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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS

- Mengniu was included in the “Global Dairy Top 20” list published by Rabobank for the ninth consecutive year. In 2017, for the first time, Mengniu climbed into the top 10, attaining a new height in the global dairy industry ranking.
- Mengniu has fully implemented its new business division system and the Group’s four major business divisions, namely room temperature, chilled, milk formula and ice cream products, have been established based on product categories. This has translated into greater synergies for development, better resources utilization, and higher operational and management efficiency, as well as enhanced product quality.
- Mengniu focuses on its dominant brands, strengthens brand communication and product innovation, as well as sales execution. While strengthening traditional channels, it also vigorously develops digital marketing and new retail channels, so as to enhance sales and profitability in multiple dimensions.
- Mengniu’s liquid milk maintained its market leadership, while the overall sales of room temperature dairy products have been favorable, and chilled dairy products achieved a steady increase in market share, strengthening its top position nationwide based on market share.
- Mengniu continued its upstream resources deployment by increasing its stake in China Modern Dairy Holdings Ltd. (“China Modern Dairy”; stock code: 1117) to ensure stable supply of high quality raw milk sources. At the same time, it has actively expanded its raw milk sources overseas to enhance its international milk sources deployment.
- Mengniu is moving towards a new milestone in international brand building. It is cooperating with world famous brands like Shanghai Disney Resort in its promotion efforts; becoming the official dairy products partner of Universal Beijing Resort; sponsoring international events such as NBA matches, Boao Forum for Asia and BRICS Summit; and at the end of 2017, becoming the Official 2018 FIFA World Cup™ Sponsor.

* 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 results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the year ended 31 December 2017, together with the comparative amounts.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	4	60,155,622	53,779,339
Cost of sales		<u>(38,972,927)</u>	<u>(36,143,937)</u>
GROSS PROFIT		21,182,695	17,635,402
Other income and gains	4	338,179	701,784
Selling and distribution expenses		(14,868,755)	(13,435,206)
Administrative expenses		(2,497,212)	(2,471,365)
Other expenses	5	(1,182,498)	(2,850,668)
Interest income		584,011	477,844
Finance costs	7	(399,872)	(293,700)
Share of losses of associates		(531,587)	(225,477)
PROFIT/(LOSS) BEFORE TAX	6	2,624,961	(461,386)
Income tax expense	8	(594,283)	(351,379)
PROFIT/(LOSS) FOR THE YEAR		<u>2,030,678</u>	<u>(812,765)</u>
Attributable to:			
Owners of the Company		2,047,839	(751,155)
Non-controlling interests		(17,161)	(61,610)
		<u>2,030,678</u>	<u>(812,765)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY			
(EXPRESSED IN RMB PER SHARE)	10		
Basic			
– For profit/(loss) for the year		<u>0.526</u>	<u>(0.193)</u>
Diluted			
– For profit/(loss) for the year		<u>0.526</u>	<u>(0.193)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2017*

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
PROFIT/(LOSS) FOR THE YEAR	2,030,678	(812,765)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	194,835	(128,597)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	30,617	–
Share of other comprehensive income of associates	3,617	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	229,069	(128,597)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(270,160)	94,371
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	(270,160)	94,371
OTHER COMPREHENSIVE LOSS, NET OF TAX	(41,091)	(34,226)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	1,989,587	(846,991)
Attributable to:		
Owners of the Company	2,023,028	(823,053)
Non-controlling interests	(33,441)	(23,938)
	1,989,587	(846,991)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		12,715,454	12,698,374
Construction in progress		1,363,399	1,271,844
Investment properties		59,333	67,486
Land use rights		1,055,968	983,794
Goodwill		4,532,899	4,527,518
Other intangible assets		2,193,901	2,086,247
Investments in associates		7,194,010	4,132,099
Deferred tax assets		665,364	529,123
Biological assets		646,143	479,386
Derivative financial instruments		54,602	–
Other financial assets		1,585,183	2,495,681
Long term prepayments		54,769	15,566
		<hr/>	<hr/>
Total non-current assets		32,121,025	29,287,118
CURRENT ASSETS			
Other financial assets		10,690,539	4,195,737
Derivative financial instruments		5,584	36,501
Inventories		3,510,268	3,314,282
Trade and bills receivables	<i>11</i>	2,646,834	2,340,099
Prepayments, deposits and other receivables		2,541,423	2,704,611
Pledged deposits		466,265	960,863
Cash and bank balances		5,958,877	6,070,078
		<hr/>	<hr/>
		25,819,790	19,622,171
Assets of a disposal group classified as held for sale		197,916	215,138
		<hr/>	<hr/>
Total current assets		26,017,706	19,837,309

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 31 December 2017

	<i>Note</i>	2017 RMB'000	2016 <i>RMB'000</i>
CURRENT LIABILITIES			
Trade and bills payables	12	6,342,273	5,405,620
Other payables and accruals		7,324,223	6,510,886
Interest-bearing bank and other borrowings		7,935,027	3,045,417
Other loans		22,912	52,559
Derivative financial instruments		1,222	–
Deferred income		160,279	135,093
Income tax payable		231,899	145,242
Other financial liabilities		545,594	–
		22,563,429	15,294,817
Liabilities directly associated with the assets classified as held for sale		2,864	7,852
Total current liabilities		22,566,293	15,302,669
NET CURRENT ASSETS		3,451,413	4,534,640
TOTAL ASSETS LESS CURRENT LIABILITIES		35,572,438	33,821,758
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		6,015,097	5,542,163
Long term payables		10,894	36,914
Deferred income		739,459	533,385
Deferred tax liabilities		70,028	62,190
Other financial liabilities		1,629,837	2,143,378
Total non-current liabilities		8,465,315	8,318,030
NET ASSETS		27,107,123	25,503,728
EQUITY			
Equity attributable to owners of the Company			
Share capital		357,572	357,374
Treasury shares held under share award scheme		(262,929)	(354,409)
Other reserves		12,716,143	12,940,822
Retained earnings		9,793,487	7,901,126
		22,604,273	20,844,913
Non-controlling interests		4,502,850	4,658,815
TOTAL EQUITY		27,107,123	25,503,728

Notes:

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office of the Company is located at P.O. Box 309, Uglund House, Grand Cayman KY1-1104, Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for share options, certain financial assets, derivative financial instruments and certain other borrowings which have been measured at fair value. Certain biological assets and agricultural produce upon harvest are measured at fair value less costs to sell. Disposal groups classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements to IFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12</i>

The nature and the impact of the amendments are described below:

- (a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in the financial statements.
- (b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The Group has adopted the amendments retrospectively. The Group disclosed the required information about certain assets of Scient (China) Baby Nourishment Co., Ltd. ("Scient China"), a 51.01% indirectly owned subsidiary, that were classified as held for sale as at 31 December 2017.

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 beverages and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream;
- Milk powder products segment – manufacture and distribution of milk powder; and
- Others segment – principally the Group’s cheese, plant-based nutrition products and trading business.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource 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, finance costs, share of 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.

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	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:					
Sales to external customers	53,014,983	2,513,086	4,042,063	585,490	60,155,622
Intersegment sales	<u>711,788</u>	<u>116,218</u>	<u>–</u>	<u>304,507</u>	<u>1,132,513</u>
	53,726,771	2,629,304	4,042,063	889,997	61,288,135
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(1,132,513)</u>
Revenue					<u>60,155,622</u>
Segment results	3,753,841	(210,645)	(262,572)	(93,885)	3,186,739
<i>Reconciliation:</i>					
Interest income					584,011
Finance costs					(399,872)
Share of losses of associates					(531,587)
Corporate and other unallocated expenses					<u>(214,330)</u>
Profit before tax					2,624,961
Income tax expense					<u>(594,283)</u>
Profit for the year					<u>2,030,678</u>
Segment assets	35,685,811	2,056,731	12,944,969	663,834	51,351,345
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(11,223,810)
Corporate and other unallocated assets					17,813,280
Assets related to a disposal group					<u>197,916</u>
Total assets					<u>58,138,731</u>
Segment liabilities	17,946,490	2,206,829	3,206,490	1,031,113	24,390,922
<i>Reconciliation:</i>					
Elimination of intersegment payables					(11,223,810)
Corporate and other unallocated liabilities					17,861,632
Liabilities related to a disposal group					<u>2,864</u>
Total liabilities					<u>31,031,608</u>

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017

	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>
Other segment information:					
Depreciation and amortisation	1,206,571	141,799	236,196	38,474	1,623,040
Unallocated amounts					<u>80,810</u>
Total depreciation and amortisation					<u>1,703,850</u>
Capital expenditure	1,975,594	231,965	182,400	20,363	2,410,322
Unallocated amounts					<u>4,240,527</u>
Total capital expenditure*					<u>6,650,849</u>
Impairment losses recognised in the consolidated statement of profit or loss	68,616	4,299	104,719	1,808	179,442
Impairment losses reversed in the consolidated statement of profit or loss	<u>(1,364)</u>	<u>(888)</u>	<u>(807)</u>	<u>(20)</u>	<u>(3,079)</u>
Impairment losses recognised/ (reversed) in the consolidated statement of profit or loss	<u>67,252</u>	<u>3,411</u>	<u>103,912</u>	<u>1,788</u>	<u>176,363</u>
Unallocated amounts relating to share option scheme and share award scheme					<u>56,126</u>
Total non-cash expenses relating to share option scheme and share award scheme					<u>56,126</u>

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	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:					
Sales to external customers	48,102,872	2,179,940	3,150,895	345,632	53,779,339
Intersegment sales	<u>536,786</u>	<u>128,143</u>	<u>–</u>	<u>274,220</u>	<u>939,149</u>
	48,639,658	2,308,083	3,150,895	619,852	54,718,488
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(939,149)</u>
Revenue					<u>53,779,339</u>
Segment results	2,708,266	(258,975)	(2,724,266)	(132,689)	(407,664)
<i>Reconciliation:</i>					
Interest income					477,844
Finance costs					(293,700)
Share of losses of associates					(225,477)
Corporate and other unallocated expenses					<u>(12,389)</u>
Loss before tax					(461,386)
Income tax expense					<u>(351,379)</u>
Loss for the year					<u>(812,765)</u>
Segment assets	28,933,430	2,309,669	12,829,812	632,420	44,705,331
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(8,691,755)
Corporate and other unallocated assets					12,895,713
Assets related to a disposal group					<u>215,138</u>
Total assets					<u>49,124,427</u>
Segment liabilities	14,579,687	2,183,081	3,010,372	903,729	20,676,869
<i>Reconciliation:</i>					
Elimination of intersegment payables					(8,691,755)
Corporate and other unallocated liabilities					11,627,733
Liabilities related to a disposal group					<u>7,852</u>
Total liabilities					<u>23,620,699</u>

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	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>
Other segment information:					
Depreciation and amortisation	1,178,533	130,095	195,193	34,671	1,538,492
Unallocated amounts					<u>63,032</u>
Total depreciation and amortisation					<u>1,601,524</u>
Capital expenditure	2,422,710	304,224	1,453,539	4,352	4,184,825
Unallocated amounts					<u>167,663</u>
Total capital expenditure*					<u>4,352,488</u>
Impairment losses recognised in the consolidated statement of profit or loss	102,113	5,801	2,338,850	2,129	2,448,893
Impairment losses reversed in the consolidated statement of profit or loss	<u>(14,125)</u>	<u>(6,210)</u>	<u>(216)</u>	<u>(189)</u>	<u>(20,740)</u>
Impairment losses recognised/ (reversed) in the consolidated statement of profit or loss	<u>87,988</u>	<u>(409)</u>	<u>2,338,634</u>	<u>1,940</u>	<u>2,428,153</u>
Unallocated amounts relating to share option scheme and share award scheme					<u>40,939</u>
Total non-cash expenses relating to share option scheme and share award scheme					<u>40,939</u>

* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, intangible assets, land use rights, biological assets, equity interests in subsidiaries, associates and other equity investments.

Geographical information

a. Revenue from external customers

Over 90% of the revenue is contributed by customers in Mainland China.

b. Non-current assets

Over 90% of the Group's non-current assets are located in Mainland China.

Information about major customers

There was no sales to a single customer which amounted for 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains is as follows:

	2017	2016
	RMB'000	RMB'000
Revenue:		
Sale of goods	60,155,622	53,779,339
Other income and gains:		
Government grants related to		
– Recognition of deferred income	85,354	37,494
– Income and biological assets (<i>note a</i>)	100,262	183,308
Gain on disposal of a disposal group classified as held for sale	–	29,127
Promotion service income (<i>note b</i>)	17,000	134,090
Gross rental income	36,693	47,468
Foreign exchange gains, net	–	134,235
Net fair value gain on forward currency contracts	1,483	–
Net fair value gain on exchangeable bonds	2,363	–
Net fair value gain on a convertible promissory note	3,711	–
Others	91,313	136,062
	338,179	701,784
	60,493,801	54,481,123

Notes:

- (a) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy industry. There are no unfulfilled conditions or contingencies attaching to these grants.
- (b) This represented promotion service income from Danone and Arla Foods Amba during the year.

5. OTHER EXPENSES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Donations	20,555	13,209
Fair value change of biological assets	63,099	25,696
Loss on disposal of items of property, plant and equipment	28,280	20,634
Impairment of goodwill	–	2,253,794
Provision for construction in progress	256	1,712
Provision for property, plant and equipment	7,216	–
Write-down of inventories to net realisable value	84,998	129,857
Provision for trade receivables and other receivables	86,972	63,530
Write-back of provision for trade receivables and other receivables	(3,079)	(20,740)
Educational surcharges, city construction tax, and other taxes	439,472	235,761
Foreign exchange losses, net	202,347	–
Net fair value loss on forward currency contracts	–	2,371
Loss on disposal of a subsidiary	11,698	–
Loss on disposal of partial interests in an associate	18,204	–
Loss on deemed disposal of partial interests in associates (<i>note a</i>)	125,439	–
Others	97,041	124,844
	<u>1,182,498</u>	<u>2,850,668</u>

Note:

- (a) On 6 January 2017, due to the execution of the share award scheme of Inner Mongolia Fuyuan International Industrial Co., Ltd. (“Fuyuan”), the Group’s shareholding in Fuyuan was diluted from 43.35% to 42.30%, resulting in a loss of RMB21,320,000 recognised in profit or loss.

On 25 January 2017, China Modern Dairy, an associate of the Group, acquired an additional 45% equity interest in a subsidiary at the consideration of 338,602,205 shares in China Modern Dairy issued to the sellers. The acquisition diluted the Group’s shareholding in China Modern Dairy from 25.41% to 23.88%, resulting in a loss of RMB53,381,000 recognised in profit or loss.

On 6 February 2017, pursuant to the exercise of the investor option granted to its investor, China Modern Dairy issued 488,036,618 consideration shares and paid a cash consideration of US\$13,424,231 to the then investor. The transaction diluted the Group’s shareholding in China Modern Dairy from 23.88% to 21.98%, resulting in a loss of RMB50,738,000 recognised in profit or loss.

6. PROFIT/(LOSS) BEFORE TAX

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of inventories sold	38,950,047	36,157,504
Realised and unrealised fair value loss/(gains) of commodity futures contracts, net	<u>22,880</u>	<u>(13,567)</u>
Cost of sales	<u>38,972,927</u>	<u>36,143,937</u>
Employee benefit expense (including directors' and chief executive's remuneration)		
– Wages, salaries, housing benefits and other allowances	4,662,362	4,051,872
– Retirement benefit contributions	415,296	386,663
– Share option scheme expense	12,582	–
– Share award scheme expense	<u>43,544</u>	<u>40,939</u>
	<u>5,133,784</u>	<u>4,479,474</u>
Depreciation of items of property, plant and equipment	1,622,015	1,536,404
Depreciation of investment properties	2,447	2,457
Amortisation of land use rights	24,536	24,760
Amortisation of other intangible assets	54,852	37,903
Research and development costs – current year expenditure	133,379	108,141
Outsourcing expense (<i>note a</i>)	216,987	256,752
Minimum lease payments under operating leases	247,617	230,752
Display space leasing fees	1,486,753	949,638
Auditor's remuneration (<i>note b</i>)	<u>9,400</u>	<u>7,695</u>

Notes:

- (a) For the purpose of promoting operation efficiency, the Group outsourced the production of certain products. The amounts represent the total amount paid by the Group for purchasing outsourcing services.
- (b) In addition to the above fees paid or payable to the auditors, Yashili International Holdings Ltd, a subsidiary of the Company listed on the Main Board of the Stock Exchange of Hong Kong Limited, had an amount of RMB2,726,000 (2016: RMB3,190,000) paid/payable as auditors' remuneration during the year.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank loans	245,002	186,731
Interest on US\$500,000,000 3.50% bonds due 2018	126,146	125,914
Interest on long term payables	3,994	6,744
Increase in discounted amounts of contingent considerations arising from the passage of time	–	549
Net fair value gain on interest rate forward contracts	(907)	(26,238)
Bonds issuance cost and others	25,637	–
	<u>399,872</u>	<u>293,700</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% (2016: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<i>Current income tax</i>		
Current charge for the year	713,385	515,010
Adjustments recognised in the year for current tax of prior years	10,993	28,200
<i>Deferred income tax</i>	<u>(130,095)</u>	<u>(191,831)</u>
	<u>594,283</u>	<u>351,379</u>

A reconciliation of the income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate for the year is as follows:

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit/(loss) before tax		<u>2,624,961</u>	<u>(461,386)</u>
At CIT rate of 25% (2016: 25%)		656,240	(115,347)
Non-deductible items and others, net	(a)	5,774	553,309
Adjustment recognised in the year for current tax of prior years		10,993	28,200
Effect of lower tax rates	(b)	(271,164)	(132,385)
Effect of tax exemptions	(b)	(181,050)	(191,709)
Losses attributable to associates		132,897	56,369
Tax losses utilised from previous periods		(22,612)	(83,056)
Tax losses not recognised		<u>263,205</u>	<u>235,998</u>
At the effective income tax rate of 22.64% (2016: (76.16%))		<u>594,283</u>	<u>351,379</u>

8. INCOME TAX EXPENSE *(continued)*

Notes:

- (a) Included in the non-deductible items was an item relating to the impairment provision of goodwill related to the milk powder products CGU Group amounting to RMB563,449,000 in 2016.
- (b) Thirteen (2016: Thirteen) subsidiaries were granted lower tax rates by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and “The notice of tax policies relating to the implementation of the western China development strategy.”

Twenty-eight (2016: twenty-eight) subsidiaries were granted tax exemptions in accordance with the policy of “The notice of preferential tax policy for preliminary processing of agriculture products”.

The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB2,957,934,000 (2016: RMB1,635,273,000) in aggregate.

- (c) The share of tax attributable to associates amounting to approximately RMB12,475,000 (2016: RMB7,491,000) is included in the share of losses of associates on the face of the consolidated statement of profit or loss.

9. DIVIDENDS

	<i>Notes</i>	2017 RMB'000	2016 <i>RMB'000</i>
<i>Declared and paid during the year</i>			
Equity dividends on ordinary shares		<u>344,816</u>	<u>552,697</u>
<i>Proposed for approval at the AGM</i>			
Equity dividends on ordinary shares:			
Proposed final – RMB0.12 (2016: RMB0.089) per ordinary share	<i>(a)/(b)</i>	<u>471,283</u>	<u>349,327</u>

Notes:

- (a) The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming Annual General Meeting (the “AGM”).
- (b) This dividend was not recognised as a liability in the consolidated financial statements for the year ended 31 December 2017 but will be reflected as an appropriation of share premium account for the year ending 31 December 2018.

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings/(loss) per share

The basic earnings/(loss) per share for the year is calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

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

	2017	2016
	Number of	Number of
	shares	shares
	'000	'000
Issued ordinary shares at 1 January	3,925,027	3,923,977
Effect of shares repurchase and cancellation	–	(5,052)
Effect of share options exercised	1,033	2,550
Effect of shares purchased under share award scheme	(30,994)	(35,300)
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the basic earnings/(loss) per share calculation	<u>3,895,066</u>	<u>3,886,175</u>

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year, as used in the basic earnings/(loss) 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.

For the year ended 31 December 2017, the reconciliation of the weighted average number of shares used in calculating the diluted earnings per share amount is as follows:

	2017
	Number of
	shares
	'000
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,895,066
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	<hr/> 297
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<hr/> <u>3,895,363</u>

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2016 in respect of a dilution because the impact of the share options and shares under share award scheme outstanding had an anti-dilutive effect on the basic loss per share amount presented.

11. TRADE AND BILLS RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Bills receivable	61,897	212,780
Trade receivables	2,705,969	2,198,968
Impairment	(121,032)	(71,649)
	<u>2,646,834</u>	<u>2,340,099</u>

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 aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	2,439,605	2,041,533
4 to 6 months	125,377	224,670
7 to 12 months	78,150	63,584
Over 1 year	3,702	10,312
	<u>2,646,834</u>	<u>2,340,099</u>

12. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables of the Group, based on the invoice date, is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 3 months	5,569,969	4,733,321
4 to 6 months	633,662	638,773
7 to 12 months	116,853	23,768
Over 1 year	21,789	9,758
	<u>6,342,273</u>	<u>5,405,620</u>

13. EVENTS AFTER THE REPORTING PERIOD

On 22 December 2017, Scient China, Guangzhou Development District Land Development and Reserve Exchange ("GDD") and its agents entered into an expropriation and compensation agreement pursuant to which certain properties of Scient China will be expropriated by GDD for a compensation amount of RMB253,000,000. The transaction was completed in January 2018.

On 22 January 2018, the Group and Modern Farming (Group) Co., Ltd. ("Modern Farming"), a non-wholly owned subsidiary of China Modern Dairy, entered into a share transfer agreement, pursuant to which the Group agreed to purchase 50% of the equity interests in Modern Dairy (Bengbu) Co., Ltd. and Modern Dairy (Feidong) Co., Ltd., two wholly-owned subsidiaries of Modern Farming, for an aggregate cash consideration of RMB56,040,000. Modern Dairy (Bengbu) Co., Ltd. and Modern Dairy (Feidong) Co., Ltd. are engaged in the production and distribution of milk products. Upon completion, the two companies will become subsidiaries of the Group. As at the reporting date, the purchase price allocation appraisal of this acquisition is not completed.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2017, China, as the world's second largest economy, developed steadily in positive strides with GDP growing at 6.9%. The rebound of domestic consumer confidence index and the increase in the country's per capita disposable income pushed up consumption demand and in turn drove the upgrade of consumption structure, all developments conducive to the growth of the country's dairy industry.

Phenomena including emergence of the middle class, the growing population of new-generation consumers and the aging population have seen more consumers earnest in pursuing healthy and green lifestyle, and choosing premium, healthy and fresh products. As a result, product offerings in the market have become more diversified. During the year, fast-moving consumer goods industry maintained steady growth with the focus of competition shifting from pricing to product innovation and channel transformation, bringing to the foreground the importance of having corporate brand advantage. As for the dairy product industry, it has been recovering at a faster pace against the backdrop of stable supply and pricing of raw milk. Measures such as product upgrade and innovation and introducing differentiated premium dairy products have become the main boosters of sustainable profitability improvement for dairy enterprises.

In spite of growing demand, product quality remains crucial in helping China's dairy industry enhance competitiveness. During the year, the state continued to strengthen monitoring of food safety and endeavored to improve the quality of dairy products. The Ministry of Agriculture has vowed to invigorate the country's dairy product industry and for that has drawn up plans for "Five Major Actions", aiming to speed up modernization of the industry and enhance the quality of the entire industry chain, thereby ensuring sustainable development of the industry. In 2017, among the major food product types sampled by the national regulatory authorities, the passing rates of dairy products and infant milk formula are as high as 99.2% and 99.5% respectively, which is proof of China's dairy products leading the food industry and having made a sustainable improvement in quality, helping to boost the confidence of consumers in domestic dairy products.

Looking forward, with dairy product consumption still in the stage of steady growth in China, the dairy product industry is expected to maintain relatively fast growth in the next 5 to 10 years at the push of product innovation and capacity upgrade. Room temperature product business will trend up steadily, while the business of chilled products will maintain rapid growth, with new product segments such as fresh milk and cheese expected to stand out. As for milk powder business, with the two-child policy starting to bear result and the national infant milk formula registration system to take effect in 2018, which will raise the industry barrier, hasten the consolidation of the industry and optimize the industry structure, the milk powder industry is expected to develop healthily in the long run. In the changing market and with consumers becoming more sophisticated in taste, leading dairy product enterprises with good reputation, outstanding quality, strong innovative capability, and channels that reach wide and deep will be well-poised to reinforce their leadership in the consolidating industry.

As China assumes growing importance on the international stage, her dairy industry is also advancing in strides on the path of internationalization. Dairy product enterprises have been aligning production with international standards, perking up production techniques and research capability and improving overall product quality, and actively pushing to “go global” by expanding their overseas markets and building a global supply chain to help them achieve stronger brand recognition and reputation internationally.

BUSINESS REVIEW

In 2017, Mengniu introduced a new business division system, achieving integrated management of production, supply and sales, manpower, finance and assets as well as accountability, power and incentives. After implementation of the new organizational structure, four major business divisions, namely room temperature, chilled, milk formula and ice cream products, have been established based on product categories, resulting in greater synergies for development, better resources utilization, and operational and management efficiency, as well as enhanced product quality.

To keep up with the domestic consumption upgrade and diversification of consumption behavior, Mengniu has kept focusing effort on product research, development and innovation, with providing premium and ever more nutritious and healthier products as the purpose of product upgrade. Mengniu has set its sight on capturing market share in mid-range and high-end markets by using its proprietary technology and quality milk sources efficiently to develop products for these markets. To fortify the dominance of Mengniu’s star brands and products, the Group has not only introduced many new products under its star brands, but has also strived for continuous technological breakthroughs aiming to best and quickly “lock up freshness”. Adopting Quick Response (QR) code technology, Mengniu has made it possible for consumers to trace the milk sources and manufacturing process, letting them know that the products are fresh, healthy, high-quality and safe to enjoy.

Using digital technology and Big Data in management, the Group has built itself into a smart dairy enterprise by adopting a management and tracing system that covers the entire industrial chain, enabling it to realize continuous innovation in product quality management and marketing methods. During the year, the Group set up the e-commerce division to start deploying its new retail model, optimizing sales channels and nurturing new growth drivers. Mengniu also beefed up marketing efforts, enhancing flexibility and employing diverse marketing means. By making use of platforms such as social media and synchronizing online and offline efforts, it was able to infuse its brand proposition into marketing processes, thus achieving optimal communication effect.

During the year, Mengniu’s liquid milk maintained its market leadership, while the overall sales of room temperature product business continued to improve. *Milk Deluxe* achieved double digit growth in sales and scaled a new height. Star products such as *Just Yoghurt* and *Fruit Milk Drink* reported high growth in sales and sales of chilled products were growing significantly faster than the entire industry. With market shares climbing steadily, the Group has strengthened its top position in the nationwide chilled fresh dairy product market. Milk formula business gradually made adjustments on channel deployment, product structure and branding, which laid a solid foundation for it to compete in a market skewing towards high-end and differentiated products. To date, Yashili has completed registration of 39 formulas in 13 series and *Junlebao* has completed registration of 18 formulas in 6 series to prepare for seizing business opportunities arising in the gradually recovering milk formula market. For ice cream business, upgrade efforts were made on multi dimensions including branding, product, packaging and marketing communication. 42 new products were launched to market and achieved satisfactory sales growth.

The brand influence of Mengniu also made new heights. Not only was it included on the “Global Dairy Top 20” list published by Rabobank in 2017 for the ninth consecutive year, but it also earned a spot among the top 10 for the first time, a record for Mengniu in global ranking of dairy companies. During the same period, Mengniu was again named by Interbrand as one of the Best China Brands in 2017 and also made it among the top 20 in the BrandZ™ list of the most valuable Chinese brands for three years in a row. In the “2017 China Brand Power Index (C-BPI)” published by the Ministry of Industry and Information Technology of the PRC, Mengniu’s yogurt products and *Yoyi C* made the top C-BPI rankings in the yogurt and probiotics drinks industries respectively, whereas its yogurt products retained the top position for seven years in a row and was crowned the “Golden Brand” title.

The Group was relentless in building “Mengniu” into a reputed international dairy product brand during the year via cooperating with world famous brands in promotion and sponsoring international events. Apart from being the official partner of NBA in China, the sole official dairy products provider of the Boao Forum for Asia, the official dairy products partner of the Shanghai Disney Resort, the exclusive dairy and ice cream provider of the Universal Beijing Resort and the “Strategic Partner of China’s Aerospace Program”, Mengniu products were also chosen as the official products for the meeting of BRICS leaders in Xiamen during the BRICS Summit in 2017. In the year end, Mengniu has become an Official 2018 FIFA World Cup™ Sponsor. Mengniu is not just the first dairy brand among the global official sponsors of FIFA, but also the first Chinese food and beverage brand to be a global official sponsor of the World Cup, taking Mengniu towards a new milestone in international brand building.

To realize a more integrated up- and down-stream cooperating system and unleash greater synergies, in 2017, Mengniu acquired additional shares in China Modern Dairy through a series of transactions, increasing its shareholdings in China Modern Dairy to approximately 60.77%. China Modern Dairy is the largest dairy farming company in China and also the first in the industry to obtain the national High-quality Milk Project accreditation for its UHT milk and pasteurized milk. After increasing its shareholdings in China Modern Dairy, the Group has been continuously enhancing its synergy with China Modern Dairy for its upstream and downstream businesses. On the upstream, Mengniu has made better use of the quality milk supply and nationwide ranch resources of China Modern Dairy, thereby securing stable supply of raw milk to support the development of low temperature yogurt business and business deployment of low temperature fresh milk. As for downstream business, in July 2017, the Group, applying its professional brand operation experience, launched together with China Modern Dairy the crossover brand *Xianyu* room temperature pure milk, with “freshness” and “vitality” as its appeals. On the manufacturing and operation front, the Group signed an agreement to acquire 50% equity interests in two dairy plants of China Modern Dairy in January 2018, such that China Modern Dairy will focus on rearing of milk cattle and supplying raw milk, whereas Mengniu will integrate the production capacities of the factories and use its well-established sales channels to drive sales of brand products.

Business Division Performance

Room Temperature Product Business

The Group continued to boost the room temperature product business through product upgrade and innovation, launching more high-end, diversified and healthy products that match the trend of consumption upgrade. Leveraging increased branding and marketing efforts, overall sales of room temperature product business continued to improve. Of which, *Milk Deluxe*, the hottest milk product in China, recorded double-digit growth with a sales amount of over RMB10 billion during the year. Room temperature yogurt *Just Yoghurt* and fruit dairy drink *Fruit Milk Drink* also reported satisfactory growth.

As for UTH milk, *Milk Deluxe* has speeded up deployment for moving high-end and delivering personalized consumption experience. It has launched the super high-end *M-PLUS High Protein Milk*, the first milk product tailored for sports enthusiasts in China, and *Milk Supreme*, a gift-grade super high-end milk product. To meet consumers’ growing demand for fresh products and tapping the raw milk resources of China Modern Dairy, Mengniu joint hands with China Modern Dairy to introduce *Xianyu Pure Milk*, using the production technique that can complete the processes “from milking to processing in two hours” to retain bioactive substances, thus the freshness of and nutrients in the milk, and as such has opened the room temperature fresh milk niche between the room temperature milk and fresh milk markets. With respect to dairy beverages, heeding consumption psychology and the topics of interest of the new-generation consumers, and engaging the celebrity Li Yifeng as the product ambassador, Mengniu launched the blueberry flavor *Fruit Milk Drink* which recorded outstanding sales growth. As for *Just Yoghurt*, brand promotion was carried out via the strong alliance with the Hollywood hit “Transformers: The Last Knight” and bundling with “Go Fighting! Season 3”, with Zhang Yixing endorsing the product. These successful brand promotion activities have contributed to the record breaking sales.

Chilled Product Business

During the year, the chilled product division of Mengniu strived to maximize organizational and management efficiency. With “Refining Product Mix Deployment and Striving for Product Innovation and Leadership” as its core mission, the division adjusted the structure of its marketing department and optimized its brand management system, thereby achieving highly efficient and synergistic manufacturing, cost saving and improved cost effectiveness of marketing spending. It also tightened cooperation on chilled product business with Danone S.A., the second largest strategic shareholder of Mengniu, and its subsidiaries (collectively referred to as “Danone Group”). Drawing on Danone Group’s world-class chilled product research and development technology, it actively pursued regional product research and development and launched several new chilled products which gave sales a strong push to grow. In addition, on top of making all-out effort to expand modern trade channels, increase the number of sales points and increase its market penetration, the business division also strived to develop such emerging channels as e-commerce platforms and catering channel to create new sales growth drivers. The above measures helped Mengniu’s chilled products maintain industry leadership and achieved a steadily increased market share in 2017.

In 2017, the chilled business division of Mengniu embarked on product research and development and production technology upgrades to align with practices of Danone Group, building together world-leading production facilities. The division launched six new product series during the year supported by comprehensive value marketing. For instance, in April 2017, Mengniu used for the first time the exclusive patented Ystral smoothening technique from Danone Group, combined with patented bacteria from the US and the raw milk from quality ranches in China to introduce super high-end *Milk Deluxe Yogurt* of plain and durian flavors. *Yoyi C* also launched the functional product *LC-37*, a new probiotics product made using powerful concentration technology with authorized use of exclusive bacteria and is an innovative product revolutionizing probiotics product offerings. Under *LC-37*, an upgraded low-sugar enzyme-rich product was also launched to meet consumers’ growing demand for healthier product choices. For *Champion*, active product structure upgrade was carried out and the new *BB12* product series namely *Jianzihao*, *Mailaoru* and *Xianlaoru* were introduced to strengthen the brand’s “professional and functional” positioning in the yogurt market. To continue to enhance the competitiveness of basic chilled products, their packaging and taste were also upgraded.

Milk Formula Business

As for the milk formula business, Yashili International Holdings Ltd (“Yashili”, stock code: 1230), in which the Group held approximately 51% shares, has completed the registration of 13 product series and 39 formulas to date in response to the implementation of China’s milk formula registration system. Yashili had the highest number of registered formulas in the first batch list announced, which has clearly demonstrated its professional strength to the industry and consumers alike. The Group’s another milk formula brand, *Junlebao*, has also completed registrations of 18 formulas in 6 product series as of now.

During the year, Yashili gradually rolled out its differentiated business model and brand deployment, with *Yashily* and *Dumex* focusing on provision of basic nutritional cow’s milk formula; *Arla* and *Reeborne* focused on comprehensive penetration of the organic market; and *Doraler’s* goat milk formula was introduced to develop the goat milk formula market. Yashili positioned *Yashily* and *Dumex* as medium to high-end brands, *Reeborne* and *Doraler* as high-end brands, and *Arla Baby & Me* as super high-end brand. Through a more delicate brand matrix, Yashili achieved full coverage of different tiers of the market. Yashili made strategic plan and spent its brand promotion costs effectively by reaching its target customers with Big Data. Yashili put strong emphasis on digital marketing, closer communication with consumers and their mouth of words and offline activities, aiming at approaching mothers to achieve cost effectiveness, thus realizing the dual targets of brand growth and corporate profits.

Yashili has made all-out effort in channel transformation and business innovation and the corporate structure has transformed into the channel-oriented and brand-oriented core business unit (“CBU”) structure, including “Mother-and-baby CBU”, “High-end mother-and-baby CBU”, “Modern Trade CBU” and “Innovation CBU”. Hence, the proportion of mother-and-baby channel is further increased and the growth of e-commerce business is stimulated. During the year, “Mother-and-baby CBU” has accelerated the exploration of mother-and-baby chain stores through partnership and pushing a money based incentive mechanism; “High-end Mother-and-baby CBU” has stabilized sales volume through controlling modern trade channel fees and strengthening the expansion of mother-and-baby store chain channels; “Modern Trade CBU” has reduced losses by KAs through the partial transformation by expediting direct supply to mother-and-baby stores; “Innovation CBU” has developed the online business layout in full based on its existing e-commerce, while pushing forward community marketing and consolidating internal marketing resources.

Ice Cream Business

In 2017, the ice cream business division adhered to its high-end and product diversification strategy. With a deep understanding of market trends, it targeted young consumers and appealed to them via online promotions, and also mounted large-scale marketing activities to widen coverage of different consumer groups, resulting in notably enhanced brand influence. With traditional channels as the main focus, Mengniu increased the number of sales points. Its dedicated team also worked hard to rally more key accounts (KAs), expand catering channels, operate trial image stores and expand e-commerce business to boost the sales of ice-cream products. Moreover, effort was made on improving management of freezers so as to lift utilization efficiency. All such efforts together contributed to the satisfactory year-on-year sales growth of the business.

During the year, Mengniu introduced 42 new ice cream products and pursued upgrade on multiple dimensions including branding, product, packaging and marketing communications. Under the *Suibian* brand, the *SuiXinGuo* product series recorded outstanding results in 2017. With innovative products tailored to meet the demand of today's consumers and the support of marketing content that consumers like, *SuiXinGuo's* annual sales surpassed the RMB100 million mark. Among all the new ice cream products, the *Russian Milk Ice Cream* won the most acclaims among consumers for its mouth feel and was the best-selling product during the year. The high-end ice cream brand *Deluxe* displayed its brand-new packaging at the Shanghai Disney Resort and also sponsored the BRICS country leaders' meeting during the BRICS summit in Xiamen in 2017, striving to become a globally renowned high-end ice cream brand.

Other Products

Mengniu has set up a joint venture with WhiteWave Foods Company ("WhiteWave") to engage in plant-based nutrition product business. The two parties hold 51% and 49% interests in the joint venture respectively. In April 2017, Danone Group, one of the strategic shareholders of Mengniu, announced the completion of acquisition of WhiteWave, meaning Mengniu's plant protein beverage business will access to more supportive resources. With plant-based nutrition products gaining prominence as a food and beverage category in the global market, the Group can strengthen its long-term competitiveness by upgrading its plant-based protein drinks business to complement the animal protein drinks business.

During the year, after adjusting and optimizing its product positioning, the plant-based protein beverage business under the *ZhiPuMoFang* brand ventured into the soy milk market. Emphasizing fresh grinding of soybean and capitalizing on the 8 seconds VTIS freshness preservation technology plus quality US brand assurance, the brand introduced *Silk Americano Soymilk*, featuring the original taste soy milk and almond flavor soy milk. Leveraging the channel resources of Mengniu's room temperature products and focusing on regional markets, the business was able to reap enhanced synergies with Mengniu's core business.

Quality Management

Adhering to the principle of delivering the highest quality products with meticulous attention to detail, Mengniu has strived to provide products of “aeronautic quality” to give consumers the perfect product experience. 2017 was the first year Mengniu implemented the new business division system, and accordingly the quality accountability system by business division followed suit, resulting in improvement of core quality indicators from end-to-end of its industrial chain against those of last year. During the year, Mengniu continued to upgrade its quality management system in compliance with the country’s “Food Safety Law” and advanced international standards. It was able to meet the requirements of various standards and certifications by integrating them into the management process of the new business division system. It has launched a three-tier – “Group-Business Division-Factory” – food safety risks monitoring and prevention system, which can ensure safety of products throughout the entire industrial chain, from milk source to the market, with stringent entry barriers in place, adopting automated inspection, real-time management and control, and permitting whole-process traceability.

At group level, Mengniu provides comprehensive, intelligent and systematic quality assurance to the entire industry chain by the extensive application and highly efficient synergistic operation of Laboratory Information Management System (“LIMS”) and SAP system, with combination of its own comprehensive quality management and laboratory management systems. The integrated and collaborative operation of LIMS and SAP systems enables Mengniu to track information forward and backward at all quality control points on its industrial chain. On the basis of the LIMS and SAP information system and employing tools such as Business Intelligence (“BI”), Mengniu established the “Quality Cloud” management platform for real-time management and monitoring of key quality data at crucial points of operation in the ranches, factories and the market.

Mengniu’s milk source quality management covers risk control and management, production base upgrade and nurturing of professionals and specialists to upgrade the quality of milk and reduce food safety risk. Efforts are also made in promoting the management techniques of milk suppliers to actively respond to higher national requirements. During the year, milk suppliers of Mengniu’s various business divisions passed 100% of the tests conducted by inspection organizations on samples of raw milk. Meanwhile, Mengniu continued to promote its ranch food safety management and assessment system. On the success of cooperating with core strategic farming partners, the system was promoted to and adopted by more leading farming groups in China during the year. As at the end of 2017, Mengniu’s tailored food safety protection standard for ranches was adopted by a total of 47 ranches, helping them effectively guarantee food safety.

Mengniu continued to align the food safety standards of its factories with Danone Group’s Food Safety Item (“FSI”), focusing on high risk areas of food safety management to improve food safety management indexes. To prevent and control the risk of contamination by microorganisms in the environment, Mengniu joined hands with 3M, a leading global microorganism inspection company, and led the cold drink industry in implementing environmental microorganism inspection pinpointing procedures exposed to high contamination risks.

Under the new business division framework, the original production and manufacturing system quality center of Mengniu was divided into room temperature, chilled and ice cream products quality management departments, each with redefined duties and responsibilities to guarantee product quality and safety, which enabled the smooth transition of quality management works and improved the level of satisfaction of consumers in a comprehensive manner. During the year, the room temperature product quality management department took the lead in establishing and standardizing the tasting, examination and certification procedures of raw dairy products and put strenuous efforts in improving the drinking straws of *Just Yoghurt* to enhance consumer experience. With the help of Big Data analysis, Mengniu has laid down its requirements and established a clear risk assessment mechanism, enabling it to carry out lifecycle management and tracing of new products to lower their quality risks.

To ensure comprehensive monitoring of all processes of the student milk business operation, the Group integrates the best resources available and directs various departments to build an independent student milk control and management system with emphasis on upgrading its operational and management level. During the year, there was no safety incident in relation to student milk products.

During 2017, the chilled business division aligned with Danone FSI in 14 factories to carry out the Neptune cleansing certification, risk control on mold and listings of quality defects, dealing with three aspects regarding the incompatible equipment, food safety equipment and potential risks for food safety, in order to continuously enhance the quality control and perfection of products by meticulous manufacture of quality yogurt. During the year, management of front-end fruit products supply base and suppliers was imposed to guarantee product quality and safety from the source. Chilled and cold chain management was carried out abiding by the new “Food Safety Law” with key risks and critical control points in the operation chain identified and sorted out. At the same time, a cold chain improvement project team was set up together with the chilled product business division to create sample markets and promote establishment of the cold chain at the retail-end.

As far as the quality management of milk formula products is concerned, all products from the plants of Yashili and *Junlebao* passed the respective national standards in its internal inspection during the year. In the stringent external samplings by government’s authorities, *Yashily*, *Mengniu*, *Dumex*, *Scient* and *Junlebao* all achieved 100% passing rate in samplings on brand products.

During the year, Mengniu’s ice cream quality management department represented the Group to participate in works in relation to the planning of 2018 National Frozen Drinks Sample Tests, formulation of risk control and monitoring plans and the amendment of the frozen drinks inspection rules. Mengniu also led the industry in developing risk control and inspection of *Listeria monocytogenes*. Through managing and control of risks in design, procedure and management change risks, the ice cream division also ensured its operations meet all food safety inspection standards of the nation, the Group and the business division itself.

Cheese business implemented ISO9001 quality management and FSSC22000 food safety systems, and obtained national dual system certifications in October 2017. Besides, the business developed different technical standards for new cheese products according to their characteristics and implemented quality tests and tasting procedures accordingly, assuring that the new products have passed all the standards designed for them. In 2017, five new products have been successfully put into the market.

Development of Milk Sources

In 2017, Mengniu adjusted its milk source management regime in accordance with its new business division system, transforming from a raw milk purchase department into a comprehensive business operation unit to serve the room temperature, chilled and ice cream product business divisions.

Mengniu's efforts in developing milk source continue to focus on the integration and optimization of supply, which entails increasing the proportion of self-control milk source and standardized ranches. Mengniu implements centralized management of raw milk and milk powder to close the gap between supply and demand in peak and low seasons. At the same time, the Group also establishes milk source economic zones that are demand driven and with factories in the centers. Four major milk source economic zones, namely the Inner Mongolia Helin base, Northeast China, Northern and Eastern China and North West-Southern China, were formed according to the positioning of different regions and their complementary relations to optimize matching and deployment of supply and demand. To expand overseas milk source, Mengniu has extended its milk source access to countries famed for their rich milk supply, such as Denmark, Australia and New Zealand, further enhancing its overseas industrial chain.

During the year, Mengniu established the "Excellent Milk Source Operation and Management Model" to carry out systematic planning of works in relation to milk source, focusing on five major themes – "upgrading quality, reducing cost, optimizing structure, rationalizing pace and adjusting deployment" – to help the Group improve overall performance. During the year, Mengniu was able to improve quality management, matching of supply and demand, staff techniques and ranch efficiency, thus achieving lean and excellent milk source operation as well as synergistic upstream and downstream development, with the aim to speeding up construction of the "2020 Sustainable Ecosystem of Milk Sources" and promoting sustainable development of China's dairy industry. During the period, the percentage of milk sources provided by standardized ranches and scaled farms of Mengniu was maintained at 100%.

Learning from Arla Garden's century-long ranch management experience and Arla Foods' advanced Standard Operational Procedure ("SOP"), the "Mengniu Ranch Quality and Safety Management System" achieved 100% coverage of all ranches and milk source practitioners during the year. The system matches the standards of Arla Foods in nutrition for dairy cattle, quality, safety, animal welfare and breeding environment, and implements in the greatest depth the most stringent international food safety standard for ranches – the New Zealand AsureQuality food safety and management standard, combined with ISO9000 standards to achieve overall improvement from ranch construction, raw milk production and transportation to procurement and overall management. At the same time, efforts were made to align with around 200 domestic regulations and standards in relation to dairy farming, and ranch management standards and key control areas were 100% adopted. "Mengniu Ranch Quality and Safety Management System" enables cooperating ranches to strengthen standardized set-up and self-management, and enhance their refined technical management capability, which in turn helps Mengniu speed up construction of modernized milk source bases and better guarantee food safety at the source, evidencing the improvement in quality and safety management achieved by the dairy industry in China.

Information Management system

Mengniu has adopted the SAP system since 2013. After three years of intensive construction, Mengniu's information system management structure built with SAP as the core system is basically in shape, and the SAP and LIMS systems, Wei Sales Platform ("WSP") and BI projects are gradually coming together in bringing synergy, providing digital, intelligent and systematic management assurance to Mengniu.

To further enhance safety of the corporate production process, Mengniu initiated the "Safety Cloud" management system in June 2017, which can automatically collect data and implement real-time monitoring in key safety control points and important equipment and infrastructure by using Internet of Things technology, to conduct highly effective information integration platform management. The system can also issue early warning on discovery of abnormal information and fully control safety risks. During the year, the system was used in five Mengniu plants, namely Helin, Tai'an, Jinhua, Suqian and Hengshui. Mengniu Dairy (Hengshui) Co., Ltd. and Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. earned the national honor of "First Class Enterprise in Safety Production Standardization".

Construction of the southern and northern data centers, which took two years, was completed during the year. The Group's information system has been transferred into the two centers deemed as the "Digitalized Heart" of Mengniu, which is more reliable and secure. From design to construction, the southern and northern data centers followed the Tier 4 standards, the highest level in the industry, and Cloud-based structure solution to reduce the total cost and enhance utilization rate of the corporate's information system. In the future, the two data centers will continue to push forward integration with such core systems as SAP. Using the self-owned "Mengniu Cloud" model, the Group will also provide its different business divisions with fast and reliable shared information technology infrastructure service, which guarantees the steady development of Mengniu in the "Internet+" era.

To build an efficient, centralized and integrated supplier and procurement information management platform, and to boost economies of scale in procurement and strengthen its management standard, core competitiveness and risk resistance capability, Mengniu commenced the second phase of the Supplier Relationship Management ("SRM") project in June 2017, aiming to refine the function of the platform. It also completed the roll-out of the platform nationwide during the year, allowing it to implement whole life-cycle management of suppliers and communicate and work with suppliers more efficiently and with greater transparency.

With the core systems, such as SAP and WSP, in application, to better bring out value of data and achieve effective data-based management, the sales BI project was launched during the year to integrate all sales-related BI systems and group them under the regional BI systems. Using the same management language and same data source, the system provides managers at different levels access to reliable and consistent management information, thereby facilitating smooth flow of information between the head office and major operational regions. The project has boosted the Group's capability in data tracking and carrying out operational analysis, as well as formulating specific action plans, enabling the Group to implement its "digitalization" strategy on the sales front.

Sales management

Under the Group's new business division system, the four major divisions, namely room temperature, chilled, milk formula and ice cream products, are responsible for managing their own marketing efforts and sales, with the aim of enhancing synergies for business development, operational efficiency and management standard. The new system also commanded transformation of Mengniu's e-commerce team, which focused on online sales before, into a business division performing multiple functions, including Big Data-aided marketing and development of proprietary business tools.

During the year, the room temperature product business division put in place the Total Marketing Solution ("TMS") management model, allowing it to refine and rationalize mechanisms, evaluation systems as well as the transportation cost management system, thereby helping sales companies enhance sales and profitability. Enhancing its channel penetration is one of the major goals of the channel strategy of the room temperature product business division. In 2017, by taking actions in six areas, namely "segmentation, point-of-sales, investment, promotion, personnel and image", in other words, "better market differentiation, investment in points-of-sales, promotion at fairs, increasing sales personnel at town level and building better signage image for stores in villages and towns", it was able to effectively increase market penetration in counties, towns and villages.

Chilled product business division established 14 major sales management regions. By focusing on star products and implementing value marketing, new products saw satisfactory sales volume growth; by adding more number of sales points and enhancing execution at the sales points, all channels realized sales volume growth higher than the industry; by implementing route-to-market measures, including direct operation in counties and direct control of sales points to drive channel penetration, satisfactory sales growth in lower-tier cities was also achieved. At the same time, the division has been exploring the use of emerging new channels, vertically expanding fresh foods e-commerce and focusing on core catering points-of-sales, creating new sales growth drivers. Milk formula business shifted its organization structure from the original independent subsidiaries to the CBU structure categorized by channels and brands, in which "Mother-and-baby CBU" followed the strategic target of brand upgrade and channel transformation; "Modern Trade CBU" was devoted to tackle the problem regarding "channel penetration, brand penetration and price range penetration"; "High-end mother-and-baby CBU" was committed to bring *Dumex* back among the four largest foreign-owned brands and enable *Arla* to top the brand pyramid; while "Innovation CBU" expanded the community marketing and consolidated its internal market resources based on existing e-commerce channels.

On top of enhancing traditional sales channels, the ice cream business division has also strengthened development of Key Accounts ("KAs") and embarked on exploring catering channels, developing soft-serve ice cream, putting up pilot experience stores and expanding e-commerce, among other new channels, which have pushed up sales amount.

To capitalize on the development of Big Data, Mengniu developed the marketing BI analytical platform during the year. The convenient mobile data analytical platform links up and presents visual sales and financial data, relating precise and timely information to different sales units to help them enhance offline sales performance. Moreover, Mengniu's E-commerce business unit has built a consumer Data Management Platform ("DMP") and optimized Database Intelligence ("DBI") of the Group, starting with monitoring the source of information to achieve link up of sales data and customize a labeling system exclusive for Mengniu, fully utilizing DMP to gain a deeper understanding of consumers and achieve precision marketing.

During the year, via fully exploiting digital marketing, optimizing product mix, improving the structure and proportion of traffic-generating and profit-contributing products, the e-commerce department of Mengniu had achieved increase in sales volume and profit, while ensuring prices of different products remain stable. Also, with the help of online consumption Big Data in relation to new product categories, Mengniu quickly seized market shares by launching products including chilled and ice cream products on online channels to capture untapped niches.

Mengniu also signed a strategic cooperation agreement with Alibaba on pursuing Big Data analysis for the purpose of formulating precise marketing and sales initiatives, and also to jointly explore new retail modes, such as smart shelves and un-manned convenience stores, carrying trials in selected markets. The plan is to take advantage of the data and efficiency boosting strengths of new retail channels to foster channel penetration, enlarge point-of-sales network, and ultimately quickly replicate the model within the Group.

Furthermore, Mengniu continued to cooperate with e-commerce platforms, such as Tmall, JD.com, Suning.com and Womai.com, and changed its focus from pure sales to brand promotion, conducting integrated marketing and content marketing, which resulted in stellar performance in significant promotional periods. During the year, Mengniu and JD.com jointly launched the movie “Treasure Story in JD”, with *Tianxiaohai*, a room temperature yoghurt introduced by Mengniu for online consumers, playing a role in the movie, demonstrating precision in product placement marketing. With the use of multiple marketing means, such as live show, cooperation with Key Opinion Leaders, videos and movies to provide quality marketing content and communication, Mengniu’s E-commerce sales was boosted successfully. In the “Double 11” period in 2017, Mengniu for the third year in a row took the top spot in dairy product sales on online sales platforms as a whole.

Agreeing with the changed marketing trend in the dairy industry, Mengniu used channels like new media and Internet+ to develop fine management of the entire supply chain enabled by digital and intelligent technologies, thereby satisfying more sophisticated consumer needs. Mengniu and JD.com together launched the *Suqian Ranch Pure Milk* and with the support of JD.com’s Blockchain technology, consumers are given access to specific information, tracing back to operations at the dairy cattle ranch, raw milk warehouse and production and processing, promoting interaction with consumers and boosting consumer confidence in Mengniu’s products.

As for the overseas business, apart from continuing to adopt the domestic export model, with room temperature products covering markets in Southeast Asia, Hong Kong and Macau, and chilled products focusing on Hong Kong and Macau, Mengniu also built a new business model in 2018, with Singapore as its regional head office. Investment and sales efforts are made from Singapore pinpointing Southeast Asia, and gradually covering Southeast Asia region.

Branding Strategy

During the year, adhering to its “A Little Happiness Matters” brand concept, by keeping its finger on the pulse of the market and with the support of Big Data, Mengniu fully exploited the Internet and social media, integrated on- and off-line marketing, and forged strategic partnership with leading global brands as guided by its strategy for developing into an international brand. Mengniu was able to enhance its brand value and influence for achieving the goals of building Mengniu into a world-class Chinese brand and continue to bring care and happiness to consumers.

With respect to cooperation with theme parks, Mengniu is the official dairy product partner of Shanghai Disney Resort and, in March 2017, Mengniu signed a strategic agreement with Universal Beijing Resort and became the sole official dairy product and ice cream product supplier. As for sponsoring top international sports competitions, Mengniu has been the official strategic partner of NBA China for many years. And, in late 2017, it became an Official 2018 FIFA World Cup™ Sponsor. Four categories comprising a total of 161 products under 27 brands of the Group have been awarded the titles of “Official Drinkable Yogurt of the 2018 FIFA World Cup™”, “Official Pre-packaged Ice Cream of the 2018 FIFA World Cup™” and “Official Milk of the 2018 FIFA World Cup™ (for Greater China)”, and “Official Powdered Milk of the 2018 FIFA World Cup™ (for Greater China)”. Mengniu is the first dairy product brand to cooperate with FIFA as a global sponsor and also the first food and beverage brand in China to be a global sponsor of the World Cup, marking a big step forward made by Mengniu onto the international stage.

Mengniu has cooperated with Chinese aeronautic sector for 14 years and has been awarded the title of “Strategic Partner of China’s Aerospace Program” by the China Space Foundation. Mengniu held a press conference with “aeronautic quality, healthy China” as theme of the year to kick off promotion of basic pure milk and *Champion* yogurt products, taking advantage of the fervor created by the launch of space cargo ship “Tianzhou 1”, in its bid to deliver products of aeronautic quality to every family.

Mengniu also became the sponsor of international leaders’ conference showing the international standing of its brands. Products including *Pure Milk*, *Champion*, *Just Yoghurt*, *Deluxe Ice Cream* and *Milk Deluxe* were the designated dairy products for national leaders’ meetings during the BRICS Summit held in Xiamen, a testament to the world of the leading quality of Mengniu products.

The four major business divisions of Mengniu introduced brand promotion programs based on the characteristics of different sub-brand products and their target consumer groups. *Milk Deluxe*, in the room temperature business, for the 11th consecutive year sponsored the Boao Forum for Asia as the event's sole official dairy product supplier, continuing to draw limelight onto the high-end image of the brand. And, by upgrading the organic milk series and actively developing new products, the brand has strengthened the supremacy of its expertise-embedded products. During the year, *M-PLUS High Protein Milk*, the first milk product created for sports enthusiasts in China, was launched under the *Milk Deluxe* brand. At the support of combined online and offline resources, integrated promotion and interactive marketing for the product, Mengniu has opened a new professional milk market. *Milk Deluxe* sponsored the 2017 Beijing Marathon as the sole dairy product supplier. It also sponsored the 2017 China Open tennis tournament to promote the brand concept of "a self-discipline person like you deserves better" of *M-PLUS High Protein Milk*. Moreover, *Milk Deluxe* cooperated with high-end fitness center chains in five core cities to launch the "M-PLUS-21 Days Good Health Nutrition program" and, together with WeChat and Weibo promotion, creating buzz in the market. *Milk Deluxe* also launched the super high-end product *Milk Supreme*. Riding on the superior identity of *Milk Deluxe*, efforts were made to upgrade *Milk Supreme's* product quality and a gift box packaging was introduced to strengthen the supremacy of the *Milk Deluxe* brand.

As for *Just Yoghurt*, it succeeded in enhancing its brand influence and sales by actively boosting brand promotion and carrying out marketing projects in association with popular films and television programs. During the year, *Just Yoghurt* cooperated with the Hollywood movie "Transformers: The Last Knight", with its products seamlessly placed in the movie, and in association launched the Transformer special edition of *Just Yoghurt*, with the support of online publicity platforms like maoyan.com and Tmall and offline cinema promotion activities, achieving all-round publicity for the brand. In addition, *Just Yoghurt* partnered with Shanghai Dragon Television and sponsored the popular program "Go Fighting! Season 3". Six new packaging designs were introduced matching the image of Go Fighting brothers. Moreover, by leveraging the influence of brand ambassador Zhang Yixing plus media like WeChat and Weibo, a multi-dimensional publicity campaign was mounted. *Just Yoghurt* was also the title sponsor of Jiangsu Television's "Our Challenge". By implanting brand elements into the program and rallying the support of fans of the TV stars, consumer awareness of the brand was markedly enhanced. Besides, *Just Yoghurt* was the sole cooperation partner of Jack Ma's first movie "Gong Shou Dao". At the "Double 11" evening premiere party, *Just Yoghurt* blended martial arts moves into the promotion of its brand concept of "A taste of *Just Yoghurt*, a taste of pure and true" that echoes with advocacy of "Balance" of the movie, thus helped boost consumers' understanding of *Just Yoghurt*.

To promote the upgraded product formula of the *Future Star* product series, the first milk product series professionally tailored for kids in China, the brand cooperated with Shanghai Disney Resort during the year, having its first brand activity in the Walt Disney Grand Theatre, complemented by the launch of a limited-edition Shanghai Disney Resort themed packaging and lucky draw promotion making use of "one barcode per pack" technology. The promotion campaign was a great success. Moreover, working with Jiangsu Television, the brand incorporated its brand elements into the "Wings of Song" singing competition for children. The online recruitment of participants went viral on the Internet, making the event a hot topic in the community.

Fruit Milk Drink kicked off an integrated marketing project called “Blue Friend” for a new blueberry flavor product, aiming to create a unique brand image, with celebrity Li Yifeng as the product ambassador and by linking the product with the Internet catchword “Blue Friend” to aid emotional marketing. The project received wide market acclaims, which had helped enhance product sales and market penetration and share of the brand. *Fruit Milk Drink’s* “Blue Friend” integrated marketing campaign was granted the “Brand Building Award” of “China Great-wall Advertiser Awards 2017”.

As for the chilled product business, *Yoyi C* launched *LC-37* that caters particularly the professional probiotics beverage market. *LC-37* secured pop star Kris Wu as the brand ambassador to help deliver the brand concept of “This is a small but powerful bottle of *Yoyi C*”, with the aim of grabbing a share of the young consumer market. To boost product sales, *Yoyi C* hosted the integrated digital marketing activity “Global Food Festival” to convey to consumers the core proposition of “Healthy Intestines Keep You Young” of the brand. In addition, boasting brand advantage, *Milk Deluxe* launched the super high-end *Milk Deluxe Yogurt*, and by sponsoring the sports hall-of-fame award “China Top Ten Benefitting Laureus Sport for Good Award”, the product became the sole official dairy product of the event. A Michelin star chef was also engaged to promote the superb image of the brand and effectively convey the brand spirit of “Not all yogurts are *Milk Deluxe*”.

As for the milk formula business, Yashili actively participated in the charity event “Droplets New Special Foundation” to boost its brand image. It also carried out the “Parent-child NBA contest” with online and offline promotion activities, which helped to enhance consumption experience and attract new customers. *Reeborne* joined hands with Henan TV City Channel to hold the event “Caring for Nursing Mothers”, under which “*Reeborne* Organic Nursing Room” was created. Moreover, advertisements and soft interaction marketing were carried out via platforms like iQiYi, Moments, Babytree, mama.cn for core regional markets. *Dumex* and *Arla* launched the national contests for mothers with overwhelming success, and thus fostered the recognition and confidence of consumers towards their products and brands. Furthermore, *Arla* initiated infant-raising online forums “Parenting Tips” and “Sweet Cafe”, which attracted active participation of mothers.

During the year, Mengniu’s ice cream business started the nationwide “Scan the code, Shake the red packet, Win a phone” promotion for its key products. Commercials were placed in the NBA and CBA television programs and broadcasted online, and an ice cream shake-shake song was created to stimulate conversation. More than 2,000 promotional activities at key sales points were conducted, which had helped in raising consumer awareness and preference of Mengniu’s ice cream brands and in turn sales volume of products. In addition, Mengniu focused on promoting the high-end ice cream brand *Deluxe*, pursuing upgrade on multiple fronts including branding, product, packaging and marketing communications. A new packaging of the product made its debut at Disney, starting the “Taste the Chinese high-end ice cream, enjoy your time at Shanghai Disney” promotion and at the same time the H5 scan code interactive activity was launched online, creating a craze among consumers.

Capitalizing on its brand image built over the years and dedication to product quality, Mengniu’s brand status is well recognized by the industry and the public. In the 2017 China Brand Power Index (C-BPI) ranking compiled by the Ministry of Industry and Information Technology, Mengniu was the C-BPI Top Brand in both the yogurt and probiotics beverages industries and its yogurt product was crowned the “Golden Brand” title for staying in the top spot for seven consecutive years. It also once again made it among Interbrand Best China Brands 2017. For three years in a row, Mengniu was among the BrandZ™ list of top 20 most valuable Chinese brands. Besides, Mengniu was one of the “TOP 10 Most Effective Brands” and “TOP 10 Most Effective Advertisers” at the “2017 Greater China Effie Awards”, the only dairy enterprise honored at the event.

Financial Review

Exertion in product innovation, active branding and marketing efforts and remarkable sales execution saw Mengniu's room temperature and chilled products achieve satisfactory sales growth. The Group's total revenue for 2017 was RMB60,155.6 million (2016: RMB53,779.3 million), representing an increase of 11.9% year-on-year. Products that contributed the most to the Group's revenue growth were *Milk Deluxe*, *Just Yoghurt*, *Fruit Milk Drink*, *Mengniu Pure Milk*, *Champion* and *Yoyi C*.

Gross profit

With raw milk price staying relatively low and product mix constantly improving, gross profit of the Group for the year increased to RMB21,182.7 million (2016: RMB17,635.4 million) and gross profit margin increased by 2.4 percentage points to 35.2% as compared with last year (2016: 32.8%).

Operating expenses

The Group implemented proactive channel expansion and brand promotion strategies. As such, its operating expenses were RMB18,548.5 million (2016: RMB18,757.3 million), or 30.8% (2016: 34.9%) of the Group's revenue. In the previous year, the Group recognized an impairment provision on goodwill of RMB2,253.8 million for its milk powder business. Excluding the impairment of goodwill, the operating expenses in 2016 were RMB16,503.5 million, representing 30.7% of the Group's revenue for that year.

Selling and distribution expenses for the year increased by 10.7% to RMB14,868.8 million (2016: RMB13,435.2 million), representing a decrease of 0.3 percentage point to 24.7% (2016: 25.0%) of the Group's revenue.

Advertising and promotion expenses for the year decreased by 4.7% to RMB5,083.1 million (2016: RMB5,333.7 million), or decreased to 8.4% (2016: 9.9%) of the Group's revenue.

During the year, administrative and other operating expenses increased 19.9% to RMB3,679.7 million (2016: RMB3,068.2 million, excluding impairment of goodwill), or increased to 6.1% (2016: 5.7%) of the Group's revenue, mainly due to foreign exchange loss and the losses on deemed disposal of partial interests in associates incurred during the year.

Profit from operating activities and net profit

Although financial performance attributable to the Group from an associate recorded a relatively significant loss during the year, thanks to the Group's significant increase in revenue and gross profit, plus product optimization, the Group's EBITDA increased to RMB4,144.7 million (2016: RMB956.0 million, or RMB3,209.8 million excluding impairment of goodwill) and EBITDA margin was 6.9% (2016: 1.8%, or 6.0% excluding impairment of goodwill).

Profit attributable to owners of the Company amounted to RMB2,047.8 million (2016: loss of RMB751.2 million, or profit of RMB1,502.6 million excluding impairment of goodwill). Basic earnings per share was RMB0.526 (basic loss per share in 2016: RMB0.193).

Income tax expense

Income tax expense of the Group in 2017 was RMB594.3 million (2016: RMB351.4 million), up by 69.1% year-on-year. Effective income tax rate was 22.6% (2016: 19.6%, excluding impairment of goodwill), up by 3.0 percentage points year-on-year, mainly due to the loss contribution from a major associate to the Group and the accounting losses on deemed disposal of partial interests in associates by the Group.

Capital expenditure

For the year ended 31 December 2017, capital expenditure of the Group was RMB6,650.9 million (2016: RMB4,352.5 million), up by 52.8% year-on-year. Of the total, RMB2,151.9 million was spent on building new production facilities and modifying existing ones and related investments, RMB249.2 million on purchasing biological assets and RMB4,249.8 million were invested in equities (mainly including acquisition of additional equity interests in China Modern Dairy).

Working capital, financial resources and capital structure

For the year ended 31 December 2017, the Group's net cash inflow from operating activities increased to RMB5,505.4 million (2016: RMB4,512.9 million), primarily due to continuous optimization of product structure, cost control and enhanced working capital management.

As at 31 December 2017, outstanding interest-bearing bank and other borrowings of the Group increased to RMB13,950.1 million (31 December 2016: RMB8,587.6 million), including interest-bearing bank and other borrowings repayable within one year in the amount of RMB7,935.0 million (31 December 2016: RMB3,045.4 million). More than 40% of the interest-bearing bank and other borrowings bore fixed interests. The increase in interest-bearing bank and other borrowings was mainly due to increase in equity investments during the year.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as at 31 December 2017 were RMB7,991.2 million (31 December 2016: RMB2,517.5 million).

The Group's total equity as at 31 December 2017 was RMB27,107.1 million (31 December 2016: RMB25,503.7 million). Debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 51.5% (31 December 2016: 33.7%).

Finance costs of the Group in 2017 were RMB399.9 million (2016: RMB293.7 million), representing approximately 0.7% of the total revenue (2016: 0.5%).

Product

In 2017, Mengniu continued to innovate and actively pursue product research and development to promote continuous improvement of the enterprise. Heeding the trend of consumers craving for diverse, high-end and healthy products, it launched differentiated and market-oriented new products. All-out efforts were also made to upgrade products in terms of variety, flavor and packaging, so as to create better consumption experience of dairy products for consumers. Mengniu also achieved huge success in brand promotion, marketing and sales by using new media and Big Data flexibly.

The main products of the Group are liquid milk, ice cream, milk formula and other products. Their performances during the year under review are outlined in the table below:

Liquid milk Revenue amounted to RMB53,015.0 million (2016: RMB48,102.9 million), accounting for 88.1% of the Group's total revenue (2016: 89.4%).

UHT milk Revenue amounted to RMB25,689.2 million (2016: RMB23,851.9 million), accounting for 48.5% of the liquid milk segment revenue (2016: 49.6%).

- *Milk Deluxe* upgraded its organic milk product series, continuing to boost its image as a high-end product brand and promote its brand spirit of “New Nutritional Level Makes a Better Life”. During the period, super high-end *Milk Deluxe M-PLUS High Protein Milk* was launched, which is the first milk product created for sports enthusiasts in China. In addition, Mengniu also launched the super high-end *Milk Supreme* that comes in specially designed gift packaging.
- *Future Star Kid Growth Milk* undertook innovative research and development on its formula, and launched *Future Star Kid Organic Milk* during the year, which is produced using *Milk Deluxe* organic milk source and under the banner of “Natural Nutrition and Focus on Growth”. It also introduced *Future Star A2 β Casein Pure Milk*, made with premium milk in limited supply from meticulously selected designated ranches.
- *Prime Ranch Pure Milk* in fresh packaging was launched to market. Using QR code and implementing “One Pack, One Code”, product batch numbers can be traced with ease and production processes are more transparent.
- Mengniu joined hands with China Modern Dairy to introduce *Xianyu Pure Milk*. It has opened a niche – the room temperature fresh milk market – in between the room temperature milk and fresh milk markets.

- The upgraded packaging of *Mengniu Pure Milk* carries an aerospace-themed label to highlight the brand proposition of “Let’s Enjoy Aeronautic Quality Milk”.

Milk beverages

Revenue amounted to RMB9,879.8 million (2016: RMB9,380.2 million), accounting for 18.6% of the liquid milk segment revenue (2016: 19.5%).

- *Yoyi C* launched *LC-37* that targets the professional probiotics beverage market. Every 100 ml of the product contains 50 billion active bacteria C, 500 times the national standard. It also has an exclusive 37°C highly active bacterial strain, overcoming the technical bottleneck faced by the low temperature probiotics industry and becoming an innovative product which revolutionizes probiotics product offerings. In May 2017, under *LC-37*, an upgraded low-sugar enzyme-rich product was launched.
- *Fruit Milk Drink* added the new blueberry flavored product, and mounted a promotional campaign themed “*Bring Your Blue Friend Home*”, so as to capture share in the young consumer market.

Yogurt

Revenue amounted to RMB17,446.0 million (2016: RMB14,870.8 million), accounting for 32.9% of the liquid milk segment revenue (2016: 30.9%).

- During the year, 15 new products of chilled yogurt under 6 series were introduced to the market, targeting at higher market share of the high-end yogurt market.
- Building on the strong brand advantage of *Milk Deluxe*, *Milk Deluxe Yogurt* was launched. The product combines patented bacteria from the US, Danone’s exclusive craftsmanship from France and premium ingredients from all over the world, speaking truly to the brand spirit of “Not all yogurts are *Milk Deluxe*”. The Group’s yogurt business has advanced on the high-end trend.
- *Just Yoghurt* and the Hollywood movie “*Transformers: The Last Knight*” jointly launched the Transformers special edition packaging. Brand promotion revolved around “Go Fighting! Season 3”, with the Go Fighting brothers featuring in six new packaging designs.

- *Champion* focused on optimizing product structure and introduced a series of products, namely *Jianzihao*, *Mailaoru* and *Xianlaoru*. Making the best of its core asset – the “*BB-12*” bacteria, *Champion* has strengthened its positioning as a “professional and functional” yogurt.
- *Bio* introduced *Kaquzi Grain Mix Flavored Yogurt*, with its positioning as a food replacement boosting the best mix of natural ingredients among the domestic yogurt market, containing American almonds and cranberries, Australian oats and pumpkin seeds.

Ice Cream

Revenue amounted to RMB2,513.1 million (2016: RMB2,179.9 million), accounting for 4.2% of the Group’s total revenue (2016: 4.1%).

- Mengniu’s newly launched *Russian Milk Ice Cream* brings back the original flavor of Russian ice cream. With high milk content, rich milk flavor and a smooth texture, the product has been well received by the market.
- *SuiXinGuo* product series under *Suibian* continued to lead the trend of matching delicious cheese with fruit jam and ice cream. During the year, two brand-new products, blueberry cheese crunchy cone ice cream and mango cheese crunchy cone ice cream, were launched.
- *Mood for Green* launched the sticky rice red bean ice cream, adopting unique technique in the industry to make sure the sticky rice dumplings are evenly set and pleasantly chewy, which earned great market acclaims.
- *Deluxe* carried out upgrade on multiple fronts from branding, product, packaging to marketing and communication. Two new ice cream gift box packagings were introduced.

Milk Formula

Revenue amounted to RMB4,042.1 million (2016: RMB3,150.9 million), accounting for 6.7% of the Group’s total revenue (2016: 5.9%).

- *Yashily* emphasizes the provision of basic nutrients. Originally canned and imported from New Zealand, *Yashily Super α -Golden Stage* (renamed as *Yashily Jingpo* upon implementation of the national infant milk formula registration system) targets the medium-to-high end market and owns the patented INFAT™ active energy system, which promotes probiotics growth in intestines of infants and toddlers.

- *Qinyou* series and organic series of *Reeborne* completed the upgrade of their packaging and formula, and made increasing efforts in penetrating the organic market, while taking advantage of online and offline advertising exposures and soft interactive marketing with target customers to enhance brand exposure and recognition.
- *Dumex* is committed to building professional formula series to satisfy babies’ special nutritional needs. Its three major product series cover products for allergies, digestion and under-weight new born babies.
- *Arla Baby & Me* organic formula is originated from Denmark, highlighting its royal origination and aiming at super high-end market.
- Yashili launched *Doraler*, its first high-end imported goat milk formula brand, in last November, which is originally canned and imported from Australia. 100% made of pure goat milk protein, the new product has a smooth and creamy texture and is easy to be absorbed.

Other Products

Revenue amounted to RMB585.4 million (2016: RMB345.6 million), accounting for 1.0% of the Group’s total revenue (2016: 0.6%).

- The plant-based protein beverage *ZhiPuMoFang*, a joint creation of Mengniu and WhiteWave, underwent product adjustment and upgrade. Heeding future market trend, an American style soy milk series featuring two flavors – original and almond – was launched.

Production

Mengniu deploys its production capacity heeding market potential and its own product strategy. As at December 2017, Mengniu had 38 production bases in China and one in New Zealand, which together had a total production capacity of 9.22 million tons (December 2016: 9.21 million tons).

Corporate Social Responsibility

With fulfilling the mission of “Focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people” as its guide, Mengniu had drawn up its strategies for sustainable development 2030 to contribute its strength to help the society. In addition to constantly improving the quality of the Group’s dairy products and pushing to grow with the industrial chain, Mengniu is also committed to supporting charitable causes, fostering development of local communities as well as supporting learning and growth of employees to make Mengniu an example to emulate in sustainable development.

Supporting to the “Healthy China 2030 Planning Outline” issued by the State Council and the “Milk Sponsorship Charity Program” jointly initiated by the Ministry of Agriculture and the Dairy Association of China, in 2017, Mengniu introduced the “Mengniu Inclusion Nutrition Plan” in rural schools in a total of 157 regions and counties in 24 provinces, cities and municipalities in China. The program covered 209 schools and 40,000 students and over 250,000 cases of milk were donated. Schools in state-level targeted poverty alleviation counties, such as Foping County, Shaanxi and Lushi County, Sanmenxia were covered in the program that deprived students in those areas were able to feel the warm and loving care of Mengniu and grow up healthily.

Mengniu spares no effort in nurturing talent for the industry and is committed to creating a sustainable dairy industry ecosystem and enhancing the competitiveness of China’s dairy industry. During the year under review, Mengniu put much emphasis on setting up the “Golden Key of Milk Cow” technology demonstration sites in China’s key “Grain to Fodder” regions. Experts were invited to introduce the latest breeding and rearing technology to a total of 1,500 participants from about 800 ranches in 15 provinces and 29 cities in China, which translated into economic benefit. Mengniu established the high-end learning platform “Star Ranchers” and gathered top-notch professionals from around the world to give lectures on practical ranch management and industry-leading technology through video and satellite links, allowing real-time interaction between them and approximately 1,500 dairy farmers. Mengniu also launched the “Increasing Efficiency Program” and adopted the “Theoretical Training plus Practical Application” and “Assessment-Reporting-Interpreting-Improvement-Re-assessment” models to improve the skills of ranch employees and efficiency of ranches.

In addition, Mengniu organized the 8th and 9th Training Seminars for talents of modern dairy farms with China Agricultural University under the “University of Ranchers” program, which provided training to over 1,000 ranch owners and its own staff at various levels. Mengniu also strived to improve the quality of upstream milk source and offered financial support to 100 medium to small family ranches via the “Mengniu + Bank + Ranch” tri-party financing model. Comprehensive guidance was offered to family ranches to help them build their own ranches and achieve sustainable development. At the same time, Mengniu also had ranch owners signed the “Code of Social Responsibility of Ranch Owners” to enhance their awareness of dairy cattle welfare and environmental protection, thereby realizing Mengniu’s value – giving equal emphasis to social responsibility and scientific breeding – in its practice.

Mengniu’s role in leading Chinese enterprises in honoring social responsibility is fully recognized by all the different parties in the community. The Group was awarded “Leading Enterprise of Corporate Social Responsibility under China’s New Normal” by chinadevelopment.com.cn and its chief executive officer Mr. Lu Minfang received the “2017 Asian Social Caring Leadership Award” at the “Nobel Laureates Series: the 5th Social Caring Pledge Scheme Award Presentation Ceremony”. The Group, thanks to its “University of Ranchers” project, also clinched the “2017 China’s Outstanding Corporate Citizenship Award” by China Association of Social Workers.

HUMAN RESOURCES

As at 31 December 2017, the Group had a total of about 41,141 employees in China and Hong Kong, including about 2,313 employees of Yashili. During the year, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB5,133.8 million (2016: RMB4,479.5 million).

In 2017, Mengniu completed the establishment of its new business division organizational structure, grouping its businesses into four major divisions, namely room temperature products, low temperature products, milk formula and ice cream, to raise the Group's overall operational efficiency. The "Build up a leaner and stronger headquarters" project it launched was designed to set the functional positioning of its headquarters according to three major principles, which are strategic orientation, clear role and responsibility, and competence and efficiency. The project helped improve the efficiency of decision making, whereas a new position and grading system was established and evaluation of various management positions of the Group as well as the adjustment of rankings of staff members were completed.

During the year under review, Mengniu continued to optimize and implement its unique talent nurturing system that entails job orientation, training of general core capabilities, and professional and leadership skills. To match the time for learning of employees, the Group combines resources online and offline for training its people. It rebuilt the four-in-one Internet learning platform "Zhi De" to offer training and support to employees anytime, anywhere. The platform supports mobile data sharing and access, allowing more employees to receive training while lowering training cost.

In addition, through establishing systems and carrying out leadership development program, the Group strengthened its leadership pool and enhanced the capability of managers at all levels. At the same time, Mengniu continued to increase employees' knowledge and awareness of its culture, putting particular emphasis on promoting the proactive and aggressive "Wolf Culture". During the year, the different business divisions embraced a host of corporate cultural activities such as "Mighty Mengniu Rises to Challenges", "The Journey to Gobi Desert" and the "The Journey to Jinggang Mountain".

To strengthen the determination of the management team to achieve Mengniu's 2020 strategy and enhance the team's commitment to and confidence in continuously growing the Group's business, Mengniu implemented the retention plan for core staff, with the award of restricted shares as an incentive, to encourage and retain core staff in key positions at level four and above. During the year under review, 6,998,575 shares were granted under the share award scheme and 10,930,005 share options were granted under the share option scheme, based on the individual performance of the management.

OUTLOOK

Along with the continuous deepening of the supply side reform of the dairy industry and the full implementation of the infant milk formula registration system in 2018, the recovery of consumer confidence, the complete roll out of China's two-child policy and the trend of skewing towards younger consumers and more diversified demands, the industry is looking at a revival of sales of liquid milk and milk powder, opportunities arising from upgrade of the middle to high-end consumption structure and adjustment of the competitive landscape, and all these are presenting Mengniu with new development opportunities.

Looking forward, on the basis of "Focusing on Development and Gathering Strengths", Mengniu's new business divisions will develop different product categories by focusing on resource advantages, and enhancing cost saving, efficiency and the value of different brands. With "Quality, Innovation and Internationalization" at heart, Mengniu will insist on its quality as core competitiveness, with the spirit of the "Craftsman of Milk", ensuring the safety and high quality of every drop of milk it offers. Mengniu will continue to align with and also strive to surpass international standards, and enhance its efforts in innovation, and research and development. It will endeavor to develop milk source to guarantee the quality and stability of supply that it may provide products of "Golden BRICS quality" and "aeronautic quality".

Mengniu will follow closely the trend of consumption upgrade and move toward the middle and higher end of the value chain. Through actively promoting the development of chilled and ice cream products and accelerating launch of new products, Mengniu will be offering more nutritious and healthy products for consumers to enjoy. At the same time, Mengniu will continue to push forward with digitalization, by using its own "Mengniu Cloud" platform, for online sales penetration and brand building, in cooperation with partners such as Alibaba and JD.com in full embrace of the Big Data era.

Mengniu will continue to join hands with its three major shareholders, namely COFCO Group, Danone Group and Arla Foods, and international leading partners such as WhiteWave and UC Davis from the US to establish a world-class dairy enterprise by bringing in advanced technologies and management methods via introducing world-leading resources and platforms. With a value chain well-deployed internationally, it will leverage overseas resources to consolidate its industry strengths. Mengniu will continue to promote construction of a global "Dairy Community", pinpointing especially countries along the "Belt and Road".

To further brand internationalization, Mengniu for the first time sponsored overseas sports events, becoming the Official 2018 FIFA World Cup™ Sponsor with 161 products of 27 brands under its four major product categories selected as the designated products of World Cup, which represents a significant breakthrough of Mengniu in promoting soccer and sports marketing effort. At the same time, Mengniu is also the first dairy brand partnering with FIFA as a global sponsor and the first Chinese food and beverage brand to become a global sponsor of the World Cup. Mengniu is set to present itself to the world as China's top dairy enterprise and letting consumers around the world know about Mengniu's natural, nutritious and delicious products at the most prominent sports event in 2018, thereby achieving another breakthrough in gaining influence both in China and overseas.

The Mengniu team will embrace its original “Wolf Culture”, uphold the pure heart it has from day one building the Group’s business and hasten the pace of the Group in scaling new heights in the industry. Mengniu will continue to improve the quality and the brand reputation of its products, keeping in mind its original intention of “Cows of Inner Mongolia, Cows of China and Cows of the world” and determination to “must-win and win-win”, that it may stand firm on the forefront of the global dairy industry as it pushes ahead with its “2020 Goal” to achieve sales of RMB100 billion in 2020, putting its best effort into becoming a world class dairy enterprise.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of 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 applicable code provisions of the CG Code during the year ended 31 December 2017, 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 Corporate Governance 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. Less than half of the members of the Nomination Committee are independent non-executive Directors during the year of 2017. The Directors are of the view that each of Mr. Tim Ørting Jørgensen, Mr. Filip Kegels (who has been a member of the Nomination Committee until 20 December 2017) and Mr. Pascal De Petrini (who has been a member of the Nomination Committee since 20 December 2017) 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. Having made specific enquiry of all the Directors, the Company confirms that, during the year ended 31 December 2017, all the Directors have strictly complied with the Model Code.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company 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 financial statements for the year ended 31 December 2017.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.12 (2016: RMB0.089) per ordinary share for the year ended 31 December 2017. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Thursday, 31 May 2018 to shareholders whose names appear on the register of members of the Company on Thursday, 10 May 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Monday, 30 April 2018 to Friday, 4 May 2018, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Thursday, 10 May 2018, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Friday, 4 May 2018, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 27 April 2018.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 9 May 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Company at *www.mengniu.com* and the website of Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk*. The annual 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 Ms. Wu Wenting; the non-executive directors of the Company are Mr. Ma Jianping, 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, 27 March 2018