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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

- Mengniu, for the tenth consecutive year, made it on the “Global Dairy Top 20” list published by Rabobank, continuing to place itself among the top 10 of dairy industry. It was named one of the top 20 in the BrandZ™ list of the most valuable Chinese brands for the fourth consecutive year and ranked first on the brand contribution list.
- Mengniu, as an Official 2018 FIFA World Cup™ Sponsor, was able to push forward with its international brand building and promote four categories comprising a total of 161 products under 27 brands through its large scale all-channel integrated marketing activity. The “FIFA World Cup Fun, Scan the code for Red Packet 100%” (“Scan the Code for Red Packet”) activity received overwhelming responses with accumulatively more than 230 million times of code scanning.
- Mengniu’s room temperature and chilled products further strengthened their market leadership. Room temperature products continued to push for high-end brand upgrades. Room temperature yogurt achieved satisfactory growth in sales driven by launch of new products. As for chilled products, *Mengniu*, *Champion* and *Bio* brands yogurt maintained relatively fast growth. New probiotics beverage and yogurt products managed rapid growth and impressive performances in market penetration.
- Mengniu was committed to product innovation to continuously boost “product power”. By leveraging the 2018 FIFA World Cup™ (“World Cup”) sponsorship and related marketing, it reinforced its leading brands and carried out full product line upgrades to boost “brand power”, further promoting horizontal diversification of various product categories as well as vertical development of product brands to target middle to high-end market. Progress was also made in development of new markets for fresh milk, cheese, plant-based nutrition products and so on.
- Mengniu strived to fully execute its Route to Market (RTM) strategy and speed up development of point-of-sales. It also forged strategic partnerships with Alibaba and JD.com to help its e-commerce division accelerate development, explore new retail modes and keep optimizing channel expansion.
- Mengniu further deployed its business division system. By pursuing quality and efficiency upgrade plus cost reduction across the entire supply chain, the Group managed to continuously enhance its product quality, operational efficiency and profitability. Mengniu also led the way in using a completely data-enabled industrial chain, and launched an intelligent supply chain project in May this year.

* For identification purposes only

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2018, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		For the six months ended	
		30 June	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
Revenue	5	34,474,336	29,465,755
Cost of sales		<u>(20,952,057)</u>	<u>(18,963,182)</u>
Gross profit		13,522,279	10,502,573
Other income and gains	5	267,221	127,073
Selling and distribution expenses		(9,975,083)	(7,143,794)
Administrative expenses		(1,360,443)	(1,087,499)
Other expenses	6	(508,327)	(592,749)
Interest income		398,429	229,331
Finance costs	8	(226,497)	(191,404)
Share of losses of associates		<u>(100,514)</u>	<u>(354,600)</u>
Profit before tax	7	2,017,065	1,488,931
Income tax expense	9	<u>(358,502)</u>	<u>(373,846)</u>
Profit for the period		<u>1,658,563</u>	<u>1,115,085</u>
Attributable to:			
Owners of the Company		1,562,013	1,127,900
Non-controlling interests		<u>96,550</u>	<u>(12,815)</u>
		<u>1,658,563</u>	<u>1,115,085</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	<i>11</i>		
Basic		0.400	0.290
Diluted		<u>0.400</u>	<u>0.290</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	For the six months ended	
	30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	1,658,563	1,115,085
Other comprehensive income/(loss)		
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	(87,974)	129,606
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	17,838	–
Share of other comprehensive loss of associates	(12,794)	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	(82,930)	129,606
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(143,816)	(176,888)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(143,816)	(176,888)
Other comprehensive loss, net of tax	(226,746)	(47,282)
Total comprehensive income for the period	1,431,817	1,067,803
Attributable to:		
Owners of the Company	1,353,331	1,060,783
Non-controlling interests	78,486	7,020
	1,431,817	1,067,803

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		30 June	31 December
		2018	2017
<i>Notes</i>		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		12,730,413	12,715,454
Construction in progress		1,863,107	1,363,399
Investment properties		74,458	59,333
Land use rights		1,062,643	1,055,968
Goodwill		4,533,245	4,532,899
Other intangible assets		2,181,453	2,193,901
Investments in associates		7,136,573	7,194,010
Deferred tax assets		1,020,748	665,364
Biological assets		680,600	646,143
Derivative financial instruments		73,668	54,602
Other financial assets		1,277,529	1,585,183
Long term prepayments		66,005	54,769
		32,700,442	32,121,025
CURRENT ASSETS			
Other financial assets		11,977,944	10,690,539
Derivative financial instruments		15,396	5,584
Inventories		3,840,345	3,510,268
Right of return assets		19,190	–
Trade and bills receivables	13	3,282,105	2,646,834
Prepayments, deposits and other receivables		2,558,967	2,541,423
Pledged deposits		680,244	466,265
Cash and bank balances		6,846,712	5,958,877
		29,220,903	25,819,790
Assets of a disposal group classified as held for sale	10	–	197,916
		29,220,903	26,017,706
CURRENT LIABILITIES			
Trade and bills payables	14	7,202,140	6,342,273
Other payables and accruals		6,772,517	7,324,223
Contract liabilities		1,327,565	–
Refund liabilities		30,019	–
Interest-bearing bank and other borrowings		8,577,973	7,935,027
Other loans		22,908	22,912
Derivative financial instruments		9,919	1,222
Deferred income		197,778	160,279
Income tax payable		448,324	231,899
Other financial liabilities		564,523	545,594
		25,153,666	22,563,429
Liabilities directly associated with the assets classified as held for sale	10	–	2,864
		25,153,666	22,566,293
NET CURRENT ASSETS		4,067,237	3,451,413
TOTAL ASSETS LESS CURRENT LIABILITIES		36,767,679	35,572,438

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	6,129,972	6,015,097
Long term payables	4,081	10,894
Deferred income	769,604	739,459
Deferred tax liabilities	103,113	70,028
Derivative financial instruments	2,980	–
Other financial liabilities	1,620,257	1,629,837
	<hr/>	<hr/>
Total non-current liabilities	8,630,007	8,465,315
	<hr/>	<hr/>
NET ASSETS	28,137,672	27,107,123
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the Company		
Share capital	357,572	357,572
Treasury shares held under share award scheme	(262,929)	(262,929)
Other reserves	12,117,578	12,716,143
Retained earnings	11,349,133	9,793,487
	<hr/>	<hr/>
	23,561,354	22,604,273
	<hr/>	<hr/>
Non-controlling interests	4,576,318	4,502,850
	<hr/>	<hr/>
TOTAL EQUITY	28,137,672	27,107,123
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Notes:

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the 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. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

The Group has applied, for the first time in 2018, IFRS 15 *Revenue from Contracts with Customers* and the full text of IFRS 9 (2014) *Financial Instruments*. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has adopted IFRS 15 using the modified retrospective method of adoption, and applied the method only to contracts that are not completed at the date of initial application.

The adoption of IFRS 15 had no material impact on the financial statement line items and basic and diluted earnings per share of the Group.

The Group's principal activity consists of the manufacture and sale of dairy products. The Group's contracts with customers generally include one performance obligation. The Group has concluded that revenue from the sale of dairy products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the dairy products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue recognised was affected, as noted below.

(a) *Variable consideration*

The Group provides a right of return and trade discounts for certain sales contracts of dairy products with customers. Prior to the adoption of IFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. If revenue could not be reliably measured, the Group deferred revenue recognition until the uncertainty was resolved.

Under IFRS 15, rights of return and trade discounts give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Group presents a refund liability and an asset for the right to recover products from a customer separately in the statement of financial position.

The Group recognised *Right of return assets* and *Refund liabilities* amounting to RMB19,190,000 and RMB30,019,000, respectively in the interim condensed consolidated statement of financial position as at 30 June 2018.

The Group received short-term advances from customers. Prior to the adoption of IFRS 15, the Group represented these advances in *Other payables and accruals* in the consolidated statement of financial position. Upon the adoption of IFRS 15, the Group reclassified the advances to *Contract liabilities*. As at 1 January 2018, the Group had short-term advances from customers amounting to RMB1,843,166,000, which were reclassified to *Contract liabilities* at the initial application of IFRS 15.

(b) *Presentation and disclosure requirements*

As required for the condensed interim consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 for the disclosure on disaggregated revenue.

IFRS 9 Financial Instruments

The Group has early adopted IFRS 9 (2009) and IFRS 9 (2013) on 1 January 2014 and 1 July 2014, respectively. The Group has adopted the full text of IFRS 9 (2014) on 1 January 2018. The impact relates to the impairment requirement is summarised as follows:

The adoption of IFRS 9 (2014) has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other receivables, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 (2014) resulted in an increase in impairment allowances of the Group's debt financial assets. The Group recognised the cumulative catch-up adjustment amounting to RMB6,367,000 to the opening balance of retained earnings as at 1 January 2018 in the interim condensed consolidated statement of changes in equity.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's condensed consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's condensed consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and has not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's condensed consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's condensed consolidated financial statements.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Segments	For the six months ended 30 June 2018 (unaudited)				
	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
Sale of goods	28,931,560	2,239,829	2,921,703	356,415	34,449,507
Consigned processing service	–	–	24,829	–	24,829
Total revenue from contracts with customers	28,931,560	2,239,829	2,946,532	356,415	34,474,336

Segments	For the six months ended 30 June 2017 (unaudited)				
	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
Sale of goods	25,372,096	1,985,259	1,786,355	322,045	29,465,755
Total revenue from contracts with customers	25,372,096	1,985,259	1,786,355	322,045	29,465,755

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

For the six months ended 30 June 2018 (unaudited)

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	28,931,560	2,239,829	2,946,532	356,415	34,474,336
Intersegment sales	<u>374,421</u>	<u>60,375</u>	<u>44,882</u>	<u>219,000</u>	<u>698,678</u>
	29,305,981	2,300,204	2,991,414	575,415	35,173,014
Reconciliation:					
Elimination of intersegment sales					<u>(698,678)</u>
Total revenue					<u>34,474,336</u>
Segment results	1,569,044	265,113	(4,608)	(10,535)	1,819,014
Reconciliation:					
Interest income					398,429
Finance costs					(226,497)
Share of losses of associates					(100,514)
Corporate and other unallocated expenses					<u>126,633</u>
Profit before tax					2,017,065
Income tax expense					<u>(358,502)</u>
Profit for the period					<u>1,658,563</u>
At 30 June 2018 (unaudited)					
Segment assets	37,320,033	2,859,543	14,104,587	622,761	54,906,924
Reconciliation:					
Elimination of intersegment receivables					(12,666,600)
Corporate and other unallocated assets					<u>19,681,021</u>
Total assets					<u>61,921,345</u>
Segment liabilities	18,756,540	2,876,312	4,045,218	1,020,852	26,698,922
Reconciliation:					
Elimination of intersegment payables					(12,666,600)
Corporate and other unallocated liabilities					<u>19,751,351</u>
Total liabilities					<u>33,783,673</u>

For the six months ended 30 June 2017 (unaudited)

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Others <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	25,372,096	1,985,259	1,786,355	322,045	29,465,755
Intersegment sales	<u>287,804</u>	<u>58,345</u>	<u>32,538</u>	<u>160,339</u>	<u>539,026</u>
	25,659,900	2,043,604	1,818,893	482,384	30,004,781
Reconciliation:					
Elimination of intersegment sales					<u>(539,026)</u>
Total revenue					<u>29,465,755</u>
Segment results	2,038,688	190,754	(181,140)	(33,180)	2,015,122
Reconciliation:					
Interest income					229,331
Finance costs					(191,404)
Share of losses of associates					(354,600)
Corporate and other unallocated expenses					<u>(209,518)</u>
Profit before tax					1,488,931
Income tax expense					<u>(373,846)</u>
Profit for the period					<u>1,115,085</u>
At 31 December 2017 (audited)					
Segment assets	35,685,811	2,056,731	12,944,969	663,834	51,351,345
Reconciliation:					
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
Reconciliation:					
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>

5. 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:

		Unaudited	
		For the six months ended 30 June	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
Revenue:			
Sale of goods		34,474,336	29,465,755
Other income and gains:			
Government grants related to			
– Recognition of deferred income	<i>(a)</i>	39,689	44,183
– Income and biological assets	<i>(b)</i>	95,302	45,929
Gain on disposal of a disposal group classified as held for sale	<i>10</i>	34,991	–
Foreign exchange gains, net		9,405	–
Net fair value gain on exchangeable bonds		3,492	2,777
Others		84,342	34,184
		267,221	127,073
		34,741,557	29,592,828

Notes:

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

6. OTHER EXPENSES

	Notes	Unaudited	
		For the six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
Provision for trade receivables and other receivables	(a)	54,518	9,902
Write-back of provision for trade receivables and other receivables		(12,042)	(859)
Write-down of inventories to net realisable value		97,202	38,594
Provision for property, plant and equipment		–	1,814
Losses on disposal of items of property, plant and equipment		11,604	13,062
Donations		5,930	1,000
Educational surcharges, city construction tax, and other taxes		233,169	203,358
Losses arising from changes in fair value less cost to sell of dairy cows		52,682	33,026
Net fair value loss on forward currency contracts		1,626	2,080
Foreign exchange losses, net		–	99,315
Loss on disposal of a subsidiary		–	11,698
Losses on deemed disposal of partial interests in associates	(b)	–	125,439
Net fair value loss on a convertible promissory note		1,045	–
Others		62,593	54,320
		508,327	592,749

Note:

- (a) The Group recognised impairment losses on trade receivables arising from contracts with customers, included under other expenses in the condensed consolidated statements of profit or loss, amounting to RMB42,476,000 and RMB9,403,000 for the six months ended 30 June 2018 and 2017, respectively.
- (b) On 6 January 2017, due to the execution of share award scheme of Inner Mongolia Fuyuan International Industrial Co., Ltd., the Group's shareholding in Inner Mongolia Fuyuan International Industrial Co., Ltd. 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 Holdings Ltd. ("China Modern Dairy") 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 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.

7. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June	
	2018	2017
Note	RMB'000	RMB'000
Cost of inventories sold	20,958,451	18,950,843
Realised and unrealised fair value losses/(gains) of commodity futures contracts, net	(6,394)	12,339
Cost of sales	20,952,057	18,963,182
Depreciation of items of property, plant and equipment	840,178	800,106
Depreciation of investment properties	1,318	1,293
Amortisation of land use rights	14,335	13,292
Amortisation of other intangible assets	31,643	24,039
Outsourcing expenses (a)	145,149	161,946
Minimum lease payments under operating leases	160,245	145,454
Display space leasing fees	1,315,087	614,196
Employee benefit expense (including directors' and senior executive's emoluments)	2,729,576	2,395,742

Note:

- (a) For the purpose of promoting operation efficiency, the Group outsourced the production of certain products. The amounts represent the total amounts paid by the Group for purchasing outsourcing services.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited	
	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest on bank loans	165,070	102,693
Interest on US\$500,000,000 3.50% bond due 2018	61,731	63,127
Interest on long term payables	924	2,387
Net fair value gain on interest rate forward contracts	(1,228)	(2,440)
Bonds issuance cost and others	–	25,637
	226,497	191,404

9. INCOME TAX EXPENSE

The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	Unaudited	
	For the six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
Current income tax charge	680,801	474,183
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	<u>(322,299)</u>	<u>(100,337)</u>
	<u>358,502</u>	<u>373,846</u>

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

10. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 22 December 2017, Yashili International Holdings Ltd. (“Yashili”) entered into an agreement to dispose of a piece of land of Scient (China) Baby Nourishment Co., Ltd. (“Scient China”), together with the property, plant and equipment on the land. The disposal had not been completed until January 2018. As such, as at 31 December 2017, the related assets and liabilities were classified as a disposal group classified as held for sale. As at 30 June 2018, the transaction had been completed with a disposal gain of RMB34,991,000 recognised in other income and gains (note 5) of the Group.

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

(a) Basic earnings per share

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

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

	Unaudited	
	For the six months ended 30 June	
	2018	2017
	Number of shares	Number of shares
	<i>(in thousand)</i>	<i>(in thousand)</i>
Issued ordinary shares at 1 January	3,927,361	3,925,027
Effect of share options exercised	–	277
Effect of shares purchased under share award scheme	<u>(24,615)</u>	<u>(30,994)</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>3,902,746</u>	<u>3,894,310</u>

(b) Diluted earnings per share

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

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

	Unaudited	
	For the six months ended 30 June	
	2018	2017
	Number of shares	Number of shares
	(in thousand)	(in thousand)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,902,746	3,894,310
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	<u>–</u>	<u>423</u>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>3,902,746</u>	<u>3,894,733</u>

12. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

During the six months ended 30 June 2018, the Company declared and paid a final dividend of RMB0.12 (six months ended 30 June 2017: RMB0.089) per ordinary share as proposed for the year ended 31 December 2017 to the shareholders of the Company.

13. TRADE AND BILLS RECEIVABLES

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

An ageing analysis of the trade and bills receivables of the Group, based on the invoice date and net of provision, is as follows:

	Unaudited	Audited
	30 June 2018	31 December 2017
	RMB'000	RMB'000
Within 3 months	3,066,698	2,439,605
4 to 6 months	135,515	125,377
7 to 12 months	69,589	78,150
Over 1 year	<u>10,303</u>	<u>3,702</u>
	<u>3,282,105</u>	<u>2,646,834</u>

14. TRADE AND BILLS PAYABLES

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

	Unaudited 30 June 2018 <i>RMB'000</i>	Audited 31 December 2017 <i>RMB'000</i>
Within 3 months	6,128,053	5,569,969
4 to 6 months	897,277	633,662
7 to 12 months	153,976	116,853
Over 1 year	22,834	21,789
	7,202,140	6,342,273

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

15. EVENTS AFTER THE REPORTING PERIOD

- (a) On 7 August 2018, the Company issued five-year bonds due 2023 with an aggregate principal amount of US\$500,000,000 at 99.653% of the face value. The bonds bear interest at the rate of 4.250% per annum, payable semi-annually in arrears.
- (b) On 13 June 2018, Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao"), an indirectly owned subsidiary of the Company, entered into an equity transfer agreement, pursuant to which Junlebao agreed to purchase additional equity interests in Banner Baby Dairy Company Limited, an associate of Junlebao, at an aggregate cash consideration of RMB357,000,000 from third parties. Banner Baby Dairy Company Limited is mainly engaged in the manufacture and distribution of raw milk and infant milk formula products. Upon completion, Banner Baby Dairy Company Limited will become a subsidiary of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2018, the Chinese economy continued to develop steadily driving growth of domestic consumption demand, hence presented conditions in favor of the stable development of the dairy product industry. During the period, the GDP of China amounted to RMB41.8961 trillion, an increase of 6.8% year-on-year. National Resident Per Capita Disposable Income increased by 8.7% year-on-year to RMB14,063. China's Total Retail Sales of Consumer Goods were RMB18.0018 trillion, an increase of 9.4% year-on-year.

With the society's population aging, family size becoming smaller and younger consumers emerging as the main consumption groups, consumption demands have been shifting towards high-end, diversified, health oriented products with unique consumption experience. The phenomenon has stimulated the upgrade of industry structure. Product innovation and enhancing brand power continuously have become the strategies of corporations to attract consumers. In addition, ongoing urbanization drives the channel penetration into lower-tier markets. The consumption demand from the third-tier and fourth-tier cities is becoming one of the growth drivers of the dairy product industry. Since online shopping has become common among consumers, e-commerce sales of fast-moving consumer goods have been climbing rapidly. And consumption through mobile devices has led to fragmenting of e-commerce shopping, which also requires enterprises to hasten e-commerce penetration, push for integration of online and offline marketing, and speed up deployment of the "new retail" business mode to better capture market share.

For the liquid milk market, alongside consumption demand upgrade, room temperature yogurt, high-end pure milk and chilled products have become the main growth engine of the industry. Regarding domestic infant milk formula, the market has been developing in steady strides, owed mainly to quality upgrade, brand promotion and the two-child policy. The organic infant milk formula market, in particular, is growing fast. As at August this year, under the launched infant milk formula registration system, China government has approved 1,177 infant milk product formulas, which was significantly fewer than the formulas available in the market before the system took effect, meaning the market is subjected to yet more stringent regulations, which is going to benefit the stronger players.

Moreover, in June this year, the State Council of the PRC issued a circular to further revive the milk industry and improve the quality and safety of domestic dairy products. Its purposes are to further optimize the industry and product structure, promote the quality, competitiveness and reputation of dairy products, strengthen the quality and safety of dairy products and in turn consumer confidence in them, and facilitate the synergistic development of dairy production and the ecology. The target, as stated in the circular, is to completely revitalize the dairy industry by 2025. When relevant new policies are introduced, the supply-side structural reform and modernization of the dairy industry are expected to achieve yet more progress.

To speed up upgrade and transformation of China's dairy industry, industry players have been keen on "going global" to help them enhance technologies as well as research and development capability, improve overall product quality and explore overseas markets. The management of the Group believes the dairy product industry has advanced into the era of 4U, i.e. User, Universal, Unique and United (across channels). The keys to development of enterprises in China include adopting the user-oriented approach, speeding up integration into the global economy, shrewd in capturing emerging consumer groups and effectively building new consumption channels, all of which are also the corporate development strategies of Mengniu.

BUSINESS REVIEW

In the first half of 2018, Mengniu further deployed its business division system. Its four major business divisions, namely room temperature, chilled, milk formula and ice cream products achieved synergistic development and sustainable quality growth. By pursuing quality and efficiency upgrade as well as cost reduction across the entire supply chain, the Group managed to continuously enhance product quality, operational efficiency and profitability.

Mengniu for the first time sponsored an international sports competition, becoming an Official 2018 FIFA World Cup™ Sponsor. The Group was able to forcefully push forward with its international brand building via promoting four categories comprising a total of 161 products under 27 brands. During the period, Mengniu uses "Power of Nature, Born for Greatness" as its World Cup marketing campaign theme. "Mengniu" brand shone at Russia World Cup and captured market attention, at home and abroad, through its all-channel integrated marketing activities. At the same time, Mengniu focused on enhancing interaction with consumers, including launching the large-scale integrated marketing activity "Scan the Code for Red Packet". The activity received overwhelming responses with accumulatively more than 230 million times of code scanning.

In 2018, Mengniu, for the tenth consecutive year, made it on the "Global Dairy Top 20" list published by Rabobank, continuing to place itself among the top 10 at the forefront of dairy industry. And, it has been named one of the top 20 in the BrandZ™ list of the most valuable Chinese brands for the fourth consecutive year and ranked first in the brand contribution list, testifying again to its brand power. Also, with a consumer reach point (CRP) of over a billion, Mengniu ranked second as the most chosen brand by consumers in the PRC according to the Brand Footprint 2018 issued by Kantar Worldpanel. Moreover, Mengniu was the official partner of Shanghai Cooperation Organization Summit, with its *Mengniu Pure Milk* series and star products such as *Milk Deluxe*, *Just Yoghurt* easy-to-carry bottle series *Xiaomanyao* and *Deluxe* as the designated products of the event. Mengniu's quality products again gained recognition of an international conference, marking another step forward on the path of taking the brand international.

During the period, Mengniu focused on tapping "user power" by enhancing interaction with consumers and carefully observing consumer behaviors, while committing to product innovation to help it continue to boost "product power". To foster "brand power", it reinforced its leading brands, carried out full product line upgrades, and further promoted horizontal diversification of various product categories as well as vertical development of product brands to target middle to high-end market. The Group also joined hands with Danone S.A. and its subsidiaries ("Danone Group") and Arla Foods a.m.b.a. ("Arla Foods") in guiding R&D

innovation of the various business divisions, promoted new product launches, and as such launched a host of best-selling products and made progress in developing new markets for fresh milk, cheese, plant-based nutrition products and so on. At the same time, the Group is working on further enhancing deployment of raw milk especially premium raw milk sourcing with reference to local and overseas advanced experiences, with an aim to ensure the supply of quality and unique milk sources and the precise match in milk usage, which in turn to promote product innovation and product quality improvement, and boost product price premiums.

During the period, Mengniu's room temperature and chilled products further strengthened their market leadership. Room temperature products continued to push for high-end brand upgrades. *Milk Deluxe* launched an upgraded organic product, and hence boosted the development of organic product riding on its brand power. Room temperature yogurts *Just Yoghurt*, *Fruit Milk Drink* and the new brand *ZUO Yogurt* enjoyed synergies and fortified their market share in room temperature yogurt segment. Basic chilled yogurt and *Bio* brand maintained relatively fast growth. New products like *Champion BB-12 Yogurt*, *Yoyi C LC-37* probiotic drink, and *European Charcoal Yogurt* managed rapid growth and impressive performances in market penetration. Yashili International Holdings Ltd ("Yashili", stock code: 1230) deepened the deployment of business division system and completed its *Yashily* brand upgrade. As of August 2018, Yashili has completed the registration of 48 formulas in 16 series of its own brands and *Arla* which Yashili cooperates with. It has been actively preparing itself for operating against the new market landscape with the infant milk formula registration system now in place. For ice cream products, benefiting from World Cup related online interaction and brand ambassadors, marketing to their fans, sales thrived.

During the period, the Group strived to fully execute its Route to Market (RTM) strategy by speeding up development of point-of-sales and penetration in lower-tier counties and townships to reinforce its channel advantage. It also forged strategic partnerships with Alibaba and JD.com to help its e-commerce division accelerate development, explore new retail modes and keep optimizing channel promotion.

In the advent of Big Data era, Mengniu led the way in using a completely data-enabled industrial chain and has realized its data-based "Wisdom of a Cup of Good Milk" along the full stretch – upstream and downstream – of its industrial chain. Its target was to facilitate in-depth integration of Big Data and Artificial Intelligence into the entire dairy industrial chain, therefore to achieve digital, network and intelligent transformation of the traditional dairy industry.

By pursuing the "Excellent Milk Source Operation and Management Model" and pushing forward with strengthening deployment of domestic and overseas milk sources, Mengniu strives to enhance internal operational capability, ranch management level as well as the efficiency and professionalism of ranch teams. Also, with the leverage of quality raw milk supply and the plant resources of China Modern Dairy Holdings Ltd. ("China Modern Dairy", stock code: 1117), the Group was able to enhance synergies of upstream and downstream businesses. Apart from deploying milk sources and exploring markets overseas, as a leading Chinese dairy product enterprise and now the chairman of China and New Zealand Business Council, Mengniu will join hands with the "Belt and Road Dairy Alliance" to actively promote industrial and commercial cooperation worldwide.

Business Division Performance

Room Temperature Product Business

Upgrade efforts continued for product series of various room temperature brands with innovation pinpointing consumers' needs, resulting in sustainable increase in market shares. Room temperature pure milk products (including *Mengniu Pure Milk* and high-end pure milk *Milk Deluxe*) maintained their steady growth in sales volume and leading market shares. And, with its three major brands *Just Yoghurt*, *Fruit Milk Drink* and *ZUO Yogurt* as engine, Mengniu pushed to develop the room temperature yogurt market with immense growth potential. Room temperature yogurt products achieved satisfactory growth in sales driven by strong new products in the first half of the year.

In May this year, *Milk Deluxe Organic Milk* was launched in a new packaging, adopting a design concept that brings out its high-end and natural qualities. The traditional drinking straw was replaced by “DreamCap™”, making it yet easier to carry and more practical, which leads the industry in taking high-end products to even higher level of excellence. *Just Yoghurt* mounted the World Cup themed marketing activities featuring the slogan “Pure Flavor, Full Enjoyment”, and with the help of focused advertising and effort to encourage online and offline interaction, the brand gained significantly more exposure on various social media platforms. During the period, *Just Yoghurt* launched a high-end easy-to-carry bottle series *Xiaomanyao* and three new flavors in original traditional packaging, adding diversity to the product mix of the brand. For milk beverage *Fruit Milk Drink*, effort was made aiming for breakthrough in product category. Apart from maintaining the popularity of the blueberry flavor product launched to market last year, a new product *Fruit Yogurt* hit the market and quickly achieved strong word-of-mouth as well as sales, with the help of celebrities Li Yifeng and Zhao Liying as brand ambassadors rallying support of their fans, plus the use of various media channels for publicity. *ZUO Yogurt*, which targets younger consumers, launched the bitter, spicy and salty flavors, with the support of the interactive marketing event called “Look at My Face, That’s How Tasty it is” on Douyin platform with a large younger user base, and became a red hot product on the web. In addition, around the end of last year, Mengniu introduced *Future Star A2β Casein Pure Milk*, made with premium milk in limited supply from meticulously selected ranches, supporting the healthy growth of kids. Mengniu also unveiled to the market its first weight management fiber-rich milkshake milk product *Burnlooking* during the period, and via marketing and publicity on social media presenting the product in different consumption settings, captured eyes of the health conscious mass.

Chilled Product Business

The chilled product division further enhanced its cooperation with the Group’s strategic shareholder Danone Group on product R&D as well as quality and technique, pressing ahead with product structure changes to increase appeal to middle to high-end market and increase product price premium. Through precise and focused efforts to capture key markets and tapping innovative channels, the business was able to further boost both sales and profitability. During the period, Mengniu continued to top the chilled product market in terms of market share. Of all its chilled products, *Mengniu*, *Champion* and *Bio* brands yogurt maintained relatively faster growth, while *European Charcoal Yogurt* delivered strong performance and tailored-for-channel products boasted impressive growth.

During the first half of the year, Mengniu introduced seven new chilled products, which bolstered growth in sales and profit of the business division. During the period, *Champion* focused on enhancing market penetration of new products. The new product *BB-12*, which was launched last year, achieved higher than expected sales in the first half year thanks to strengthened education communication on the benefits of functional healthy yogurt which helped reinforce the product's "Professional and Functional" positioning and development of markets in southern regions. *Yoyi C LC-37* series, which was launched last year, is an innovative product which revolutionizes probiotics product offerings, overcoming the technical bottleneck faced by the low temperature probiotics industry. During the period, it adopted customized World Cup packaging with the complement of "Scan the Code for Red Packet" activity, which helped stimulate sales. Moreover, deployment was made for the *European Charcoal Yogurt* series with a realized nationwide reach and an expanded series, and as such, it prided strong sales growth in the first half year. In late June, new flavors of the yogurt – lime and peach with pulp – were also introduced. *Bio*'s leading-edge product *Bio Kaquzi* grain mix flavored yogurt, made to address the growing demand of domestic consumers for food replacement, recorded commendable results in key markets such as Shanghai.

Milk Formula Business

As for the milk formula business, Yashili, in which the Group held approximately 51% shares, has an extensive product portfolio. It is made up of such brands as *Yashily*, *Reeborne*, *Dumex*, *Doraler*, *Arla Baby & Me* and *Scient* for healthy growth of infants, and *Youyi*, *Huanqing* and *Zhengwei* for satisfying the nutritional needs of adults, meeting the demands of consumers from mass market to high-end market. As the enterprise which has the most registered formulas in the first batch, as of August 2018, Yashili has completed the registration of 48 formulas in 16 product series of its own brands and *Arla* which Yashili cooperates with in response to the implementation of China infant milk formula registration system. The Group's another milk formula brand, *Junlebao*, has also completed registration of 18 formulas in 6 product series, reflecting the recognition of brand for its professionalism and leadership.

During the period under review, Yashili continued the brand strategy of differentiated deployment. It regrouped and redefined the value, mission and positioning of the corporate brand as well as its five major product brands to respond to the consumption upgrade trend, therefore was able to accomplish coverage of markets of all tiers: *Yashily* and *Dumex* for middle to high-end markets, *Reeborne* and *Doraler* for high-end market, and *Arla Baby & Me* for ultra-high-end market. Yashili also continued to strategically restructure and reinforce its channels. Apart from the four major business units for infant milk formula, three new independent business units have been set up. The new setup with seven business units has been formed to actively promote the Group's star products, while driving the development of other products.

Yashili completed its brand image upgrade in April this year. Leveraging its status of “Craftsmanship Brand as awarded by China Central Television (“CCTV”) and “Official partner of 2018 World Cup”, Yashili promoted its brand through all channels, which resulted in stronger channel and consumer confidence and reputation of the brand.

Ice Cream Business

The ice cream business division focused on its flagship brand *Suibian*. With the super star Kris Wu as brand ambassador and limelight on its 12 key ice cream products, Mengniu rolled out a large-scale promotion titled “Shake for Red Packets, Win Tickets to the World Cup”, appealing to consumers online and offline, bringing the extraordinary exposure and boosting sales volume. During the period, *Suibian* introduced its new products including the double-layer crunchy belgian chocolate and cherry jam ice cream, and strawberry and chocolate flavor ice cream, made with top quality ingredients and international-grade techniques to foster advancement towards the high-end. In addition, under the high-end brand *Deluxe*, the new product wonder color crunchy ice cream was added and gave a remarkable push to sales of the brand during the first half year. *Ice+* introduced various new products, including the special football shape passion fruit flavor ice cream launched in cooperation with Lionel Messi (“Messi”), all of which far exceeded the set sales targets. New products were also added to *Russian* series and *Mood for Green* series, etc.

New Business Development

Cheese Business

With the consumption upgrade trend gathering momentum, the cheese market in China has strong growth prospect. Mengniu thus strengthened cooperation with Arla Foods on deployment to develop the cheese market, and established a cheese business platform to support three major areas of development, namely retail, deep processing of dairy products and cheese for catering service. In the first half of 2018, Mengniu’s cheese business recorded double-digit growth in net income. For the domestic market, Mengniu and Arla Foods together introduced *Arla* shredded mozzarella under the professional catering brand *Arla Pro* which was the first of its kind customized for and produced in China. In addition, the two partners announced the “Five New” strategy, that is, with new products, new formulas, new packaging, new intellectual rights and new marketing, to effect all-round channel deployment, develop strategic product lines, and enrich brand structure, thereby improve overall sales capability for realizing the aspiration of “revitalizing cheese industry to help make the dream of a healthy China come true”. During the period, Mengniu’s cheese business and Arla Foods together signed an agreement to be the official sponsors of the 2018 World Fencing Championships.

Fresh Milk Business

In alignment with international standards, fresh milk business division carried out innovation and upgrade in various aspects including product quality and market coverage. Starting from integration of China Modern Dairy's resources, the quality of the Group's excellent raw milk is superior than imported milk's quality in many aspects. The Group adopt international leading technology system across the entire industrial chain to produce excellent fresh milk for the Chinese. During the period, we launched two new fresh milk products, namely *Shiny Meadow* and *Greenhouse*, which lead a healthy lifestyle of a new era, to cover the middle to high-end fresh milk market.

Since the second half of 2017, the channels of fresh milk business division have mainly covered the major cities of Eastern China, Southern China, Northern China and Central China. While we actively negotiate with, explore and establish presence in traditional channels, which mainly comprised large-scale shopping malls like Walmart, we also closely follow the new retail trend in first-tier and second-tier cities. We have now established our presence in Hema Fresh's trial stores to lead the way in seizing the opportunities in new retail channels. In the future, the fresh milk business will innovate the mode of sales in a planned way and explore the mode of sales of fresh milk more suitable in China.

Plant Protein Beverage Business

Mengniu engages in the plant-based protein beverage business under the brand *ZhiPuMoFang*. Embracing firmly the product positioning of its *Silk Americano Soymilk* with quality US brand assurance, in March this year, bannered "trendy and healthy, international quality, and great new flavors", the new North America mixed berries flavor soymilk was launched. During the period, *Silk Americano Soymilk* and Starbucks furthered their cross-sector cooperation, with the former offering plant-based solutions such as oat soymilk, almond soymilk and original taste soymilk to the latter for making coffees. The business also took advantage of existing market resources of Mengniu's liquid milk to increase channels and enhance control on point-of-sales.

Overseas Business

Mengniu's overseas business division took full benefit of the World Cup in the first half year and mounted marketing roadshows in Hong Kong, Singapore and Myanmar, highlighting the theme "Naturally Good, Naturally Strong" to help raise Mengniu's brand influence and promote sales. At the roadshows, three major products – *Just Yoghurt*, *Yoyi C* and ice cream – were spotlighted and effort was made to introduce the upgraded new products and increase market share. *Just Yoghurt* and *Yoyi C* became star products in overseas markets.

Quality Management

Mengniu firmly believes that quality is its lifeline. Thus, with the spirit of “Craftsman of Milk”, it keeps fine-tuning every production detail in the hope of presenting quality experience perfect to the customers. The Group’s different quality management departments collaborated in implementing the accountability system by business divisions and quality management standards required by the Group, assuring the consistency of quality of each product category and across the entire industrial chain. During the first half year, Mengniu started and completed the upgrade of its quality control system in accordance with advanced international standards, achieving integration of the quality control system with the management flow of the new business division system, covering the entire industrial chain from source to sales, and allowing better quality control on every link in the chain. As such, the core end-to-end quality performance indicators of the industrial chain were better than those in the last corresponding period.

The Laboratory Information Management System (“LIMS”) and SAP are working in collaboration and continuously optimizing and are operating smoothly in the Group’s factories. Mengniu now has the ability to track information of every point on its production chain, forward and backward, and the inspection and quality control workflows are perfectly integrated, such that the consistency of quality control throughout the Group is ensured. During the period, the Group strengthened quality management from source like market intake and suppliers and enhanced the inspection system and skills of inspection technicians, so as to improve the accuracy of laboratory work. At the same time, the Group brought in many advanced inspection facilities and approaches from overseas to help it effectively inspect performances against relevant benchmarks.

By entering the “Year of the National Standard Revision for Dairy Products” in 2018, the new national standards will be implemented to revitalise the dairy industry, which have bearing on 90% of Mengniu’s business. In response to the drawing up of the new standards, Mengniu took the initiative to participate in the drafting of industry standards. It reported to the Ministry of Industry and Information Technology for the “condensed milk” and “the testing results of β -casein in dairy and related products”, which has helped take the quality of China’s dairy industry to a new level. Mengniu’s dedication to quality is an uncontested fact. It has been given the approval, as the only dairy enterprise selected, by the Standardization Administration of China to build a “National Innovation Base of Technical Standards”, which would become a world-leading standard innovation center in dairy product industry.

During the first half of 2018, the milk source business division adopted the Arla Foods standards and New Zealand’s AsureQuality safety management standards in its quality and technique management system, living out the principle of “quality first”. It strictly complied with relevant regulations and standards, domestic and overseas, in relation to dairy cattle rearing to ensure the safety of its quality milk source and milk source supply for the Group’s unique products. During the period, efforts were made on multiple dimensions to help improve the quality of milk supply, with a risk alarm mechanism in place to keep check on the risk exposure of each milk source and plant and the use of medications on dairy cows. The training for grooming ranch management professionals was also strengthened. In the first half year, Mengniu continued to pride a 100% passing rate for random inspection carried out on sample raw milks from its milk source suppliers by 37 inspection bodies.

During the period, the room temperature business division pursued delicate and speedy quality management, by using the new internal laser code printing technology, to realize double tracking of products. The quantitative inspection management mode of production plants was optimized and seven techniques for speedy food safety detection were developed and applied in scale. At the same time, efforts were made to address the issue of damage to laminated carton boxes caused by precipitation due to the temperature difference between the northern and southern areas, and as a result improved the overall efficiency of product turnover. On the front of management and control of quality of student milks, Mengniu carried out major assessments of the student milk market at the beginning of spring semester, to make sure it has complete control over product quality and safety and keep the safety incident rate in relation to student milks at zero.

During the first half of the year, the chilled business division aligned with Danone's newly revised Food Safety Item ("FSI") standards and strengthened quality control on high-risk ancillary raw ingredients such as fruit products and prefabricated packaging materials to lower the probability of product deterioration. During the period, Mengniu also conducted food safety audits on nearly half of its chilled product plants for plant improvements. With customer satisfaction in mind, the ice cream business division improved product packaging and management of the production process, which contributed to standardization of the business process and assurance of all factories observing the same set of precise and consistent benchmarks in production. The factories of the fresh milk business division all strengthened auditing in strict compliance with relevant standards, improved its quality data management and inspection plan and also carried out study on customer profiles and cold chain conditions. The cheese business division continued to upgrade techniques and craftsmanship to ensure various benchmarks agree with the features of new products. The cheese business division and Arla Foods together also performed two audits based on the European food safety management standards and strengthened quality and safety control and management procedures.

Milk Source Development

In the first half of 2018, the milk source business division, as a fully operational business unit, worked in synergy with all other business divisions and contributed to the steady growth of the Group's results. Guided by the "Mengniu 2020 Strategic Plan" and using the "Excellent Milk Source Operation and Management Model", it strived to enhance internal operational capability, ranch management standard and the efficiency and professionalism of ranch teams and, at the same time, kicked off digitalization of milk source operation.

Currently, the milk sources of Mengniu are primarily in Northwestern, Northeastern China, and Northern China, areas ideal for rearing dairy cattle hence afford prime quality milk supply. The Group has been able to increase the proportion of milk sources under its own control. Moreover, by acquiring stakes in renowned domestic dairy farming enterprises, the Group is able to boost its advantage in access to quality milk source. Moreover, pursuing the strategy of expanding sourcing of milk overseas, Mengniu has milk sources now in such countries as Denmark, Australia and New Zealand, which are known for their rich milk supply. During the period, the percentage of milk sources of Mengniu from standardized ranches and scaled farms was maintained at 100%.

The milk source business division has kept upgrading milk source quality to ensure the Group has consistent access to unique and quality milk source for supporting development of high-end downstream products and helping boost the core competitiveness of products. Building on the experiences it has gained locally and overseas and taking reference of its two core indicators in relation to microorganism and somatic cells, it has drawn up a set of grading standards for raw milk. The system is integrated with the raw milk pricing and payment mechanism to assure the Group of quality raw milk supply. In addition, protein content benchmarks are used to match with raw milk benchmarks to aid classification for meeting precisely requirements of different products and achieving maximum economic benefit. During the period, the milk source business division and the Group's research and development and innovation division together started the "Sensory and Nutrition Map of China's Raw Milk" project, with a professional flavor evaluation team set up to collect data of raw milk from different regions and of different kinds for analysis of their nutritional content and flavor differences, so as to provide reference for product innovation.

Upholding the principle of "quality first", Mengniu has continued to align with the advanced Standard Operational Procedure ("SOP") for ranch management used by its Danish partner Arla Foods in building the "Mengniu Ranch Quality and Safety Management System", which is being applied in ranches and by milk source personnel. During the period, the China-Denmark Milk Technology Cooperation Center jointly established by Mengniu and Arla Foods rolled out the "Heat Stress Alleviation Project" and "Regional Ranch Cost-cutting and Efficiency-enhancing Pilot Project" to help ranches improve management. At the same time, to ensure its ranch management practices are on par with international standard, the Group in greater extent implemented AsureQuality from New Zealand, one of the most-respected food safety management certification standards in the world, and also aligned with the rules and regulations as well as standards for the livestock industry, at home and overseas.

Mengniu led the industry in applying digital management across its entire industrial chain upstream to downstream, helping to drive upgrade of information technology used in the dairy product industry, enabling connection of information across "cow-ranch-dairy enterprise-third party". Using digital tools and tactics, it is building a "digital milk source" information platform to facilitate information exchange for ranch management and allow sharing of raw milk supply chain information among ranches, thereby facilitating collection of Big Data of the dairy industry ecosystem for driving the professional and effective development of the industry. The "Digital Milk Source Platform" project is expected to take three to five years to build and mature. In 2018, the overall framework of the platform will be built comprising systems for forecasting milk yield, herd record keeping, output per cow, veterinary drugs management, and clearing and settlement. The tendering process of the project has been completed and a dedicated project team has been formed to execute related work. Selected ranches will take part in the trial of the platform, which is expected to start by the end of 2018. The platform is scheduled to put into full operation in 2019.

During the period, Mengniu actively responded to the national strategy for reviving the dairy industry. By consolidating different resources, broadening funding channels for milk suppliers, and offering upstream ranches more comprehensive, high-quality and advanced services, the Group speeded up transformation and upgrade of milk source bases. At the same time, a unique to Mengniu ranch efficiency enhancement system was set up. A ranch management model was executed in ranches and skills of the ranchers were improved, which enabled improvement of ranch operation efficiency, lowering of milk cost per kilogram and enhancement of overall profitability of the ranches.

With environmental laws in effect in China, the authority has kept stepping up related supervision and enforcement of the laws in the country. For Mengniu, it has built its Environment, Health and Safety (“EHS”) system in accordance with 61 national laws and regulations and 11 sets of group standards. The milk source business division has also set up different levels of safety committees to ensure all safety and environmental protection endeavors serve their intended purposes.

Corporate Digital Strategy

In the first half of 2018, Mengniu continued to deploy its digital strategies. It pushed on with building the “Digital Mengniu” on multiple dimensions including enhancing management standard, assuring product quality, satisfying consumption upgrade demand and embracing innovation, thereby exploring and leading development of the “dairy industry in the new digital era”. The Group completed construction of its information system management structure with SAP at the core in 2016 and it was fully synergized with the Laboratory Information Management System (“LIMS”). Together with the “Mengniu Cloud”, with five core constituents namely “Foundation Cloud”, “Partner Cloud”, “Channel Cloud”, “Consumer Cloud” and “Staff Cloud”, they provide full support to each of the Group’s business division, helping enhance the overall operational efficiency of the Group.

In June 2018, Mengniu signed an annual framework agreement with Alibaba to combine resources and pursue full scope strategic cooperation on Big Data and boost upgrade of fast-moving consumer goods consumption and smart business. Mengniu also cooperated with Alibaba Cloud to commence a consumer Big Data project aiming for in-depth cooperation on Big Data and build a “people-oriented” Mengniu consumer behavior analysis system. By setting up a consumer Big Data platform that serves the entire Group, it will be possible for the Group to amass all internal and external data and connect multiple sources, as well as apply those consumer data asset to identify precisely the characteristics and needs of consumers and drive product innovation. The Group will also be able to accurately use different channels to unearth user value, thereby provide support to marketing decision making and control cost and at the same time boost efficiency.

In response to the “Made in China 2025” strategy, Mengniu uses data to empower its entire industrial chain, enabling it to fully safeguard product quality and safety and blazing the trail for the dairy industry to achieve intelligent transformation. In May 2018, the Group also launched an intelligent supply chain project that uses a Big Data analysis model for linking upstream and downstream information to help with scientific management to lower cost and boost efficiency, realizing transformation of supply chain management with increased informatization, automation, visibility, control and intelligence. Digitalization is a continuous endeavor of the Group and, for that, Mengniu will connect with Alibaba Cloud in other cooperative projects in the future to share data and collaborate effectively to benefit the overall operation of the Group. In addition, during the period, Mengniu kicked off the intelligent manufacturing digital factory project at a high-technology factory in Helin, which would help the Group improve production efficiency, lower operational cost and redefine dairy industry standard and “Made in China”. The project had passed assessment of the Ministry of Industry and Information Technology, with the Group named “China Intelligent Manufacturing Pilot Demonstration Enterprise” and granted the highest government funding.

To improve internal filing management and initiate informatization of record filing, Mengniu launched the “Mengniu Group Digital Filing Management Platform Project” in June 2018, with the aim of completing within the year construction of a digital filing management platform employing advanced technologies and with multiple channels to support rapid development of the Company and meet information sharing demand. In addition, Mengniu started a human resources sharing project during the period, which entails integration of resources and centralizing basic operations to provide business divisions with professional and standardized human resources services, thereby helps the Group develop a new operational model with “New Business Partner Relationship” at the core and construction of “Shared Service Center” as the tool.

Branding Strategy

Mengniu continued to upgrade its international brand presence. In the summer of 2018, Mengniu drew onto itself the global limelight by becoming 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™”, “Official Milk of the 2018 FIFA World Cup™ (for Greater China)”, and “Official Powdered Milk of the 2018 FIFA World Cup™ (for Greater China)”. That was the first time Mengniu worked with a premier international sports event, making it the first food and beverage brand in China to be a global sponsor of the World Cup and also the first dairy product brand to cooperate with FIFA as a global sponsor. The sponsorship is an important step made by Mengniu in taking its business global as well as leading the Chinese dairy industry onto the international stage. During the World Cup, *Mengniu* brand was prominently displayed in the event venue in Russia, together with Mengniu booth set up outside the venue, enabling the brand to interact with football fans from around the world. Alongside the World Cup fever which swept the world, Mengniu’s brand value was fully released and its international brand profile has thus been markedly enhanced.

Led by its Chief Executive Officer, the 10 major departments of the Group worked together to mount a series of online and offline brand upgrade and marketing activities in eight dimensions covering integrated marketing, large-scale event marketing, in-store promotion, media publicity, public relations, on-site interaction at the World Cup venue, internal publicity and overseas marketing. Through comprehensive collaboration and highly effective implementation, as well as focused and consistent devotion of resources, the Group reaped full benefit of its effort to stimulate sales and upgrade its brand.

Starting early this year, Mengniu commenced the World Cup themed packaging and marketing material upgrade for all of its product lines, complemented by all-round marketing efforts, from having the famous Argentinean football player and FIFA World Player of the Year Messi, as ambassador of *Mengniu* brand and via TV commercial themed “Power of Nature, Born for Greatness” to convey *Mengniu*’s brand value of gathering each drop of natural essence to help each of those who wishes for health and strength to help him advance towards his dream and goals. At the same time, six brands under Mengniu, namely *Fruit Milk Drink*, *Yoyi C*, *Champion*, *Just Yoghurt*, *Suan Suan Ru* and *European Charcoal Yogurt*, cooperated with 10 celebrities, namely Messi, Li Yifeng, Zhao Liying, Kris Wu, William Chan, Zhang Yixing, TFBOYS and Celina Jade to issue posters highlighting the “Born for Greatness” attitude on the Weibo platform, delivering the positive attitude of working hard for one’s dream to consumers. As at 10 July 2018, the topic “Born for Greatness” had attracted over 5.0 billion page views and more than 6.8 million comments online.

Moreover, to help young football players realize their dreams and nurture the new generation of football players in China, during the Period, Mengniu launched an event called “Show Your Skills, Young Footballers!”, joined by four star team captains, namely Fan Zhiyi, Li Yi, Luis Figo and Yang Chen, who provided professional guidance to young football players. Ultimately, 24 outstanding young football players were selected and led by their honorary team captain, young actress Guan Xiaotong, to visit Russia and have a match with the Russian youth football team during the World Cup. The match was broadcasted on Jiangsu Television, helping bringing out even more the positive image of the brand and boosting brand acceptance.

On top of World Cup promotions via advertising in all media, organizing social media events and on-site exposure, between March and July 2018, Mengniu launched a large-scale integrated marketing activity “Scan the Code for Red Packet” to share the World Cup fever with hundreds of millions of consumers. On purchase of Mengniu’s room temperature, chilled and ice cream products, consumers may scan the QR code on the packaging for a chance to receive WeChat red packets of different amounts. In addition, there was also a card collection part that provided an opportunity to win a World Cup tour for those able to collect all cow cards. According to applet statistical platform Aldwx.com, in May and June this year, boasting super high participation rate, Mengniu’s World Cup applet ranked first among all WeChat retail applets, and in June, the applet placed 16th among all applets. As at 31 July 2018, the QR code was scanned over 230 million times with total number of participants reaching over 74 million.

Mengniu also kicked off World Cup themed marketing activities in overseas markets. As the “Official Pre-packaged Ice Cream of the 2018 FIFA World Cup™”, *Deluxe* under Mengniu presented a special World Cup edition ice cream called *Royal Deluxe* crunchy oat ice cream, allowing football fans in the venue to enjoy this nice flavor from China, thereby increasing international brand awareness. Echoing the World Cup marketing theme, room temperature, chilled and ice cream products sold in overseas markets were all in the World Cup packaging. In addition, in Hong Kong, Singapore and Myanmar, the World Cup related marketing and roadshow activities were themed “Naturally Good, Naturally Strong” for the purpose of enhancing influence of the brand in overseas regions and boost sales. *Just Yoghurt* and *Yoyi C* became star products in overseas markets.

In addition, as the official partner of Shanghai Cooperation Organization Business Forum, *Mengniu Pure Milk* product series and star products such as *Milk Deluxe*, *Just Yoghurt* easy-to-carry bottle series *Xiaomanyao*, and *Deluxe* made their debuts at Shanghai Cooperation Organization Qingdao Summit held in June this year as designated products of the event, showing the world the brand from China worthy of international recognition. This is the second time after the BRICS Xiamen Summit in 2017 that Mengniu products became designated products for high profile conferences for national leaders, which strengthened the international brand image of Mengniu.

On the room temperature product business front, during the period the Group launched its *Milk Deluxe Organic Milk* in a new packaging conveying the message of “Know Nature for Nature is the Best”, adopting a high-end and close-to-nature design concept. Using a mix of media, it gained exposure and encouraged interaction, hence achieved an extensive reach. *Just Yoghurt* launched marketing campaign that centered on the World Cup theme and highlighting the slogan “Pure Flavor, Full Enjoyment”, taking full advantage of core resources of the World Cup and crucial exposure on CCTV5 to demonstrate and consolidate brand influence. Via strong exposure online and offline, the brand attracted positive feedbacks from the mass. As for *Fruit Milk Drink*, it focused on product category breakthrough and continuously boosting its leading brand advantages. With the help of advertisements placed online and offline, brand ambassador endorsement marketing and other means of promotion, the brand earned strong word-of-mouth and reported strong sales volume. During the period, *Fruit Milk Drink Fruit Yogurt* was introduced and publicity efforts to boost its reputation and consumer acceptance took it nationwide and powered sales. *ZUO Yogurt*, a representative new product, also launched its World Cup-themed packaging, and presented the innovative marketing initiative “Look at Your Face, That’s How Good it Tastes” on Douyin platform, which has a large younger userbase. The initiative became an online challenge with the highest exposure and video uploading frequency ever in the history of the platform. It was broadcasted more than 1 billion times and the product became a “red-hot” item on the web, winning the fancy of new generation consumers.

As for chilled product division, taking advantage of the World Cup, it was able to convey quickly and in greater depth and breadth to consumers the “Good Quality Yogurt” product proposition, which successfully enhanced the brand power. The full range of products changed the packaging using the World Cup theme. Chilled product division launched a “One bottle, One code” activity to engage consumers in personalized interaction.

As for the milk formula business, Yashili announced its new brand image and strategies in April this year. *Yashily*, as the “Official Powdered Milk of the 2018 FIFA World Cup™ (for Greater China)”, put more resources into the World Cup related marketing campaign. Besides, recognition for *Yashily*’s quality has been building up with it being the first to be selected as CCTV’s “Craftsmanship Brand”. Through efforts to reinforce the power of the brand, it has raised its reputation among consumers and consumer loyalty, and also by vigorously expanding the domestic infant milk formula market with higher quality domestic milk formula products, Yashili prided success in leading the advance of domestic milk formula brands.

For the ice cream business, with the support of Mengniu’s dedicated resources for World Cup marketing, focus was directed on the *Suibian* brand, with a large-scale promotion event themed “*Suibian* Shake the Red Packets, Win World Cup Tickets” mounted. Consumer demand for the product was stimulated at the drive of the chance to win tickets to the World Cup. Mengniu enhanced activity exposure through integrated promotion on TV, the Internet and outdoor advertisement. At the same time, Mengniu used brand ambassador influence to entice interaction with consumers, which in turn gave a big push to sales.

Relentless in its quest for quality and an ever stronger brand, Mengniu has kept expanding its brand influence and gaining the recognition of industry peers and the public. During the period, for the fourth consecutive year, Mengniu made it among the Top 20 in the BrandZ™ list of the most valuable Chinese brands, and rose to the top of the list of brand contribution. In the “2018 China Brand Power Index (C-BPI)” list published by the Ministry of Industry and Information Technology of the PRC, Mengniu’s chilled yogurt came first in C-BPI Brand Power in China’s yogurt industry for the eighth consecutive year, while Mengniu’s *Yoyi C* retained the top position in C-BPI Brand Power in the Probiotics Drinks Industry. According to the research statistics of Kantar Worldpanel, the Consumer Reach Point of Mengniu rose to over one billion and was second on the list of Most Chosen Brands by Consumers in the PRC. In addition, the H5 interactive game co-launched by *Future Star* with the movie Boonie Bears won the H5 Gold Award in Marketing at the China Advertiser Golden Vision Award, while *XinYangDao* was elected as the most favorite brand by consumers. The VR game creation “Candle in the Tomb: Mu Ye Gui Shi” and the drama “Burning Ice” sponsored by the brand won Gold Award in the game and animation category and Silver Award in TV category respectively. Mengniu ice cream also received the Best Mobile Innovative Marketing Award – Silver in China Content Marketing Awards 2018 by V Marketing China magazine.

Sales Management

During the period, the sales channels of Mengniu’s various business divisions collaborated on innovative upgrade and at the same time pushed forcefully to develop e-commerce channel and new channels, and significant progress was made on both. The room temperature product business division continued to penetrate channels further in lower-tier markets, including towns and villages. Targeting first-tier towns and villages, there was the “Spark Program” to help enhance brand exposure and strengthen point-of-sales construction. A pilot “Towns and Villages Connection Project” was launched in Henan and Hebei provinces, applying the resources of multiple brands to help lead an innovative channel development mode that can speed up penetration of village and town markets, and as a result, the market share and sales amount in villages and towns both increased. In addition, the room temperature product business division also pursued RTM channel penetration strategy, optimized market layout and, via fine market differentiation, targeted major markets and strengthened quality client bases, to help distributors boost operational capability and sales performance.

The chilled product business division stepped up RTM measures. In April this year, it started to tap core and type A market channel to develop sample markets, covering in all 112 markets nationwide. As for new retail channels, in January this year, Mengniu and Yonghui’s Super Species reached strategic cooperation agreement on yogurt workshop Future Yo, and began trial operation at two physical stores. In addition, the chilled product business division and Industrial Bank’s (“IB”) credit card center forged strategic cooperation to launch Mengniu-IB co-branded credit card product, marking the debut of a new retail mode and at the same time consumers have access to more convenient and higher-quality services, which can help enhance consumer loyalty. During the period, Mengniu and Haier’s commercial usage freezer business agreed to cooperate strategically to help Mengniu upgrade its overall cold chain solution and also pave the way for it to gain presence in Haier’s restaurants.

The milk formula business division continued to strategically restructure and reinforce its channels, adding three new major business divisions on top of the existing four major infant formula business divisions, each responsible for overseeing respective product line and strengthening star products. Regarding development of mother-and-baby channels, intensive efforts continued with outlets set up in counties and townships to further outlets penetrating. As for modern trade channels, Yashili pushed sales of adult milk powder via KA retail outlet channel. A team was formed to fine-tune modern channels and products, consolidate and boost the size of milk powder market, and to fortify the edge of *Reeborne* as well as maintain its leadership in the organic dairy product market. At the same time, the goat milk powder strategy had been rolled out with such products as *Doraler* from Australia and *Dumex* goat milk powder as well as *Dumex TruYn* to seize the market.

The ice cream business division recorded steady sales growth in core traditional channels and satisfactory sales growth in modern channels, while specialty channels developed rapidly. Mengniu's soft-serve ice cream business started from scratch and opened 42 outlets during the period, laying a good foundation for future development of the business.

In the advent of Big Data era, Mengniu has worked hard in using a completely data-enabled industrial chain, exploring actively ways to make its sales channels, management of point-of-sales and marketing intelligent. Early in the year, the room temperature and chilled product business divisions together with the information technology department pursued "Smart Network Action", which entails the use of a standardized distributor operation and management system to take business management to shop-level and sales management to daily level, thus serving the needs of branch offices and subsidiaries, as well as distributors in different operational settings and covering all businesses, channels, settings, departments and staff. As of June, trial operation of the Smart Network System had been successfully launched and the gradual roll out of the system is expected to take place in the second half year. In the future, the system combining with SAP and BI will enable the Group to build Big Data platform for realizing precision marketing.

In the first half of 2018, Mengniu continued to strengthen strategic cooperation with e-commerce platforms, such as JD.com and Tmall, to push e-commerce sales. With access to Big Data resources, Mengniu together with JD.com and COFCO Group signed a comprehensive strategic cooperation framework agreement on setting up self-operated flagship stores for chilled and ice cream products in JD.com, and also to jointly develop intelligent supply chain system and provide more personalized products to the end of building a new flagship capable of marketing that transcends boundary. Mengniu also tightened cooperation with Alibaba to drive consumption upgrade of fast-moving consumer goods and develop intelligent business. During the period, *Milk Deluxe* and *Silk* opened flagship stores on Tmall and, during the "6.18" Shopping Festival in 2018, sales of Mengniu's room temperature liquid milk topped the bestseller list in both liquid milk and food & beverage categories on JD.com, while its ice cream products ranked second in sales of ice cream category, and on Alibaba platform, Mengniu also claimed championship among dairy products in terms of sales, which have more than doubled year-on-year. In addition, the Group presented "Mengniu-JD super brand day" and "Mengniu-Tmall super brand day" respectively during the period,

and as such gained brand exposure and stimulated sales. Furthermore, Mengniu continued to expand its new channel business, covering business platforms such as Suning.com, Vip.com, Yunjiweidian.com, Pinduoduo.com and new retail channels. Net revenue from such business increased notably during the period as compared with the corresponding period last year.

In addition, Mengniu cooperated with the new retail brand Hema Store to embark on a completely new channel promotion mode. Via Hema Store APP, consumers were given access to live broadcast of special Mengniu World Cup activities, thus realizing interaction online and offline and enabling the tying in of diverse promotion as well as consumer experience online and offline. Efforts were also made by Mengniu to work closer with Business-to-business (“B2B”) platforms including 1st.1688.com and Huixiadan.net to effectively commence online sales and marketing and set up innovative online ordering club for traditional sales outlets. The moves translated into sales growth and enlarged market coverage for the Group. Development of smart un-manned convenience stores and community channels are also part of Mengniu’s plan, creating a new retail sales channel combining APP usage with un-manned convenience stores in communities. At the same time, using such products as fiber-enriched milkshake milk *Burnlooking* as vehicles, it will actively explore social network retailing.

As for overseas business, Mengniu set up its regional head office in Singapore in 2018 to oversee investment and sales efforts in Southeast Asia, aiming at gradually expanding market coverage in the region. It was also able to leverage the World Cup theme to mount marketing activities to keep boosting the coverage of chilled, room temperature and ice cream products in the region. Apart from selling in overseas markets such as Hong Kong, Macau, Myanmar and Cambodia, it also explored the Australian market during the period with ice cream products as its chariot. Mengniu expects to enter new markets – Malaysia and the Philippines – within this year.

FINANCIAL REVIEW

Revenue

Benefiting from product innovation, an optimized business structure, and World Cup themed marketing and promotion which boosted the sales volume, the Group made revenue of RMB34,474.3 million for the six months ended 30 June 2018 (2017: RMB29,465.8 million), an increase of 17% year-on-year, of which revenue of liquid milk had an increase of 14.0% year-on-year, revenue of ice-cream had an increase of 12.8% year-on-year, and revenue of the milk formula business implemented a breakthrough growth of 64.9% year-on-year.

Gross profit

With a significantly improving product mix and raw milk price staying relatively low, the Group’s gross profit for the period increased to RMB13,522.3 million (2017: RMB10,502.6 million) and gross profit margin increased by 3.6 percentage points to 39.2% as compared with the same period last year (2017: 35.6%).

Operating expenses

To raise brand competitiveness, the Group implemented active channel development and strengthened brand promotion strategies during the period, which led to an increase in operating expenses to RMB11,843.9 million (2017: RMB8,824.0 million), representing an increase of 34.4% of the Group's revenue (2017: 29.9%).

During the period, selling and distribution expenses increased by 39.6% to RMB9,975.1 million (2017: RMB7,143.8 million), representing an increase of 4.7 percentage points to 28.9% of the Group's revenue (2017: 24.2%).

During the period, advertising and promotion expenses increased by 66.9% to RMB4,418.0 million (2017: RMB2,647.9 million). The advertising and promotion expenses as a percentage of the Group's revenue increased to 12.8% (2017: 9.0%).

Administrative and other operating expenses increased by 11.2% to RMB1,868.8 million (2017: RMB1,680.2 million), accounting for 5.4% (2017: 5.7%) of the Group's revenue.

Profit from operating activities and net profit

During the period, due to the significant increase of revenue and gross profit of the Group's overall business and products optimization, EBITDA increased by 19.3% to RMB2,732.6 million (2017: RMB2,289.7 million) and EBITDA margin was 7.9% (2017: 7.8%).

Profit attributable to owners of the Company increased by 38.5% year-on-year to RMB1,562.0 million (2017: RMB1,127.9 million). Basic profit per share was RMB0.400 (2017: RMB0.290), up by 37.9% year-on-year.

Income tax expenses

For the six months ended 30 June 2018, income tax expense of the Group was RMB358.5 million (2017: RMB373.8 million), representing a decrease of 4.1% year-on-year. Effective income tax rate was 17.8% (2017: 25.1%), down by 7.3 percentage points year-on-year, mainly due to (i) a non-deductible item relating to the accounting losses on deemed disposal of partial interests in associates by the Group in the same period last year and (ii) the decrease in share of losses of associates during the period.

Capital expenditure

For the six months ended 30 June 2018, capital expenditure ("CAPEX") of the Group was RMB1,665.9 million (2017: RMB5,313.2 million), down by 68.6% year-on-year. Of the total, RMB1,325.8 million was spent on building new production facilities and modifying existing ones and related investments, RMB104.2 million was spent on purchasing biological assets and RMB235.9 million was invested in equities (mainly including prepayment of a consideration for acquisition of Banner Baby Dairy Company Limited).

Working capital, financial resources and capital structure

For the six months ended 30 June 2018, the Group's net cash inflow from operating activities was RMB3,400.3 million (2017: RMB3,434.1 million), remaining stable as compared to the same period last year.

For the six months ended 30 June 2018, outstanding bank loans and other borrowings of the Group increased to RMB14,708.0 million (31 December 2017: RMB13,950.1 million), of which bank loans repayable within one year amounted to RMB8,578.0 million (31 December 2017: RMB7,935.0 million). More than 50% of the bank loans and other borrowings were interest-bearing at fixed rates. The increase in bank loans and other borrowings was mainly due to consolidation of the two subsidiaries acquired during the period.

Net borrowings (total amount of bank loans and other borrowings net of cash and bank balances) of the Group as at 30 June 2018 were RMB7,861.3 million (31 December 2017: RMB7,991.2 million).

The Group's total equity as at 30 June 2018 amounted to RMB28,137.7 million (31 December 2017: RMB27,107.1 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 52.3% (31 December 2017: 51.5%).

Finance costs of the Group were RMB226.5 million (2017: RMB191.4 million), accounting for approximately 0.7% of the revenue (2017: 0.6%), up by 0.1 percentage points year-on-year.

PRODUCTS

Mengniu kept pursuing product innovation and research and development, so as to meet consumption upgrade demand with more nutritious, better-tasting and higher end products. It endeavors to consolidate the advantages it has in terms of resources and use leading international technologies, resources and platforms to build a world-class Chinese brand and reinforce consumer confidence in Chinese brands. During the period, heeding different consumer requirements, Mengniu focused on developing functional and customized products putting particular emphasis on enhancing such aspects as product variety, flavor and packaging in the bid to create better experiences for consumers. It also conducted promotion and marketing actively on the back of Big Data and using new media, and the results were encouraging.

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

Liquid milk Revenue amounted to RMB28,931.6 million (2017: RMB25,372.1 million), accounting for 83.9% of Mengniu’s total revenue (2017: 86.1%)

UHT milk Revenue amounted to RMB13,723.9 million (2017: RMB11,797.2 million), accounting for 47.4% of the revenue of the liquid milk segment (2017: 46.5%)

- Since the two super high-end milk products, namely *M-PLUS High Protein Milk*, the first milk product tailored for sports enthusiasts in China, and *Milk Supreme* in gift packaging were launched last year, *Milk Deluxe* continued to lead the upgrade of high-end products. In May this year, it introduced a new packaging for its organic milk, conveying the message of “Know Nature as Nature is the Best”, which replaced the traditional drinking straws with the “DreamCap™”, making the product yet easier to carry and practical, putting up a new guidepost for dairy product packaging.
- *Mengniu Pure Milk* and *Prime Ranch Pure Milk* adopted an upgraded packaging design featuring the World Cup for the related promotion.
- At the end of last year, Mengniu introduced *Future Star A2β Casein Pure Milk*, made with premium milk in limited supply from selected designated ranches, raising yet again the quality of children milk products.
- After introducing *Xianyu Pure Milk* last year with China Modern Dairy, which helped open the room temperature fresh milk niche market in between the room temperature milk and fresh milk markets, during the period, Mengniu launched *Shiny Meadow* fresh milk that targets the high-end market. Its production process employs low-temperature membrane process technology for concentrating milk and the Swedish milk fat separation technology system, thus is able to retain the most natural nutrients in quality fresh milk, with original protein up to 3.6g/100 ml and original calcium content up to 120 mg/100 ml, leading the market in quality and nutritional value.
- The other newly launched product *Greenhouse* fresh milk is intended for the middle-to-high-end market. It assures freshness with 360 relevant standards used to measure milk at source, and boasts the edge of having higher protein content than peer products, hence won market preference.

- Recently, Mengniu also launched a fiber-enriched milkshake milk *Burnlooking*, full of CLA glyceride and Resistant Dextrin, of a low-calorie formula and uses sugar substitute (maltitol). It agrees with the prevailing quest for healthy diet in the market.

Key products:

- *Milk Deluxe*
- *Mengniu Pure Milk*
- *Mengniu Flavored Milk*
- *Future Star*
- *Student's Milk*
- *Burnlooking*

Milk beverages

Revenue amounted to RMB5,467.4 million (2017: RMB4,910.3 million), accounting for 18.9% of the revenue of the liquid milk segment (2017: 19.4%)

- *Yoyi C* launched *LC-37* last year targeting the professional probiotics beverage market. Every 100 ml of the product contains 50 billion active bacteria C, 500 times that of the national standard. It also has an exclusive 37°C highly active bacterial strain, making it a revolutionary product and marking a breakthrough of the technical bottleneck of the low temperature probiotics industry. In May last year, under *LC-37*, an upgraded low-sugar enzyme-rich product was launched. In addition, with a limited edition of World Cup packaging featuring the national flag during a specific period and complemented by a “Scan the Code for Red Packet” promotion, the brand gained popularity.

Key products:

- *Yoyi C*
- *Fruit Milk Drink*
- *Suan Suan Ru*

Yogurt

Revenue amounted to RMB9,740.3 million (2017: RMB8,664.6 million), accounting for 33.7% of the revenue of the liquid milk segment (2017: 34.1%)

- *Just Yoghurt* changed its packaging across the board to align with the World Cup theme and used the promotion slogan “Pure Flavor, Full Enjoyment” to reinforce *Just Yoghurt*’s status as a World Cup sponsor and the image of the brand. *Just Yoghurt* also introduced the PET bottle package and three new flavors, namely, mango and passion fruit, lime-matcha-avocado, and vanilla in original traditional package, to please the taste buds of consumers.
- *Milk Deluxe Yogurt*, launched last year, combines patented bacteria from the United States, the exclusive technique of Danone from France and premium ingredients from all over the world. During the period, continuing to uphold the brand spirit of “Not all yogurts are *Milk Deluxe*”, the brand continued to catch eyes in the high-end yogurt market.
- *Champion* stepped up promotion and education related to its “BB-12” bacteria during the period, to bring out better its positioning as a “professional and functional” yogurt.
- Late last year, *Bio* introduced the *Kaquzi* grains mix flavored yogurt to meet meal replacement demand. It contains American almonds and cranberries, Australian oats and pumpkin seeds, the most of natural ingredients among similar yogurt products in the mainland market.
- *European Charcoal Yogurt* expanded the series’ packaging specifications and introduced two new flavors – lime and yellow peach with pulps.

Key products:

- *Just Yoghurt*
- *Milk Deluxe Yogurt*
- *Champion*
- *Future Star Kid Nutritious Flavored Yogurt*
- *Inner Mongolia Solid Yogurt*
- *Bio*
- *European Charcoal Yogurt*

Ice Cream

Revenue amounted to RMB2,239.8 million (2017: RMB1,985.3 million), accounting for 6.5% of Mengniu's total revenue (2017: 6.7%)

- As the Official 2018 FIFA World Cup™ Sponsor, Mengniu created a customized football-shape ice cream product – *Ice+* passion fruit flavor ice cream, and also launched *Ice+* pineapple popsicle and four fruits wonder popsicle, which drew much consumer enthusiasm.
- The high-end ice cream brand *Deluxe* launched the new product wonder color crunchy ice cream, coming in three most trendy flavors matcha, tiramisu and toffee. The combination of the crunchy chocolate shell with soft ice cream fillings pleases the palate of consumers.
- *Mood for Green* added a new flavor – red bean popsicle with the red beans prepared using a secret recipe that brings out their rich aroma and flavor. Another new product that hit the market was the Bean Mill glutinous rice and red bean ice cream, an ice-cream with sweet red bean paste coated in chewy glutinous rice, a well-received product innovation.
- Mengniu's *Russian* ice cream series had new members added, including *Russian* milk block ice cream and *Russian* style chocolate flavor ice cream of original Russian ice cream flavor. They boast rich milk content, strong milk flavor and are smooth and delicate on the palate, promising consumers exquisite enjoyment.
- Mengniu also introduced the *Mengniu Premium Ranch* milk grape flavor ice cream. The match of pure milk and grapes possessed using a unique method gives consumers a pure taste, fragrant and sweet.
- *Suibian* launched the double-layer crunchy belgium chocolate and cherry jam ice cream, a product of world-class technique and with a premium selection of ingredients from all over the world. It is the first of its kind in the country and has a high-end positioning. Moreover, a new strawberry and chocolate flavor ice cream was launched.

Key products:

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

Milk Formula

Revenue amounted to RMB2,946.5 million (2017: RMB1,786.4 million), accounting for 8.5% of Mengniu's total revenue (2017: 6.1%)

- *Yashily* brand emphasizes the provision of basic nutrients, of which *Yashily Kieember* infant milk formula, originally canned and imported from New Zealand, targets the medium-to-high end market and owns the patented INFAT™ active energy system, which ensures healthy growth of babies with its five patents. *Yashily Kieevagour* and *Yashily Qinérshi* are positioned in the middle-end market, while *Yashily Qinérshuo* appeals to the mass. The formula upgrade is completed with the original *Yashily*, with strengthened probiotics and lactotransferrin content.
- *Qinyou* series and *Organic* series of *Reeborne* completed the upgrade in packaging and formula and made increasing efforts in penetrating the organic market and significant growth is achieved.
- *Dumex*, with its origin from Europe, is committed to the research on Chinese babies' immune system so as to provide professional solutions to satisfy the nutritional needs of infants. Of which, *Diamor* series possess dual patents in Europe and OPO structured fat, which is easy to be absorbed by intestines and good for brain development. *Boyoujia* series contains patented prebiotics and is of rich nutrition. *Dumex* goat milk series added easy-to-absorb OPO small molecules on top of its whole goat milk protein, which is good for preventing allergy.
- *Arla Baby & Me* organic formula is originated from world's largest organic dairy producer in Denmark. Adhered to its organic nature for 130 years, it is famed by its royal origination. It has obtained organic certifications in 3 areas, namely hormone-free, fertilizer-free and pesticide-free. Its whole production process is under control by its own ranch and it is positioned in the high-end market.
- *Yashili* launched *Doraler*, its first high-end imported goat milk formula brand, last November. The product, canned in and imported from Australia, contains 100% pure goat milk protein and has a smooth and creamy texture, which is easy for the body to absorb.
- *Yashili*'s products also include various adult milk powder products, such as *Mengniu* brand adult milk formula, *Youyi* brand adult milk formula, *Huanqing* brand middle-age and elderly milk formula, as well as *Future Star* milk powder for kids growth, and various dissolvable products such as *Zhengwei* brand oatmeal and *Yashily* infant nutritional rice cereal.

Key products:

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

Other Products

Revenue amounted to RMB356.4 million (2017: RMB322.0 million), accounting for 1.1% of Mengniu's total revenue (2017: 1.1%)

- Adjustment and upgrade were carried out for the plant-based protein beverage *ZhiPuMoFang*, a joint creation of Mengniu and WhiteWave. Heeding future market trend, its *Silk Americano Soymilk* was launched last November in two flavors – original and almond. It is made with freshly grinded soybeans and uses the unique 8-second VTIS freshness preservation technology. During the period, the North American mixed berries flavor series was introduced.
- Mengniu joined hands with Arla Foods to introduce the professional catering brand *Arla Pro*, with *Arla* shredded mozzarella as the debut product. The product is produced in Mengniu's cheese factory, using the exclusive recipe and advanced techniques of Arla Foods and with premium imported cheese from Denmark as the ingredient, for tapping China's cheese market.

Key products:

- *Silk Americano Soymilk*
- *Arla* shredded mozzarella
- *Lao Qu Bei*

PRODUCTION

Mengniu deploys its production capacity taking into account the potential of relevant markets and its own product strategy. As at 30 June 2018, Mengniu had 38 production bases in China and one in New Zealand, which together had a total production capacity of 9.51 million tons (December 2017: 9.22 million tons). To facilitate development of Southeast Asian markets, the Group is building a production base in Indonesia, which is expected to commence operation by the end of the year.

SOCIAL RESPONSIBILITY

In the first half of 2018, while striving to improve its economic benefits, Mengniu also continued to actively live up to its social responsibility as a corporate citizen, pursuing the mission of “focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people”. Mengniu took the initiative to align its operations with the United Nations Sustainable Development Goals 2030, including setting up action teams to oversee works of four major themes – “nutrition and health”, “win-win growth”, “environmentally friendliness” and “targeted poverty alleviation”, so as to develop into a role model as a world-leading dairy enterprise. With the support of the teams, the Group will push forward its sustainable development strategy, embark on multi-dimensional corporate social responsibility activities to help people realize their aspiration for living a better life.

During the period, Mengniu took the charity concept underpinning its “Inclusive Nutrition Plan” to a new height by cooperating with the World Food Programme of United Nations to roll out a preschool children nutrition improvement pilot project in Xiangxi, Hunan. The move is an effort of the Group to serve as an example of how corporations can promote long-term development of “Healthcare-based Poverty Alleviation” and “Nutrition-based Poverty Alleviation”. Moreover, Mengniu and the Research Institute of Food and Nutrition Development under the Ministry of Agriculture and Rural Affairs of the PRC jointly published the “Blue Book on Inclusive Nutrition for Children in Rural China” to draw attention of the society onto the issue of improving provision of nutrition to poor children. During the period, Mengniu’s “Inclusive Nutrition Plan” donated a total of approximately 1.95 million packs of student milk to 14,886 poor students and left-behind children in 58 counties. Apart from product donation, Mengniu remained steadfast in “Supporting Intellectual Growth” starting with health education. It conducted 87 lectures on nutrition to educate and relate relevant knowledge to schools, parents and students.

Engaging partners in win-win cooperation, Mengniu continued the “Golden Key of Milk Cow” project, which entails nurturing of professional teams and enhancing raw milk quality. During the period under review, Mengniu conducted two technical demonstration sessions under the “Golden Key of Milk Cow” project in milk source regions in China. Over 50 experts were invited to explain the latest breeding and rearing techniques to over 300 ranch staffers in Southern and Northern China, which led to an increase in average output of partner farms and a decrease in average milk cost per kg. Through integrating the technical resources along its industrial chain, Mengniu has been able to render stronger support to its upstream rancher partners, helping the ranches with improving their effectiveness and speeding up their transformation and upgrade.

In the first half of 2018, Mengniu continued to enhance the professional skills of ranch personnel through its “University of Ranchers” program. The project, supported by such authoritative departments and organizations as the National Dairy Industry and Technology System and China Agricultural University, and also Mengniu and its top-class industrial chain partners and global industry experts, provides ranch owners and milk source technicians systematic knowledge training, technical support and financial support, thereby contributes to building a sustainable ranch ecosystem. During the period, the “University of Ranchers” held 4 offline training activities and 26 online training sessions through “Satellite Lectures”, and together those sessions benefited close to 5,000 participants helping them better understand

dairy cattle rearing techniques, and among the participants were over 1,000 ranch staffers who received the training for free and subsequently more than 750 ranches were able to raise operational effectiveness. In addition, Mengniu continued to promote “Ranchers Says” knowledge sharing platform, with experts ready to provide dairy industry practitioners professional solutions to livestock-farming problems anytime, anywhere via WeChat. With the use of digital approaches in poverty alleviation, Mengniu strengthened its support to the general community of farmers and herdsmen, bringing benefits, economic and social, in other words, both the economy and the society win, and helping alleviate poverty among herdsmen by addressing the roots of the problem.

Mengniu insists on striving for win-win in fulfilling its corporate social responsibility and that has gained for it recognition and praises from various parties in the society. In the first half of 2018, for its exertion on charitable initiatives such as “Inclusive Nutrition Plan”, “Golden Key of Milk Cow” and “University of Ranchers”, Mengniu received the “Twelfth Annual People’s Corporate Social Responsibility Award – Poverty Alleviation” from People’s Daily Online, the “Golden Bull Award of Responsibility” from the China Social Responsibility 100 Forum under the guidance of the Research Center of Corporate Social Responsibility of Chinese Academy of Social Sciences, the “Golden Bee Enterprise” award at the Thirteenth China CSR International Forum, one of the “Top 50 brands for Chinese Corporate Citizens’ Responsibility” at the Third Chinese Corporate Citizens’ Responsibility Summit and the “Asia Responsible Enterprise Award 2018 – Social Empowerment Category” from Enterprise Asia.

HUMAN RESOURCES

As at 30 June 2018, the Group had a total of about 40,015 employees in China and Hong Kong, including around 2,310 employees of Yashili. During the period, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB2,729.6 million (2017: RMB2,395.7 million).

Taking into consideration international trend and Mengniu’s own strategic goals, the human resources management arm of the Group is building a new operation model centered around the forging of “new business partner relationship” and facilitated by a “shared services center”. By setting up the Human Resources Shared Services Center (“HRSSC”), administrative duties can be completed efficiently, thus release the capacity of Human Resources Business Partners (“HRBP”) and Centers of Expertise (“COE”) to offer value-added services to the Group’s businesses to help them grow. During the period, the HRSSC project was activated with formal operation scheduled for end of 2018, enabling provision of mobile, intelligent and integrated, in other words, convenient and efficient human resources services to staff.

During the period, Mengniu also watched closely the needs of its businesses and optimized accordingly its personnel training system. Starting with platform building on four aspects, including job orientation, training of general capabilities, leadership and professional skills, Mengniu wants to turn itself into an organization that values learning and in turn assists development of its businesses. The Group has internal trainers to mentor the staff and share with them the corporate culture, and promote a learning and development system that operates highly effectively. Apart from traditional offline mentoring, the four-in-one internet learning platform “Zhi De” has been broadly implemented and applied, offering personalized training contents to employees of different levels anytime, anywhere.

In addition, the Group issued the “Mengniu corporate culture manual (2018 edition)”, stating loyalty to its core values and at the same time refined the Mengniu spirit and enriched its concept system to preserve for passing on the genes of Mengniu’s traditional corporate culture and support its 2020 strategy. During the period, a variety of corporate culture related activities were held, including online games, role model election and lectures by senior management, to facilitate the day-to-day embrace of the corporate culture of the Group by employees.

In the first half of 2018, Mengniu optimized its existing incentive system, implemented authorization by rank, strengthened the connection between incentives for the individual and performance of the organization and pushed to evolve from focusing on labor cost control to elevating labor cost efficiency. To reward and retain core staff in key positions, Mengniu continued to implement its retention plan for key personnel, entailing awarding restricted shares as an incentive for them to stay with the Company. During the period, Mengniu granted a total of 6,693,084 shares under the share award scheme to core staff in key positions at middle management and above levels and also those affording excellent performance and strong potential. In addition, a total of 9,593,689 share options were granted under the share option scheme to eligible staffers.

PROSPECTS

As the industry goes deeper into supply-side structural reform, its focus has also changed from seeking to grow in scale to achieving steady growth in per capita consumption and quality upgrade. As for consumers, apart from being more demanding on the quality of dairy products and choices of flavor, they are paying growing attention on where the products and their ingredients come from, and the sales channels as well as the consumption settings of dairy products have become more diverse. China is determined to see its dairy industry revitalized by 2025, with the industry achieving sustainable development upstream and downstream and more consolidated. Thus, dairy product enterprises are stepping up industrial deployments and pursuit of quality improvement and innovation. Moreover, the full implementation of the infant milk formula registration system in 2018 have started to change the competitive landscape for milk formula products. At the same time, as economic globalization prevails, the dairy product industry in China has kept strengthening exchange with international counterparts in a bid to drive the upgrade of Chinese dairy brands.

Looking forward, Mengniu will continue to adopt the consumer-oriented approach, focus on bolstering “user power” and, by remaining steadfast in guarding quality and striving for product excellence, innovation and internationalization, to work forwards a new image of dairy products from a great nation. It will be loyal to the spirit of “No compromise on product, quality, values or execution”, so that it may provide consumers with healthy products of the highest quality and the society positive energy. To adapt to and lead consumption demand upgrade and to enhance the efficiency and quality of product innovation, Mengniu has set up a number of new departments, including consumer research and innovative product developments, to hasten research and development of innovative products in different categories, thereby enhance product price premiums. Mengniu will continue to cooperate with China Modern Dairy and Arla Foods to explore the potentials of the fresh milk and yogurt markets, quickly develop related products, and also develop the plant-based beverage market.

Collaboration with its three major shareholders, namely COFCO Group, Danone Group and Arla Foods, Mengniu will continue its efforts to build itself into a world-class Chinese dairy enterprise. Leveraging its standing as an official partner of the World Cup in Russia, Mengniu has reinforced its strategic global business layout and worked on building a world-class industrial chain capable of quality guarantee from milk source through to the point-of-sales. Mengniu will continue to explore overseas upstream resources and refine its global milk source supply chain. The cooperation framework agreement that the Group signed with Alibaba will enable the two partners use their respective resources to jointly enlarge the market coverage of Chinese dairy products worldwide. In 2018, Mengniu has speeded up deployment in Southeast Asia and, in the second half year, it plans to develop markets in Malaysia and the Philippines. Its factory in Indonesia is expected to be completed and commence operation this year to produce and sell *Yoyi C* products locally. Mengniu will join force with its “Belt and Road Dairy Alliance” to build a dairy community together with dairy enterprises in countries along the “Belt and Road” and lead Chinese dairy enterprises in going global.

Digitalization is the new trend in the dairy industry and Mengniu will keep in good pace with it. The Group will continue to push forward with the digital transformation of its whole industrial chain, aiming for further integration of its industrial chain from pasture to the cup and information technology with the help of strategic cooperative partners such as Alibaba and JD.com. It shall use Big Data to facilitate informatization and intelligent transformation of quality management, milk source development, innovation, research and development and sales channels. In the future, employing digital technology, Mengniu will strive to achieve seamless digital quality monitoring throughout the entire operational process, thereby create truly personalized dairy products, and accordingly present consumers with brand new digitalized consumption experiences.

Making full use of its digitalized platform and continuing to tap the momentum resulting from World Cup marketing, Mengniu will keep increasing interaction with consumers to enhance their acceptance of the brand. In the meantime, effort to effect channel penetration in lower-tier markets and nurturing regional markets will continue and be strengthened, and provide healthier and higher quality dairy products to consumers.

Mengniu will strive to fully deliver on its “Born for Greatness” brand proposition and continue to adopt its user-oriented approach in the 4U era of the dairy industry, building itself into a world-leading Chinese dairy product enterprise. Guided by its “2020 Goals”, Mengniu will strive for breakthroughs in corporate value and sales volume drawing on its highly effective “Wolf Team” and with determination to win and accomplish win-win.

CORPORATE GOVERNANCE CODE

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

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2018, except that the Group has deviated from the Code Provisions A.5.1 and E.1.2 with the reasons explained below.

Code Provision A.5.1 of the CG Code provides that an issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. The Company deviates from this provision as less than half of the members of the Nomination Committee are independent non-executive Directors during the six months ended 30 June 2018. The Directors are of the view that each of Mr. Tim Ørting Jørgensen and Mr. Pascal De Petrini is able to carry out his responsibilities as a member of the Nomination Committee in the best interest of the Shareholders notwithstanding that he is not an independent non-executive director as required under Code Provision A.5.1.

Code Provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The Company deviates from this provision because the chairman of the Board was unable to attend the annual general meeting of the Company held on 4 May 2018 due to other unavoidable business engagement outside of Hong Kong.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2018.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2018.

SCOPE OF WORK OF ERNST & YOUNG

The unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies for the six months ended 30 June 2018 have been reviewed and agreed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2018 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. Jeffrey, Minfang Lu 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, 29 August 2018