technology, the Group conducted 25 online training programs with over 100,000 participants in total.

The Group has always been committed to incorporating social responsibility into its business foundation and integrating sustainable development into its corporate DNA. As part of its green sustainable development, a large number of innovative initiatives have been carried out. Through providing guidance on front-end planting, it accelerated the implementation of low-carbon and carbon-reduction measures in dairy farming. Utilization of manure resources on dairy farms was also encouraged to lay a solid foundation for achieving “carbon neutrality” of dairy farming.

In order to effectively handle and utilize dairy farm waste, Mengniu gave guidance to the cooperative dairy farms regarding utilization of manure according to the *Notice on Further Specifying the Requirements for the Utilization of Livestock and Poultry Manure on Farmland and Strengthening the Supervision of Dairy Farm Pollution* (《關於進一步明確畜禽糞污還田利用要求強化養殖污染監管的通知》) in the first half of the year in response to the national environmental protection policy. Efforts were made to eliminate equipment with high energy consumption, high emission and high pollution. Through online training and on-site guidance, the Group assisted dairy farms in utilizing manure in compliance with regulations and adopting green and low-carbon farming practices. Guidance was also given for the replacement of coal-fired boilers in 17 cooperative dairy farms, the improvement of water-saving measures in 23 dairy farms and the use of clean energy in 27 dairy farms. It is expected that these measures will reduce carbon emissions by 110,000 tonnes.

Furthermore, Mengniu fully leveraged the strengths of China Modern Dairy Holdings Ltd. (1117.HK) (“Modern Dairy”) and China Shengmu Organic Milk Limited (1432.HK) (“China Shengmu”) to promote the “low-carbon dairy farming park”. It has completed audit of dairy farm carbon emissions and formulated carbon reduction measures. Comprehensive carbon reduction initiatives will be carried out in dairy farming, animal husbandry and breeding. These initiatives will allow Mengniu to contribute to the sustainable development of the entire industry, establish a sustainable development benchmark for China’s dairy industry and lead the low-carbon and green development of dairy farming.

Corporate Digital Strategy

2022 marked a crucial year in the Group’s digital transformation. In line with the high-level structure of digital transformation, each business unit formulated the “consumer-oriented and data-based” core strategy. Based on its digitalization strategy, the Group implemented strategies in four aspects, namely “Consumers Going Online, Channels Going Online, Supply Chain Going Online and Management Going Online”, so as to further facilitate the digitalization of its business.

With respect to “Consumers Going Online”, aiming to maximize customer lifetime value (“CLV”) for the omnichannels of all its brands and products, Mengniu strived to establish a customer-oriented digital operation system, which covers the entire customer life cycle. The upgrade and iteration of seven sales frontline applications, were completed according to the personal needs and overall family needs of customers. The total number of customer interactions was over 200 million.

Regarding “Channels Going Online”, the extensive application of AI digital tools enabled the automatic processing of in-store purchase orders of retailers, which overcame the system barrier through end-to-end connection. Moreover, the use of AI digital tools also strengthened terminal sales business management and execution and supported the refined operation management of different channels.

In terms of “Supply Chain Going Online”, Mengniu played to the strengths of its smart supply chain projects, in which supply chain system coordination was driven by digital intelligence. Innovative business procedures were introduced, allowing the upgrade of the business model from “factory manual production planning + integration and optimization of the Group” to “global production planning of all factories through coordination of the Group”. The upgrade enabled cross-department online coordination and optimized overall costs in the supply chain, achieving the objectives of the data-driven optimization strategy. As for smart production, the planning of the Ningxia Factory, designed according to the World Economic Forum’s “Lighthouse Factory” standards, has been completed and it will become a benchmark factory in the dairy industry after it is completed and commences operation. In addition, the trial digitalized operation of two factories has been completed and the digital upgrade of several factories remains in progress. When completed, it will enable smart production based on industrial internet technology and facilitate significant cost reduction and improved production efficiency.

With respect to “Management Going Online”, human resources management completed the implementation of the electronic signing project. Through electronic signing, Mengniu modified the core personnel procedures of its human resources management, which greatly enhanced the efficiency of various business procedures, such as employee onboarding, transfer, re-assignment, departure, contract renewal and certificate issuance.

FINANCIAL REVIEW

Revenue

During the period, the recurring pandemic in China affected social retail consumption. However, as the health awareness of consumers continuously increased, and the Group proactively explored various online and offline channels, the revenue of the Group amounted to RMB47,722.3 million for the six months ended 30 June 2022 (2021: RMB45,905.2 million), representing a year-on-year increase of 4.0%.

Gross Profit

The Group’s gross profit for the period slightly decreased to RMB17,458.8 million (2021: RMB17,552.6 million), due to the increase in the average price of raw materials during the period and the increase in depreciation expenses arising from the addition of factories and production equipment. Gross profit margin decreased by 1.6 percentage points to 36.6% as compared with the same period last year (2021: 38.2%).

Operating Expenses

As the Group adopted precise channel and brand promotion strategies during the period, operating expenses for the period increased by 1.3% to RMB15,265.6 million (2021: RMB15,074.4 million), representing a decrease to 32.0% when expressed as a percentage of the Group's revenue (2021: 32.8%).

During the period, selling and distribution expenses decreased by 1.4% to RMB12,710.2 million (2021: RMB12,888.1 million), accounting for 26.6% of the Group's revenue (2021: 28.1%).

Product and brand marketing expenses during the period decreased by 14.2% to RMB4,515.5 million (2021: RMB5,264.6 million), accounting for 9.5% of the Group's revenue (2021: 11.5%).

Administrative and other operating expenses, including impairment losses on trade receivables and loss on derecognition of financial assets measured at amortised cost, increased by 16.9% to RMB2,555.4 million (2021: RMB2,186.3 million), accounting for 5.4% (2021: 4.8%) of the Group's revenue. The increase was mainly attributable to fair value amortisation of share-based payment component of the convertible bonds issued under the specific mandate in November 2021 included in amortisation expenses of non-cash nature.

Profit from Operating Activities and Net Profit

During the period, due to the stable profitability of the Group and increases in the fair value gain on other financial liabilities and the gain on disposal of a subsidiary within other income, the Group's earnings before interest, taxes, depreciation, and amortisation ("EBITDA") improved by 26.3% to RMB5,486.3 million (2021: RMB4,344.2 million) with EBITDA margin at 11.5% (2021: 9.5%).

Profit attributable to owners of the Company increased by 27.3% year-on-year to RMB3,751.4 million (2021: RMB2,946.5 million). Basic earnings per share were RMB0.949 (2021: RMB0.748), up by 26.9% year-on-year.

Income Tax Expenses

For the six months ended 30 June 2022, income tax expenses of the Group totaled RMB504.6 million (2021: RMB429.7 million), representing a 17.4% increase year-on-year. The effective income tax rate was 12.2% (2021: 12.6%), down by 0.4 percentage point year-on-year, which was mainly due to a slight increase in the revenue contribution of subsidiaries that enjoy tax exemption for primary processing of agricultural products.

Capital Expenditure

For the six months ended 30 June 2022, the capital expenditure of the Group amounted to RMB2,220.5 million (2021: RMB6,694.9 million), representing a decrease of 66.8% year-on-year. Of the total, RMB1,865.9 million was spent on building new production facilities and modifying existing ones as well as related investments, and RMB354.7 million was invested in equities.

Working Capital, Financial Resources, and Capital Structure

For the six months ended 30 June 2022, the Group recorded net cash inflow from operating activities of RMB1,754.1 million (2021: RMB2,704.1 million), representing a decrease of 35.1% as compared with the same period last year, mainly due to the decrease in other payables and accruals as well as the strategic increase in reserves of relevant raw materials considering the increasing costs of raw materials.

As of 30 June 2022, outstanding interest-bearing bank and other borrowings of the Group increased to RMB36,011.9 million (31 December 2021: RMB27,033.0 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB7,636.1 million (31 December 2021: RMB4,265.5 million). More than 90% of the interest-bearing bank and other borrowings were bearing interest at fixed rates. The increase in interest-bearing bank and other borrowings was mainly due to the strategic financing and the reserves for repayment of foreign currency debt due in the future, which resulted in an increase in other financial assets.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as of 30 June 2022 were RMB26,212.5 million (31 December 2021: RMB15,816.1 million).

The Group's total equity as of 30 June 2022 amounted to RMB43,961.5 million (31 December 2021: RMB41,999.4 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 81.9% (31 December 2021: 64.4%).

Finance costs of the Group were RMB518.4 million (2021: RMB305.0 million), or approximately 1.1% when expressed as a percentage of revenue (2021: 0.7%), representing an increase of 0.4 percentage point year-on-year.

PRODUCTS

Leveraging its rich resources and international-leading technologies, Mengniu continued to innovate around product differentiation and premiumization, leading the industry with superior products and driving sales volume growth. Mengniu put forward and adopted the DTV (Design to Value) concept, which is a consumer-centric product development concept that aims to design products that meet the needs of consumers, while simplifying product complexity to reveal the true value of its products, driving Mengniu's sustainable development. The principal businesses of the Group are liquid milk, ice cream, milk formula, and cheese products with their performance during the period outlined as below:

Liquid milk

Revenue amounted to RMB39,665.3 million (2021: RMB39,448.1 million), accounting for 83.1% of Mengniu's total revenue (2021: 85.9%).

UHT milk

The *Milk Deluxe* 3.0 era began following the launch of its products in upgraded "DreamCap™" packaging in 2019. In May and June 2020, the upgraded organic pure milk and pure milk of "DreamCap™" containing 3.8 g of natural high quality milk protein and 125 mg of natural calcium per 100 ml were launched. Satisfying the health needs of consumers, the *Milk Deluxe* organic pure milk has been awarded dual certifications for organic products from China and the European Union. Such achievements further reinforced the premium position of the *Milk Deluxe* brand. In 2021, *Milk Deluxe* launched the "Better Organic" desert organic pure milk and the CBP high-calcium pure milk. The "Better Organic" desert organic pure milk uses limited raw milk from Ulan Buh Desert oasis and contains 3.8 g of protein per 100 ml. The CBP high-calcium pure milk contains 135 mg of calcium from high-quality milk source per 100 ml and has rich Vitamin D that can promote better absorption of calcium.

Mengniu's comprehensive UHT pure milk line includes *Mengniu* pure milk, high-calcium milk, low-fat high-calcium milk and skimmed milk. In August 2020, *Mengniu's* Nutritious and Mellow Enjoyment pure milk series was introduced. The product contains 3.3 g of protein per 100 ml and has a very rich taste.

Key Products:

- *Milk Deluxe*
- *Mengniu pure milk*
- *Student's Milk*
- *Future Star*

Room Temperature Yogurt

In 2022, *Just Yoghurt* focused on breakthroughs in differentiation. The new generation of healthy yogurt products is characterized by low sugar and low calories, offering low calory pressure and delicious taste. *Just Yoghurt's* light flavor fruit yogurt launched a new yellow peach and quinoa flavored product last year, which contains more protein and less sugar content, providing consumers with a healthier and tastier yogurt. At the end of last year, the Group's popular product Yummy Yoghurt, was launched. With its new formula, upgraded technology, and brand-new packing and adhering to the brand concept of "made with real ingredients", Yummy Yoghurt achieved a breakthrough by combining snacks with yogurt and turning room temperature yogurt into spoon eating yogurt.

Key Products:

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

Room Temperature Milk Beverage

In 2022, *Fruit Milk Drink* focused on the launch of red grapefruit Sijichun with smiley packaging. The slogan "milk becomes more delicious with tea aroma and fruit pulp" was promoted to strengthen the milk characteristics, supporting the continuous growth of new products. Moreover, in line with the post-pandemic market trend, to meet the needs of consumers in lower-tier markets, the basic series will be upgraded thoroughly by improving the health attributes of product packaging and increasing the fruit pulp content, providing consumers with products of higher value and better value.

Key Products:

- *Fruit Milk Drink*
- *Fruit Milk Drink* high-end colorful fruit pulp series
- *Suan Suan Ru* yogurt-flavored drink

Chilled Yogurt

To continuously support the “Three Reduction and Three Health (三減三健)” campaigns launched by the Chinese government and to fulfill the increasing demand for lower sugar intake of consumers, Mengniu further expanded its line of zero sucrose and low-sugar yogurt products in 2022. *Mengniu’s* family-sized xylitol yogurt with zero sucrose was launched in April 2022, in order to fulfill the needs of the whole family.

Champion Jianzihao series products are health products with professional functions certified by the State Food and Drug Administration for more than 10 years. Such products are characterized by its functions of “regulating intestinal flora and enhancing immunity” and are the first health yogurt products launched in China. In the first half of the year, *Champion* launched Jianzihao immunity bottle products. Leveraging on its top-level design and innovative packaging, the product gained competitive advantage and achieved outstanding results in helping people enhance their immunity.

Key Products:

- *Champion*
- *Mengniu Zero Sucrose Yogurt*

Chilled Milk Beverage

The new zero sucrose series product of *Yoyi C* has been well received by consumers after its launch. With its refreshing taste, the product stands out in the end product category. *Yoyi C* launched a new 300ml probiotic sparkling drink product in May 2022 to meet the growing demand for sparkling water among target consumers.

The small-bottle LC-37 series is the major series of the *Yoyi C* brand. Each bottle of the product contains 50 billion active probiotics with low sugar, zero fat, and high calcium. Even with the presence of gastric acid and bile and under the body temperature of 37°C, this product still has a sufficient amount of probiotics remaining active to effectively regulate the condition of the digestive system. In addition, Mengniu introduced *Yoyi C* Probiotics Powder, which created a benchmark of 100 billion high compound probiotics in the industry.

Key Products:

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

Fresh Milk

Mengniu's *Shiny Meadow* fresh milk was launched as a premium brand. It is produced using low-temperature membrane concentration technology and Swedish milk fat separation technology, enabling it to retain the highest proportion of natural nutrients in quality fresh milk. In the first half of 2022, capturing the opportunities from female customers' pursuit of beauty and demand for low-fat products, *Shiny Meadow* launched 4.0 low-fat fresh milk and established a sub-brand, *Xiaoxianyu* (小鮮語) in June 2022 to target teenage customers with its unique selling point of delicious light fresh milk.

In addition, leveraging on the brand image of *Mengniu*, *Mengniu* 780mL fresh milk was launched in April 2022 to fulfill the demand of customers for basic fresh milk PET products.

Key Products:

- *Shiny Meadow* fresh milk
- *Modern Meadow* fresh milk

Ice Cream

Revenue from the ice cream business amounted to RMB3,903.5 million (2021: RMB3,003.9 million), accounting for 8.2% of Mengniu's total revenue (2021: 6.5%).

Suibian broke the traditional concept and layered-structure of chocolate ice cream and introduced trendy milk tea and cocoa ice cream products of classic shape based on insight into popular milk tea trends. In addition, *Suibian* introduced an innovative structured black forest and pudding-flavored crisp ice cream and raw chocolate-flavored core ice cream with delicate taste and rich layers.

Adhering to its brand proposition of "A Bite of Nature (一口大自然)", *Mood for Green* introduced the herbal "Zhiqing (植輕)" ice cream series, offering more healthy product choices to its consumers. During the period, *Mood for Green* launched a basil and apple ice cream made with real apple juice.

As a new generation brand of high-end ice cream, *Deluxe* upgraded and transformed its brand during the period by introducing "Guozihao (國字號)" high-end ice cream products and launching "Qingxian • Super high-end (傾羨 • 超高端)" series products, including Guoyuan matcha milk ice cream, traditional Chinese medicine black garlic milk ice cream and algal blue soda flavored milk ice cream.

Key Products:

- *Suibian*
- *Deluxe*
- *Mood for Green*
- *Mengniu Ice+*

Milk Formula

Revenue from the milk formula business amounted to RMB1,894.2 million (2021: RMB2,547.3 million), accounting for 4.0% of Mengniu's total revenue (2021: 5.6%). The revenue of milk formula business mainly included the revenue from Yashili and *Bellamy's*.

Yashili

Products of Yashili are classified into two categories, namely infant milk formula and nutritional products. Its milk powder, organic milk powder, and goat milk powder comprehensively cover the super high-end, high-end, and mid-end markets.

Reeborne Kieember is the signature product of *Reeborne* and is manufactured in the factory of Yashili in New Zealand. By adopting internationally advanced MSD drying technology, the *Reeborne* Kieember series can retain the active nutrients of its ingredients. With double premium proteins (lactoferrin and alpha-lactalbumin), OPO structured lipid, and highly active CPP and prebiotics (GOS&FOS and DHA&AA) that are mixed in the golden ratio, the product provides babies with all kinds of nutrition that can be easily absorbed with a light flavor. *Reeborne* organic milk powder adopts the pure organic milk from the Alps, to provide milk powder with organic content of up to 98%. It passes the WIT organic certification and adopts the "One Can, One Code" tracking system to provide quality assurance. *Reeborne* TruYn goat milk powder selects high-quality small molecule goat milk protein and specifically adds rare ingredients such as lactoferrin, the body-friendly OPO structured lipid, and probiotics and prebiotics to provide babies with high-quality nutrients that can be easily digested and absorbed.

Developed specially for the nutritional needs of children over 3 years old, with the addition of Bifidobacterium lactis Probio-M8, zinc, and 28 kinds of fruit and vegetable powders, *Mengniu* M8 children's growth milk formula is rich in dietary fiber to address parents' concerns about children's digestion and picky eating, to support the growth of children.

Yashili's products also include various milk formula products for adults and multiple series of dissolvable products. Based on physical characteristics and nutritional supplement needs of the middle-aged and the elderly, Yashili developed Yourui Guyi (悠瑞骨宜), Yourui Liyi (悠瑞力宜), Yourui Shunyi (悠瑞順宜), Yourui Yitian (悠瑞怡添), Yourui Xinpei (悠瑞心沛), Yourui selenium rich and high calcium goat milk powder, Yourui probiotic powder, Yourui probiotic formula camel milk powder, Yourui whole pure camel milk powder, and other products.

Bellamy's

In January 2022, *Bellamy's* launched the first Chinese-labelled organic kids milk powder to fully meet the nutritional needs of pre-school children aged over three years in China. The product uses 1% rare organic milk source and is designed with a special formula of "three key ingredients for growth", namely "active" lactoferrin, FOS prebiotics and high content of β -glucans to help preschool children stimulate self-protection and promote healthy growth. Specially designed for children in the critical period of growth, *Bellamy's* organic kids milk powder is added with a nutritional combination of "high calcium + vitamin D + high quality protein" to help children strengthen their physique.

Bellamy's also introduced the first Chinese-labelled organic milk rusks with a formula containing organic wheat as an innovative nutrition, enriching *Bellamy's* product choices for babies during the teething process. In July 2022, *Bellamy's* launched the first Chinese-labelled organic sprouted rice puff, with organic wheat reaching 95% for the first time. Unlike other baby puff products generally containing oil on the market, *Bellamy's* puff formula is truly oil-free for better health.

Key Products:

- *Reeborne*
- Yourui
- *Bellamy's* organic milk powder
- *Bellamy's* organic baby rice

Other Products

Revenue from other products amounted to RMB2,259.3 million (2021: RMB905.9 million), accounting for 4.7% of Mengniu's total revenue (2021: 2.0%).

Cheese

The Group mainly focused on the development of children's cheese sticks and has introduced additive-free children's cheese sticks with no artificial flavors, color additives and preservative, which further consolidated the leading position of Mengniu in the nutritious and healthy dairy products industry. Mengniu also introduced the first organic cheese stick in China, which contains 51% organic cheese, including three kinds of imported organic cheese and no artificial flavors, color additives and preservative. With such products, Mengniu expanded its business into the high-end children's cheese stick market to meet the needs of consumers in China for upgrading dairy products.

Mengniu's cheese R&D team has achieved a breakthrough in room temperature technology for cheese and introduced *Mengniu* brand cheese sticks at the end of 2021, expanding its business into more consumption scenarios. The main cheese stick product features six times milk calcium, low sugar and sodium, higher calcium content and less health burden. The product can be stored and carried at room temperature, so as to provide children with the nutrition and deliciousness of cheese anytime and anywhere.

Key products:

- *Mengniu* high calcium cheese stick
- 愛氏晨曦 (*Ai Shi Chen Xi*) children's cheese stick
- 愛氏晨曦 (*Ai Shi Chen Xi*) shredded mozzarella
- *Zhishifenzi* (芝式分子) casual cheese

PRODUCTION

Mengniu deploys its production capacity according to the potential of relevant markets and its product strategy. As of 30 June 2022, Mengniu had 41 production bases in China, two production bases in Indonesia, two production bases in Australia and one production base in New Zealand, respectively. It had a total annual production capacity of 12.74 million tons (December 2021: 11.66 million tons).

SUSTAINABLE DEVELOPMENT

In the first half of 2022, Mengniu unveiled its “GREEN” sustainable development strategy which aims to set the direction for Mengniu’s ESG development in the future through benchmarking against six mainstream ESG rating indicators and persisting on its five major strategies, including Governance — Sustainability, Responsibility — Collaborative Prosperity, Environment — Carbon Net zero, Ecosystem — Collaborative & Accountable and Nutrition — Supreme & Inclusive to cover 15 major issues and 28 actions related to environment, society and governance. Mengniu has established an ambitious double-carbon strategic goal and is committed to the goal of “reaching peak carbon in 2030 and carbon neutrality in 2050” which puts forward specific and industry-leading stage-by-stage goals for the carbon emission intensity per ton of dairy products. 15 specific carbon reduction measures will be adopted in the six major aspects, including production, raw milk, packaging, transportation, products, and carbon offset to steadily step towards carbon neutrality in the entire industry chain.

In the first half of the year, the Group proactively implemented sustainable development strategies and received multiple instances of recognition for the same. The Group responded to the CDP climate change, forest and water security questionnaire, developed an ESG management system that covers over 500 indicators used by major ESG ratings, and increased the level of digitalization in ESG management. Our major raw milk suppliers, Modern Dairy and China Shengmu, have completed carbon audits and commenced strategic planning for carbon neutrality. Mengniu also became an enterprise member of the Sedex responsible business information platform to carry out responsible supply chain project, refine the social and environment risk management process of the Company and its supply chain and support the implementation of the GREEN strategy.

Leveraging the Mengniu Public Welfare Foundation platform, Mengniu actively participated in public welfare and charitable activities and raised donations of over RMB44 million to support Inner Mongolia, Shanghai, Hong Kong, Xi’an and other regions to fight against the pandemic and to assist Luozha County, Tibet and Dengkou County, Bameng, Inner Mongolia in rural revitalization. Mengniu also launched public welfare projects for improving infant nutrition in four provinces, namely Jiangsu, Hubei, Hainan and Shaanxi.

HUMAN RESOURCES MANAGEMENT

As of 30 June 2022, the Group had a total of approximately 44,277 employees in the Chinese Mainland, Hong Kong, Oceania, and Southeast Asia, including around 2,557 employees working for Yashili. During the period, the total cost of employees (including the salaries of directors and senior management personnel) amounted to approximately RMB4,061.4 million (2021: RMB3,525.4 million).

In 2022, the Group continued to achieve the strategic goal of “Creating a new Mengniu”. To ensure the efficient implementation of its strategies, the Group continued to develop core organizational capabilities by upgrading the capabilities of digital technology, innovation ecology and strategic integration through organizational adjustment, and by creating incentives for transformation and innovation. The Group also cultivated and attracted outstanding talents by broadening the development channels of employees. Through strengthening the professional rank structure, the career ceiling was raised and professional standards were clarified. The Group also upgraded the qualifications for a number of professional positions, including digital functions.

In order to promote the new five-year strategic goals and realize the strategic blueprint of “Creating a new Mengniu”, the Company developed a comprehensive remuneration system linking business performance with a people-oriented approach and an emphasis on the development of the enterprise and employees. It adjusted its salary strategies, optimized the incentive policy and upgraded the welfare system, so as to continuously improve employee satisfaction. In the first half of 2022, 5,533,245 restricted shares and 31,782,688 share options were granted to employees participating in the Company’s share award scheme and share option scheme, respectively, based on the individual performance.

PROSPECTS

With the strong beginning of the five-year strategy of “Creating a new Mengniu” in 2021, Mengniu will comprehensively implement the strategy in 2022, striving to become Chinese consumers’ first choice among dairy brands. We will also become a “FIRST Mengniu”, one that is beloved by consumers, more international, socially responsible, culturally strong, and digitally transformed, writing a new chapter in the Group’s development.

The increased public health awareness since the pandemic, in addition to China’s economic recovery and the promotion of government policies, have accelerated the upgrade and transformation of the dairy industry. As consumers’ demand for dairy products rich in nutrition and taste has increased, new product categories have emerged rapidly. There has also been fusion of high-end, functional, snack, dairy and non-dairy products as well as a trend toward craving new flavors.

In response to consumers' needs, Mengniu will adhere to the values of "consumers are at the heart of all our decisions" to help with swift product and technological innovation and meet the diversified needs of consumers, promoting Mengniu's value proposition and enabling the brand to be well received by the consumer mass market, particularly the younger generation. In addition, in response to the trend of aging population, the Group will strengthen the product mix and marketing investment of milk formula for the middle-aged and the elderly. Moreover, its cheese products have grown rapidly as a result of consumption upgrade of dairy products, low cheese consumption penetration and the rise of diversified consumption scenarios such as home baking. The Group will accelerate the innovation of foodservice and snack cheese products to seize the growth opportunities in the cheese market.

In order to achieve the vision of "Creating a new Mengniu by 2025", Mengniu will strengthen the development of core capabilities, including branding enhancement, continuous development of R&D innovation capabilities, further improvement in channel expansion and penetration, on-going digital transformation, strengthening of milk source management and improvement in post-investment integration management, and will also enhance its organizational security capabilities.

Looking forward, Mengniu will continue to walk the path of quality development in steadfast strides, with a focus on the dairy industry and innovation. Based on its sound businesses, the Group will further strengthen new engines including fresh milk, cheese, adult milk powder and global market expansion. Mengniu will seize the huge growth potential of the sector and lead the way on upgrade and transformation, contributing to the overall growth of China's 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 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 2022.

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 2022.

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 2022, except that the trustee of the share award scheme of the Company adopted on 26 March 2013 (the "Scheme"), pursuant to the rules of the Scheme, purchased on the open market a total of 5,954,000 shares of the Company at a total consideration of approximately RMB192,167,000.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Li Michael Hankin (chairman), Mr. Yih Dieter and Mr. Ge Jun.

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 information for the six months ended 30 June 2022.

SCOPE OF WORK OF KPMG

The interim financial information for the six months ended 30 June 2022 is unaudited, but has been reviewed by KPMG, 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, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.mengniu.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, Ms. Wang Yan and Mr. Zhang Ping; the non-executive directors of the Company are Mr. Chen Lang, Mr. Wang Xi and Mr. Simon Dominic Stevens; and the independent non-executive directors of the Company are Mr. Yih Dieter (alias Yih Lai Tak, Dieter), Mr. Li Michael Hankin and Mr. Ge Jun.

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, 24 August 2022