# CHINA MENGNIU DAIRY COMPANY LIMITED

# 中國蒙牛乳業有限公司*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2319)**

## ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

### HIGHLIGHTS

- For the year ended 31 December 2019, the Group made revenue of RMB79,029.9 million (2018: RMB68,977.1million), representing an increase of 14.6% year-on-year. Profit attributable to owners of the Company increased by 34.9% to RMB4,105.4 million (2018: RMB3,043.0 million). Basic earnings per share increased by 34.7% to RMB1.049 (2018: RMB0.779).
- During the year, the room temperature product business has maintained a strong trend of development in 2019 with double-digit growth in revenue, and the sales growth of high-end brands was particularly outstanding. Product structure was further enhanced. Sales of chilled yogurt maintained a high single-digit growth and remained the first in the industry for the 15th consecutive year despite the unfavourable market condition. Fresh milk, the youngest business segment of Mengniu, demonstrated "the speed of Mengniu", with *Shiny Meadow* quickly becoming the no.1 brand in high-end fresh milk category soon after its launch.
- During the year, in order to further implement overseas strategic layout, realize long term development strategy and provide more quality dairy products to consumers in Asia Pacific region, Mengniu completed the acquisition of Bellamy's Australia Limited ("Bellamy's"), a world famous Australian organic infant formula and baby food provider, and announced to enter into an agreement to acquire 100% shares of Lion-Dairy & Drinks Pty Ltd ("LDD"), an Australia-based branded dairy and beverage company.
- During the year, Mengniu was named on the "Global Dairy Top 20" list published by Rabobank for the eleventh consecutive year and to be among the top 10 for the third consecutive year. Mengniu also ranked the 27th on BrandZ™'s list of "Most Valuable Chinese Brands", honored the champion of "List of Brand Contribution", and was elected for the first time the "Most trend-setting Brand of China". Mengniu ranked the first runner-up of list of "Most Chosen Brands in China" by Kantar Worldpanel's consumer research. In addition, Mengniu was named among the Brand Finance Global 500.
- Mengniu ranked first in the Corporate Social Responsibility Development Index for Dairy Enterprises (2019) by the Research Center of CSR China Academy of Social Sciences and received the "Evergreen Award in Sustainable Development" from Caijing magazine and China Alliance of Social Value Investment, "Asia Responsible Enterprise Awards 2019 – Social Empowerment Award" from Enterprise Asia and the "Climate Leader Plant Award" from the Energy Foundation and China Council for an Energy Efficient Economy.

* *For identification purposes only*

The board (the "Board") of directors (the "Directors") of China Mengniu Dairy Company Limited (the "Company") is pleased to present the results of the Company and its subsidiaries (the "Group" or "Mengniu") for the year ended 31 December 2019, together with the comparative amounts.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*Year ended 31 December 2019*

| | *Notes* | **2019** **RMB'000** | 2018 *RMB'000* |
|---|---|---|---|
| **REVENUE** | *4* | **79,029,856** | 68,977,066 |
| Cost of sales | | **(49,351,242)** | (43,193,440) |
| **GROSS PROFIT** | | **29,678,614** | 25,783,626 |
| Other income and gains | *4* | **4,100,888** | 736,255 |
| Selling and distribution expenses | | **(21,536,054)** | (18,833,306) |
| Administrative expenses | | **(3,319,414)** | (2,915,035) |
| Impairment losses on financial and contract assets, net | | **(248,355)** | (85,262) |
| Loss on disposal of financial assets measured at amortised cost | | **(14,008)** | – |
| Other expenses | *5* | **(3,691,877)** | (851,216) |
| Interest income | | **1,104,791** | 868,257 |
| Finance costs | *7* | **(644,202)** | (550,662) |
| Share of profits and losses of: | | | |
| A joint venture | | **(9,160)** | – |
| Associates | | **184,224** | (299,935) |
| **PROFIT BEFORE TAX** | *6* | **5,605,447** | 3,852,722 |
| Income tax expense | *8* | **(1,309,532)** | (649,001) |
| **PROFIT FOR THE YEAR** | | **4,295,915** | 3,203,721 |
| Attributable to: | | | |
| Owners of the Company | | **4,105,437** | 3,043,030 |
| Non-controlling interests | | **190,478** | 160,691 |
| | | **4,295,915** | 3,203,721 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)** | *10* | | |
| Basic | | | |
| – For profit for the year | | **1.049** | 0.779 |
| Diluted | | | |
| – For profit for the year | | **1.046** | 0.778 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **PROFIT FOR THE YEAR** | **4,295,915** | 3,203,721 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **184,390** | (206,615) |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | **(18,423)** | (4,196) |
| Share of other comprehensive income/(loss) of associates | **4,832** | (21,181) |
| **Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods** | **170,799** | (231,992) |
| Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated at fair value through other comprehensive income: | | |
| Changes in fair value | **(3,191)** | (218,287) |
| **Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods** | **(3,191)** | (218,287) |
| **OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX** | **167,608** | (450,279) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **4,463,523** | 2,753,442 |
| Attributable to: | | |
| Owners of the Company | **4,251,525** | 2,589,152 |
| Non-controlling interests | **211,998** | 164,290 |
| | **4,463,523** | 2,753,442 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2019*

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **11,102,702** | 14,733,924 |
| Construction in progress | | **2,231,333** | 2,203,125 |
| Investment properties | | **73,548** | 73,785 |
| Right-of-use assets | | **1,697,808** | – |
| Land use rights | | – | 1,120,666 |
| Goodwill | | **4,718,657** | 4,681,492 |
| Other intangible assets | | **7,583,415** | 2,298,075 |
| Investments in a joint venture | | **140,840** | – |
| Investments in associates | | **7,351,265** | 7,202,363 |
| Deferred tax assets | | **1,056,099** | 1,041,626 |
| Biological assets | | – | 1,136,600 |
| Derivative financial instruments | | **34,009** | 28,598 |
| Other financial assets | | **4,845,997** | 2,131,485 |
| Long term prepayments | | **215,966** | 64,140 |
| Total non-current assets | | **41,051,639** | 36,715,879 |
| **CURRENT ASSETS** | | | |
| Other financial assets | | **19,220,584** | 11,819,198 |
| Derivative financial instruments | | **10,814** | 49,212 |
| Inventories | | **5,089,944** | 4,281,919 |
| Trade and bills receivables | *11* | **3,586,866** | 2,891,973 |
| Prepayments, other receivables and other assets | | **3,027,185** | 2,777,593 |
| Pledged deposits | | **74,186** | 623,495 |
| Cash and bank balances | | **6,476,187** | 7,297,988 |
| Total current assets | | **37,485,766** | 29,741,378 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *12* | **6,738,626** | 7,021,542 |
| Other payables and accruals | | **10,807,574** | 10,889,417 |
| Interest-bearing bank and other borrowings | | **13,838,201** | 6,522,915 |
| Other loans | | – | 22,912 |
| Derivative financial instruments | | **4,346** | 9,705 |
| Deferred income | | **50,493** | 170,261 |
| Income tax payable | | **294,617** | 472,366 |
| Total current liabilities | | **31,733,857** | 25,109,118 |
| **NET CURRENT ASSETS** | | **5,751,909** | 4,632,260 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **46,803,548** | 41,348,139 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*
*As at 31 December 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | **9,634,609** | 8,192,400 |
| Long term payables | – | 814 |
| Deferred income | **279,494** | 856,120 |
| Deferred tax liabilities | **1,941,902** | 206,122 |
| Derivative financial instruments | – | 17,457 |
| Other financial liabilities | **1,600,206** | 1,610,947 |
| Total non-current liabilities | **13,456,211** | 10,883,860 |
| **NET ASSETS** | **33,347,337** | 30,464,279 |
| **EQUITY** | | |
| Equity attributable to owners of the Company | | |
| Share capital | **358,257** | 357,602 |
| Treasury shares held under share award scheme | **(133,671)** | (218,717) |
| Other reserves | **12,442,343** | 12,450,930 |
| Retained earnings | **16,465,355** | 12,622,549 |
| | **29,132,284** | 25,212,364 |
| Non-controlling interests | **4,215,053** | 5,251,915 |
| **TOTAL EQUITY** | **33,347,337** | 30,464,279 |

*Notes:*

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products.

## 2.1 BASIS OF PREPARATION

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

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

## 2.1 BASIS OF PREPARATION *(continued)*

**Basis of consolidation** *(continued)*

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation* |
| IFRS 16 | *Leases* |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| IFRIC Interpretation 23 | *Uncertainty over Income Tax Treatment* |
| *Annual Improvements 2015–2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

**(a)** IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

**(a)** *(continued)*

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

**New definition of a lease**

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

**As a lessee – Leases previously classified as operating leases**

*Nature of the effect of adoption of IFRS 16*
The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

*Impact on transition*
Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

**(a)** *(continued)*

**As a lessee – Leases previously classified as operating leases** *(continued)*

*Impact on transition (continued)*
The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

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

**Financial impact at 1 January 2019**

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

**(a)** *(continued)*

**Financial impact at 1 January 2019** *(continued)*

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

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

**(b)** Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

**(c)** IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

## 3. OPERATING SEGMENT INFORMATION

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

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk ("UHT milk"), milk beverages and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream;
- Milk powder products segment – manufacture and distribution of milk powder; and
- Others segment – principally the Group's cheese, plant-based nutrition products and trading business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, non-lease-related finance costs, share of profits/(losses) of associates and a joint venture, gain on disposal of subsidiaries, 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.

**Year ended 31 December 2019**

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue** ***(note 4)*** | | | | | |
| Sales to external customers | **67,877,807** | **2,561,406** | **7,869,685** | **720,958** | **79,029,856** |
| Intersegment sales | **740,894** | **87,256** | **–** | **291,836** | **1,119,986** |
| | **68,618,701** | **2,648,662** | **7,869,685** | **1,012,794** | **80,149,842** |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | **(1,119,986)** |
| Revenue | | | | | **79,029,856** |

## 3. OPERATING SEGMENT INFORMATION *(continued)*

**Year ended 31 December 2019** *(continued)*

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Segment results** | 3,854,437 | (245,748) | (1,875,528) | (154,128) | 1,579,033 |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 1,104,791 |
| Finance costs (other than interest on lease liabilities) | | | | | (625,049) |
| Share of loss of a joint venture | | | | | (9,160) |
| Share of profits of associates | | | | | 184,224 |
| Gain on disposal of subsidiaries | | | | | 3,418,082 |
| Corporate and other unallocated expenses | | | | | (46,474) |
| Profit before tax | | | | | 5,605,447 |
| Income tax expense | | | | | (1,309,532) |
| Profit for the year | | | | | 4,295,915 |
| **Segment assets** | 48,535,451 | 2,130,507 | 18,482,392 | 996,003 | 70,144,353 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | (21,812,835) |
| Corporate and other unallocated assets | | | | | 30,205,887 |
| Total assets | | | | | 78,537,405 |
| **Segment liabilities** | 26,976,478 | 2,815,865 | 10,915,889 | 1,366,737 | 42,074,969 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | (21,812,835) |
| Corporate and other unallocated liabilities | | | | | 24,927,934 |
| Total liabilities | | | | | 45,190,068 |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 1,788,137 | 72,645 | 131,415 | 31,943 | 2,024,140 |
| Unallocated amounts | | | | | 235,767 |
| Total depreciation and amortisation | | | | | 2,259,907 |
| Capital expenditure | 2,191,159 | 40,906 | 9,021,047 | 11,481 | 11,264,593 |
| Unallocated amounts | | | | | 267,697 |
| Total capital expenditure* | | | | | 11,532,290 |

## 3. OPERATING SEGMENT INFORMATION *(continued)*

**Year ended 31 December 2019** *(continued)*

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| Impairment losses recognised in the consolidated statement of profit or loss | **341,662** | **19,230** | **2,589,741** | **–** | **2,950,633** |
| Impairment losses reversed in the consolidated statement of profit or loss | **(24,141)** | **(12)** | **(292)** | **–** | **(24,445)** |
| Impairment losses recognised in the consolidated statement of profit or loss, net | **317,521** | **19,218** | **2,589,449** | **–** | **2,926,188** |
| Expense relating to share option scheme and share award scheme | **49,965** | **870** | **18,307** | **1,947** | **71,089** |
| Unallocated amounts | | | | | **225,144** |
| Total non-cash expenses relating to share option scheme and share award scheme | | | | | **296,233** |

Year ended 31 December 2018

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| Segment revenue *(note 4)* | | | | | |
| Sales to external customers | 59,388,601 | 2,723,407 | 6,017,417 | 847,641 | 68,977,066 |
| Intersegment sales | 624,098 | 112,660 | – | 404,774 | 1,141,532 |
| | 60,012,699 | 2,836,067 | 6,017,417 | 1,252,415 | 70,118,598 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | (1,141,532) |
| Revenue | | | | | 68,977,066 |

3. **OPERATING SEGMENT INFORMATION** *(continued)*

Year ended 31 December 2018 *(continued)*

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| Segment results | 3,531,601 | (73,881) | 207,991 | (30,665) | 3,635,046 |
| *Reconciliation:* | | | | | |
| Interest income | | | | | 868,257 |
| Finance costs | | | | | (550,662) |
| Share of losses of associates | | | | | (299,935) |
| Corporate and other unallocated expenses | | | | | 200,016 |
| Profit before tax | | | | | 3,852,722 |
| Income tax expense | | | | | (649,001) |
| Profit for the year | | | | | 3,203,721 |
| Segment assets | 41,610,178 | 1,976,935 | 15,468,072 | 670,430 | 59,725,615 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment receivables | | | | | (13,248,319) |
| Corporate and other unallocated assets | | | | | 19,979,961 |
| Total assets | | | | | 66,457,257 |
| Segment liabilities | 20,424,553 | 2,382,259 | 5,118,045 | 1,119,178 | 29,044,035 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment payables | | | | | (13,248,319) |
| Corporate and other unallocated liabilities | | | | | 20,197,262 |
| Total liabilities | | | | | 35,992,978 |
| Other segment information: | | | | | |
| Depreciation and amortisation | 1,179,948 | 124,191 | 211,744 | 36,343 | 1,552,226 |
| Unallocated amounts | | | | | 286,225 |
| Total depreciation and amortisation | | | | | 1,838,451 |
| Capital expenditure | 2,826,508 | 241,828 | 408,972 | 10,823 | 3,488,131 |
| Unallocated amounts | | | | | 284,137 |
| Total capital expenditure* | | | | | 3,772,268 |

## 3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018 *(continued)*

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| Impairment losses recognised in the consolidated statement of profit or loss | 96,430 | 1,755 | 47,699 | 64 | 145,948 |
| Impairment losses reversed in the consolidated statement of profit or loss | (2,657) | – | (17,908) | (44) | (20,609) |
| Impairment losses recognised in the consolidated statement of profit or loss | 93,773 | 1,755 | 29,791 | 20 | 125,339 |
| Expense relating to share option scheme and share award scheme | 82,718 | 10,184 | 7,272 | 1,300 | 101,474 |
| Unallocated amounts | | | | | 54,915 |
| Total non-cash expenses relating to share option scheme and share award scheme | | | | | 156,389 |

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

**Geographical information**

***a. Revenue from external customers***

| | **2019** ***RMB'000*** | 2018 *RMB'000* |
|---|---|---|
| Mainland China | **78,318,808** | 68,553,816 |
| Overseas | **711,048** | 423,250 |
| | **79,029,856** | 68,977,066 |

The revenue information above is based on the locations of the customers.

## 3. OPERATING SEGMENT INFORMATION *(continued)*

**Geographical information** *(continued)*

***b. Non-current assets***

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **27,430,485** | 32,269,672 |
| Overseas | **7,685,049** | 1,244,498 |
| | **35,115,534** | 33,514,170 |

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

**Information about major customers**

There was no sales to a single customer which accounted for 10% or more of the Group's revenue for the years ended 31 December 2019 and 2018.

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of the revenue is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from contracts with customers: | | |
| Sale of goods | **78,980,627** | 68,895,850 |
| Consigned processing services | **49,229** | 81,216 |
| | **79,029,856** | 68,977,066 |

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Other income and gains | | |
| Government grants related to | | |
| – Recognition of deferred income | **174,895** | 115,945 |
| – Biological assets and income *(note a)* | **265,618** | 203,667 |
| Gain on disposal of a disposal group classified as held for sale | **–** | 44,147 |
| Gain on disposal of subsidiaries *(note c)* | **3,418,082** | – |
| Gross rental income | **43,666** | 49,280 |
| Foreign exchange gains, net | **42,575** | 14,384 |
| Net fair value gain on forward currency contracts | **23,308** | 2,232 |
| Net fair value gain on exchangeable bonds | **–** | 58,009 |
| Net fair value gain on a convertible promissory note | **–** | 61 |
| Net fair value gain on unlisted equity investment | **42,479** | – |
| Net fair value gain on subscription right of warrants | **–** | 5,593 |
| Gain on re-measurement of an equity interest in an associate upon business acquisition *(note b)* | **–** | 101,038 |
| Others | **90,265** | 141,899 |
| | **4,100,888** | 736,255 |

*Notes:*

(a) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy industry. There are no unfulfilled conditions or contingencies attaching to these grants.

(b) During 2018, Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao") acquired an additional 43.41% equity interest in Banner Baby Dairy Co., Ltd. ("Banner Dairy") from third parties, increasing Junlebao's interest in Banner Dairy to 65.16%. After the acquisition, the Group controlled Banner Dairy and accordingly consolidated Banner Dairy. On the acquisition date, the Group re-measured its previously held equity interest in Banner Dairy at fair value and recognised a gain of RMB101,038,000 in the consolidated statement of profit or loss.

(c) During 2019, among others, the Group disposed of its 51% equity interest in Junlebao for a cash consideration of approximately RMB4,011,319,000, resulting in a pre-tax gain on disposal of RMB3,331,848,000.

## 5. OTHER EXPENSES

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Donations | **20,286** | 28,637 |
| Fair value change of biological assets | **171,902** | 152,777 |
| Loss on disposal of items of property, plant and equipment | **78,618** | 29,981 |
| Impairment of goodwill *(note a)* | **2,363,909** | – |
| Impairment of other intangible assets | **196,035** | 4,761 |
| Impairment of construction in progress | **1,653** | – |
| Impairment of property, plant and equipment | **41,754** | – |
| Write-down of inventories to net realisable value | **74,482** | 35,316 |
| Educational surcharges, city construction tax, and other taxes | **477,679** | 490,977 |
| Loss on disposal of a subsidiary | **–** | 15,054 |
| Net fair value loss on a convertible promissory note | **1,409** | – |
| Net fair value loss on exchangeable bonds | **77,988** | – |
| Net fair value loss on warrants and subscription rights of warrants | **61,500** | – |
| Others | **124,662** | 93,713 |
| | **3,691,877** | 851,216 |

(a) During 2019, as the performance of the milk powder products CGU Group did not meet the expectation, the Group recognised an impairment loss of the goodwill directly related to the milk powder products CGU Group amounting to RMB2,299,126,000. Apart from that, the Group also recognized impairment losses of RMB64,783,000 on goodwill directly related to other CGUs.

## 6. PROFIT BEFORE TAX

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

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Cost of inventories sold | **49,310,312** | 43,139,041 |
| Realised and unrealised fair value losses/(gains) of commodity futures contracts, net | **–** | (6,394) |
| Cost of consigned processing services | **40,930** | 60,793 |
| Cost of sales | **49,351,242** | 43,193,440 |
| Employee benefit expense (including directors' and chief executive's remuneration) | | |
| – Wages, salaries, housing benefits and other allowances | **6,254,984** | 5,616,109 |
| – Retirement benefit contributions | **530,600** | 476,061 |
| – Share option scheme expense | **166,651** | 51,199 |
| – Share award scheme expense | **129,582** | 105,190 |
| | **7,081,817** | 6,248,559 |

## 6. PROFIT BEFORE TAX *(continued)*

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Impairment of financial and contract asset, net: | | |
| Impairment of trade receivables, net | **233,856** | 83,900 |
| Impairment of financial assets included in prepayments, other receivables and other assets, net | **1,524** | 1,362 |
| Impairment of financial assets included in other financial assets, net | **12,975** | – |
| | **248,355** | 85,262 |
| Impairment of goodwill | **2,363,909** | – |
| Impairment of other intangible assets | **196,035** | 4,761 |
| Impairment of construction in progress | **1,653** | – |
| Impairment of property, plant and equipment | **41,754** | – |
| Depreciation of items of property, plant and equipment | **1,945,804** | 1,738,806 |
| Depreciation of right-of-use assets | **220,068** | – |
| Depreciation of investment properties | **4,037** | 3,937 |
| Amortisation of land use rights | **–** | 28,843 |
| Amortisation of other intangible assets | **89,998** | 66,865 |
| Research and development costs – current year expenditure | **205,041** | 159,035 |
| Outsourcing expense *(note a)* | **181,993** | 185,884 |
| Lease payments not included in the measurement of lease liabilities *(note b)* | **264,333** | – |
| Minimum lease payments under operating leases | **–** | 278,395 |
| Auditor's remuneration *(note c)* | **17,055** | 8,930 |

*Notes:*

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

(b) The Group recognised rental expenses from short-term leases of RMB201,200,000, leases of low-value assets of RMB25,002,000 and variable lease payments not based on index or rate of RMB38,131,000 for the year ended 31 December 2019.

(c) In addition to the above fees paid or payable to the auditors, Yashili, a subsidiary of the Company listed on the Main Board of the Stock Exchange of Hong Kong Limited, had an amount of RMB2,944,000 (2018: RMB2,983,000) paid/payable as auditor's remuneration during the year.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| Interest on bank loans | **370,238** | 376,147 |
| Interest on other borrowings (excluding lease liabilities) | **238,716** | 164,767 |
| Interest on lease liabilities | **19,153** | – |
| Interest on long term payables | **400** | 1,458 |
| Net fair value loss on interest rate forward contracts | **15,695** | 8,290 |
| | **644,202** | 550,662 |

## 8. INCOME TAX EXPENSE

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

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| **Current income tax** | | |
| Current charge for the year | **1,486,936** | 895,334 |
| Adjustments recognised in the year for current tax of prior years | **14,924** | 7,617 |
| **Deferred income tax** | **(192,328)** | (253,950) |
| | **1,309,532** | 649,001 |

## 8. INCOME TAX EXPENSE *(continued)*

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

| | Note | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Profit before tax | | **5,605,447** | 3,852,722 |
| At CIT rate of 25% (2018: 25%) | | **1,401,362** | 963,181 |
| Non-deductible items and others, net | | **213,660** | 23,793 |
| Impairment of goodwill and trademarks with indefinite useful lives | | **638,769** | – |
| Adjustment recognised in the year for current tax of prior years | | **14,924** | 7,617 |
| Effect of lower tax rates | *(a)* | **(742,602)** | (301,467) |
| Effect of tax exemptions | *(a)* | **(394,255)** | (199,138) |
| Losses/(gains) attributable to a joint venture and associates | | **(43,766)** | 74,984 |
| Tax losses utilised from previous periods | | **(107,686)** | (79,219) |
| Tax losses not recognised | | **329,126** | 159,250 |
| At the effective income tax rate of 23.36% (2018: 16.85%) | | **1,309,532** | 649,001 |

*Notes:*

(a) Fifteen (2018: Thirteen) subsidiaries were granted lower tax rates by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and "The notice of tax policies relating to the implementation of the western China development strategy."

Thirty (2018: Thirty) subsidiaries were granted tax exemptions in accordance with the policy of "The notice of preferential tax policy for preliminary processing of agriculture products".

The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB6,684,910,000 (2018: RMB3,392,397,000) in aggregate.

(b) The share of tax attributable to a joint venture and associates amounting to approximately RMB4,568,000 (2018: RMB6,949,000) is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

## 9. DIVIDENDS

| | Notes | **2019** **RMB'000** | 2018 *RMB'000* |
|---|---|---|---|
| *Declared and paid during the year* | | | |
| Equity dividends on ordinary shares | | **708,968** | 482,827 |
| *Proposed for approval at the AGM* | | | |
| Equity dividends on ordinary shares: Proposed final – RMB0.181 (2018: RMB0.181) per ordinary share | *(a)/(b)* | **712,238** | 710,915 |

*Notes:*

(a) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM").

(b) This dividend was not recognised as a liability in the consolidated financial statements for the year ended 31 December 2019 but will be reflected as an appropriation of share premium account for the year ending 31 December 2020.

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

### (a) Basic earnings per share

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

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

| | **2019** ***Number of shares '000*** | 2018 *Number of shares '000* |
|---|---|---|
| Issued ordinary shares at 1 January | **3,927,708** | 3,927,361 |
| Effect of share options exercised | **3,496** | 80 |
| Effect of shares purchased under share award scheme | **(18,053)** | (23,131) |
| Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation | **3,913,151** | 3,904,310 |

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

### (b) Diluted earnings per share

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

| | **2019** | 2018 |
|---|---|---|
| | ***Number of shares*** | *Number of shares* |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation | **3,913,151** | 3,904,310 |
| Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year | **8,125** | 3,691 |
| Adjustments for share award scheme | **2,605** | 1,665 |
| Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation | **3,923,881** | 3,909,666 |

## 11. TRADE AND BILLS RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bills receivable | **109,968** | 85,447 |
| Trade receivables | **3,587,559** | 2,955,818 |
| Impairment | **(110,661)** | (149,292) |
| | **3,586,866** | 2,891,973 |

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.

Certain trade and bills receivables of the Group with net book values of approximately RMB12,313,000 (2018: Nil) as at 31 December 2019 have been pledged to secure the short term bank loans.

## 11. TRADE AND BILLS RECEIVABLES *(continued)*

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

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 3 months | **2,990,016** | 2,524,831 |
| 4 to 6 months | **484,937** | 308,887 |
| 7 to 12 months | **95,371** | 38,067 |
| Over 1 year | **16,542** | 20,188 |
| | **3,586,866** | 2,891,973 |

## 12. TRADE AND BILLS PAYABLES

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

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 3 months | **5,510,608** | 5,988,352 |
| 4 to 6 months | **870,994** | 809,406 |
| 7 to 12 months | **333,937** | 193,712 |
| Over 1 year | **23,087** | 30,072 |
| | **6,738,626** | 7,021,542 |

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

Included in the above balances, bills payable with an aggregate balance of approximately RMB22,000,000 (2018: RMB606,299,000) were secured by the pledge of certain of the Group's deposits amounting to approximately RMB5,861,000 (2018: RMB254,977,000). Except for the above, bills payable were unsecured, non-interest-bearing and payable when due ranging from 3 to 6 months.

## 13. CONTINGENT LIABILITIES

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

## 14. EVENTS AFTER THE REPORTING PERIOD

On 24 November 2019, the Company entered into a share sale and purchase agreement with third parties, pursuant to which the Company has conditionally agreed to purchase the 100% equity interest of Lion-Dairy & Drinks Pty Ltd. ("Lion Dairy Drinks") with an aggregate cash consideration of AUD600,000,000 (approximately RMB2,930,680,000). Lion Dairy Drinks is an Australia-based branded dairy and beverage company. This transaction is expected to be completed in the end of the first half of 2020, upon which Lion Dairy Drinks will become a wholly-owned subsidiary of the Group.

After the outbreak of Coronavirus disease (COVID-19) in early 2020, a series of emergency public health measures, including but not limited to, travel and other work-related restrictions, have been implemented by the governmental authorities across the PRC, other countries and regions. It has, to some extent, caused challenges and even interruptions to the various phases of the operations of the Group: ranging from upstream and downstream supply chains, production to distribution networks. Accordingly, additional resources and expenditures were inevitably incurred, among others, to intensify marketing activities at sales outlets, to gradually resume production capacity, and to adjust production plans to cope with the circumstances. The Group has also made cash and supply donations to hospitals and other epidemic prevention and control institutions in China. The overall financial effect of the COVID-19 outbreak on the Group cannot be reliably estimated as of the date of these financial statements. The Group, however, will continue to closely monitor the development of the outbreak and to evaluate its impact on the financial position and operating results of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY

In 2019, while the global economy and trade environment remained challenging, the overall economy of China still maintained a steady upwards trend and demonstrated resilient economic growth. The country's GDP for the year amounted to approximately RMB99.09 trillion, representing an increase of 6.1% year-on-year. Total Retail Sales of Consumer Goods were approximately RMB41.16 trillion, up by 8.0% year-on-year. In 2019, China's urbanization rate reached 60.6%, exceeding 60% for the first time.

With the continuous upgrade of domestic consumption, consumers are now mainly interested in high-end, diversified and premium products, and the added value of brand and product experience have also become important factors to attract consumers. Consumers are seeking healthy, excellent-quality and safe dairy products, among which high-end dairy products, such as chilled fresh milk, room temperature and chilled yogurt, cheese products, organic milk and goat milk, stand out as key drivers for the growth of the industry. Consumption of fresh milk with 3.6 grams of high-quality protein and A2ß-casein, low-sugar and low-fat dairy products also grew rapidly. The growth in retail sales of liquid milk and dairy products in third-tier and fourth-tier cities was more remarkable than that of first-tier and second-tier cities. In addition, due to the increasing reach of the Internet and the boom in social media and the courier industry, domestic online retail and new retail have experienced substantial growth – an area where third-tier and fourth-tier cities have also overtaken first-tier cities. Besides, the "Opinions of the General Office of the State Council on Accelerating the Development of Circulation Industry and Promoting Consumer Spending" was announced in 2019, whereby facilitating the development of circulation, new business types, new business models and user-friendly consumer facilities. Meanwhile, costs for circulation have been reduced and the circulation environment has been optimized to facilitate the development of e-commerce and convenience store chains, thus providing a favorable business environment for China's fast-moving products industry, which included the dairy industry.

China attaches great importance to the development of its dairy industry. Recently, a variety of policies and plans have been introduced to promote the revitalization of the dairy industry, such as "Several Opinions on Further Promoting the Revitalization of the Dairy Industry" jointly issued by nine governmental departments including the Ministry of Agriculture and Rural Affairs at the end of 2018; "The Action Plan for Promoting Dairy Brand" issued by the Ministry of Agriculture and Rural Affairs in March 2019; and "The Action Plan for Promoting Domestic Infant Formula Milk Powder" issued by the National Development and Reform Commission (NDRC) and various departments in May 2019. The aim of these policies and plans is to further optimize the structure, concentration level and technical capacity of the country's dairy industry, enhance the quality and competitiveness of dairy products and promote domestic sales for Chinese dairy brands. During the year, the State Council also announced the "Healthy China

Initiative (2019–2030)" to advocate public awareness of health and dietary nutrition issues and encourage enterprises to develop and produce products that are in line with health requirements, which will bring ample business opportunities to the dairy industry. Moreover, the central government has provided a range of financial supports to expand the implementation of a "grain-to-feed" program, large-scale rearing and breeding and to increase output per dairy cow, which has laid a solid foundation for the upgrade and development of the dairy industry in China.

In 2019, the global production volume of milk continued experiencing slower growth and milk sources remained unevenly distributed. Milk supply in China and Asia was relatively tight compared with that of Europe and Oceania. Additionally, as China continues to support the cheese industry, the demand for raw milk will continue to increase and supply will remain tight. Therefore, it is crucial for enterprises to enhance their overall competitiveness by possessing segments ranging from milk source, dairy product processing, market sales, to international trade and internationalized production chain, which will allow them to cover each sector of the industry while forming a comprehensive and highly efficient industrial chain.

As a leading domestic dairy enterprise, Mengniu has seized the opportunities offered by the stable development of the dairy industry during the year, and continue to undertake proactive brand building and strengthen implementation of its strategic omni-channel building initiatives such as e-commerce and new retail. As a result, Mengniu led the speedy development of the dairy industry by achieving a 14.6% growth in revenue. The Company effectively offset the pressure of increased costs due to the higher price of raw milk during the year and further expanded its profit margin. In addition, Mengniu has also accelerated its pace of internationalization. During the year, Mengniu completed the acquisition of Bellamy's, an Australian brand of high-end organic infant milk formula. The Company also entered into an agreement to acquire LDD, a leading dairy enterprise in Australia. These steps allowed the Group to not only swiftly enhance its competitiveness and take control of high-quality milk sources, high-end organic infant formula and baby food brands, and long-established brands of high-end liquid milk, but also to further its business in the domestic and overseas markets, especially in Australia and the Southeast Asian region.

## BUSINESS REVIEW

### Business Division Performance

#### *Room Temperature Product Business*

The room temperature product business maintained strong growth in 2019, with a double-digit increase in revenue and high-end brands were top performers in terms of sales growth. The product structure has also been further enhanced. Mengniu continued to focus on star products, such as *Milk Deluxe*, *Just Yoghurt*, *Fruit Milk Drink*, and pure milk. The Group accelerated the innovation and upgrading of key products and further expanded its market share as well as brand influence. In addition, through continuous optimization of its RTM strategy, our room temperature product business accelerated its penetration in lower-tier markets via the "Penetration into Towns and Villages" project and continued to pursue the implementation of its digitalized B2B strategy, all of which contributed to the satisfactory performance of the business.

During the year, the *Milk Deluxe* pure milk series strengthened its positioning as a high-end brand. Through improved taste and product quality and the launch of the new "DreamCap™" packaging, *Milk Deluxe* was able to significantly increase its brand strength and accelerate sales growth, which have enhanced its position as a market leader. By rejuvenating and upgrading its logo, brand ambassadors and taste, the *Just Yoghurt* brand successfully launched a number of products and maintained its strength. *Fruit Milk Drink* has also achieved notable growth by upgrading its brand image through the launch of new products, engaging new brand ambassadors as well as strengthening distribution channels in campuses, retail execution and market penetration. Furthermore, the *Mengniu* pure milk successfully improved its gross profit margin by adjusting its structure with the Prime and the Premium series.

#### *Chilled Product Business*

During the year, sales of Mengniu's chilled products grew at a high single-digit rate, ranking first in the industry for the 15th consecutive year despite the unfavourable market condition. Mengniu has implemented the strategic objectives of focusing on product and marketing innovation, and vigorously developing important sales channels and enhancing channel management. In addition, Mengniu has taken innovation as its core competency, continuously enhancing product differentiation and premiumization, and continuing to promote the functional values of chilled yogurt and chilled probiotics drinks. Mengniu has also reinforced its RTM strategy and further expanded its market share of chilled products during the year.

In 2019, Mengniu continued to develop its star products, such as *Champion*, *Yoyi C* and *Mengniu* yogurt while launching a number of new products to create new momentum for the chilled products business. The new products, *Mengniu* Nordic cheese flavor yogurt and *Yoyi C* passion fruit flavor probiotic drink, performed strongly in terms of sales after their launch. Mengniu has also launched the first Chinese nourishing yogurt, *Mengniu* Chinese Nourishing Nuan Yan yogurt, a pioneer in the new nourishing yogurt category. The functional yogurt *Champion* has set new industry standards through the inclusion of ground-breaking breast milk probiotic, Probi-M8, into the new product Blue Cap Vigor Bottle series, which has been well received by consumers. The Danone *Bio* line has also launched Smoothie Français and the first Chinese "light meal bottled yogurt" product.

***Fresh Milk Business***

In 2019, Mengniu's fresh milk business continued to focus on two brands: *Shiny Meadow* and *Modern Meadow*. *Shiny Meadow* has quickly become the no. 1 brand in the high-end fresh milk segment. *Modern Meadow's* share of the medium-range market has also skyrocketed, thus fully demonstrating "the speed of Mengniu". Revenue from the fresh milk business achieved triple-digit growth. The sales volumes of Mengniu's fresh milk products in each retail store and the repurchase rate were remarkably enhanced by reinforcing the brand image and actively interacting with consumers.

In order to optimize the supply chain of the fresh milk business, Mengniu continued its long-term program of integrating production, supply and sales. Factories in Qingyuan and Tianjin started operation in the first half of 2019, which significantly enhanced the Group's production capacity and market responsiveness. As for the expansion of sales, the number of new customers for the year exceeded expectations and the number of sales points and penetration rate through major channels have significantly increased, which effectively boosted sales volume growth. As of the end of 2019, Mengniu's fresh milk products covered 24 provinces and 50 major cities in Eastern, Southern, Northern, Central and Northeast China.

***Milk Formula Business***

As for the milk formula business, Mengniu holds approximately 51% stake of Yashili International Holdings Limited ("Yashili", stock code: 1230), which has enhanced its development in two major businesses, namely infant milk formula and health and nutritional products. By the end of December 2019, Yashili had completed registration of 54 infant milk formulas in 18 product series under its own brands and *Arla*, the cooperative brand. During the year, Yashili has the brand strategy of "Equal Emphasis on Cow Milk and Goat Milk", and fully covering all market tiers: mid-range, high-end and super high-end. As products with low output values and low gross profits have been phased out in order to align with the market trend, and the industry growth is slowing down, Yashili's milk formula products only achieved high single-digit growth during the year. There was a robust growth in the sales of adult milk powder due to the launching of new products catering the nutritional needs of middle-age and elderly.

During the year, Yashili continued to enrich its product portfolio, adopt innovative brand strategy, increase R&D investment, enhance differentiated product layout and innovative marketing, and strengthen digitalized management. Yashili actively developed new products. For example, it launched *Reeborne* series of organic milk powder for children's growth, organic teenage milk powder, organic adult milk powder and organic maternal milk formula, and developed a series of adult milk powders catering different needs. In addition, Yashili comprehensively enhanced its brand image by appointing new brand ambassador and increasing investment in CCTV and other online and offline promotion channels. Yashili also adjusted its channel strategy, with infant milk formula business focused on the mother-and-baby store channels, while adult milk powder and nutritional product business focused on Key Account ("KA") channels, and rapidly developed e-Commerce and new retail channels. This has built a solid foundation for the sustainable development of the milk powder business. Looking forward, Yashili has, at the end of 2019, reformulated its medium- and long-term development strategy for the next five years to further enhance its business capability in light of market changes.

***Ice Cream Business***

In 2019, the ice cream business maintained stable development with a focus on enhancing brand value and sales. Aiming to be more focused on brand development, the ice cream business thoroughly re-arranged its brand structure, laying emphasis on developing the two star brands-*Suibian* and *Deluxe*. The brands were rejuvenated by a comprehensive upgrade of products, packaging, ambassadors and marketing activities with a view to effectively enhance brand power and market exposure. To lay a structural foundation for the synergistic development of multiple channels, the business consolidated its regional organizational structures, enhanced the authority and responsibility of regional management and improved its market responsiveness. In addition, the sales management department continued to implement the RTM strategy with a focus on key markets, vigorously developed markets in counties and increased both the number and scale of sales outlets to achieve the synergistic development of traditional, modern and special channels.

***Cheese business***

To grasp the new momentum in cheese consumption in China and explore the immense potential of the domestic market, Mengniu and Arla Foods co-founded the cheese business Arla Dairy Products Import & Export Co., Ltd. to leverage the strength of both parties in terms of products and channels and jointly develop the cheese market in China. During the year, Mengniu's cheese business division was led by consumer demand, which led to the intensive development of kid-friendly cheeses, the exploration and expansion of catering channels and the improvement in production, supply and marketing efficiencies. Mengniu emphasized the development and innovation of new products and successfully launched the kids cheese cup, upgraded Mengniu's breakfast cheese and kids cheese sticks to constantly enhance product power. By creating products for both health and enjoyment, further increasing the flavors of kids cheese sticks, launching small-package mozzarella cheese and introducing *Lurpak* butter, Mengniu deepened the functionality of cheese products and expanded the possibilities for family consumption. During the year, the cheese business maintained steady growth in sales revenue.

***Overseas Business***

During the year, Mengniu further expanded its overseas business coverage to speed up the implementation of the international business plan. Based on consumer demand and the characteristics of various channels, Mengniu rapidly launched new products. As of the end of 2019, market deployment expanded gradually with various kinds of room-temperature and chilled probiotics drinks, chilled yogurt and ice cream products launched.

Since its first overseas liquid milk factory in Indonesia commenced operation in November 2018, Mengniu has been actively developing the Southeast Asian markets, which have the highest potential. The penetration of *Yoyic* brand products has increased rapidly in a short period of time with *Yoyic* acting as the major brand to sell chilled yogurt and probiotics drink products. Through timely product replacement, precise digital marketing and in-depth cultural integration, the brand awareness of *Yoyic* in the Indonesian market has been significantly enhanced. In addition, Mengniu strived to develop overseas trade markets and expand overseas sales points, which currently cover various countries and regions including Hong Kong, Macau, Singapore, Malaysia, Indonesia, Myanmar, the Philippines and Cambodia. In the future, the overseas business division will focus on enhancing product competitiveness and the integrated marketing capabilities of the *Yoyic* brand while increasing sales volume at individual stores and strengthening deployment through traditional channels, as well as improving the quality of customer services and enhancing the efficiency of precision management.

***Strategic Acquisition***

In 2019, Mengniu conducted two strategic acquisitions to implement overseas strategic layout and realize long-term strategies. Mengniu entered into an agreement on 15 September 2019 to acquire all shares of Bellamy's, a world-famous Australian organic infant formula and baby food producer, for a scheme consideration of AUD1.46 billion (equivalent to approximately RMB6.93 billion) in total and AUD12.65 (equivalent to approximately RMB60.04) per share. The acquisition was completed in December 2019 and Bellamy's has become an indirect wholly-owned subsidiary of Mengniu.

Bellamy's offers Australian-made and certified organic products made with non-genetically modified ingredients, with essential vitamins and minerals that are tailored to the needs of babies and toddlers. Its businesses cover Australia, New Zealand, China and Southeast Asia. The acquisition is in line with Mengniu's strategies of achieving break-through growth in the premium infant milk formula segment and expanding into overseas markets with a focus on Southeast Asia and Australia. The acquisition is expected to mutually benefit Mengniu and Bellamy's operations, enabling Mengniu to capture the huge potential in the organic infant milk formula and baby food market in China and achieve business growth and margin expansion. At the same time, Mengniu will also leverage its own strengths to unlock Bellamy's brand potential so as to develop overseas markets including China and Southeast Asia.

In addition, Mengniu entered into an agreement on 24 November 2019 for the proposed acquisition of 100% shares of Lion-Dairy & Drinks Pty Ltd ("LDD"), an Australia-based branded dairy and beverage company, at a consideration of AUD0.6 billion (equivalent to approximately RMB2.931 billion). Upon the fulfilment of all acquisition conditions and the completion of acquisition, LDD will become an indirect wholly-owned subsidiary of Mengniu. LDD is principally engaged in the production and sale of milk based beverages, yogurt, white milk, chilled juice and drinks, ambient juice and drinks, water ice, and culinary and plant-based products. It has a portfolio of iconic dairy brands that hold the No.1 market position in milk based beverages, yogurt, chilled juice and plant-based beverages in Australia. Its yogurt products also have a presence in international markets including South East Asia and China. LDD is a leading dairy enterprise in Australia that has access to a significant volume of the high quality Australian milk sources and owns 13 large-scale manufacturing facilities across Australia and an extensive cold chain distribution network that serves 35,000 customers.

Through the acquisition, Mengniu will obtain control of LDD's high-quality assets, which represents another important milestone for Mengniu in establishing itself as a complete regionally integrated player with a multi-category, multi-brand portfolio to serve consumers in the Asia Pacific region. Moreover, LDD's iconic brand portfolio with strong Australian heritage is highly attractive to consumers in the Belt and Road markets, and therefore provides significant market opportunities for Mengniu to unlock. The acquisition further opens up potential raw milk and other ingredient sourcing opportunities, which will help Mengniu to develop high-end UHT milk. From a supply chain perspective, the collaboration between LDD, Burra Foods Pty Ltd, an associate of Mengniu engaging in dairy ingredient processing in Australia, and Bellamy's will generate even greater synergies while providing better products to consumers across the Asia-Pacific region.

**Quality Management**

In 2019, Mengniu activated its 3.0 upgrade of quality and safety management system, leveraging the world-class quality management models of international benchmark enterprises. Based on national laws and regulations such as the "Food Safety Law" and seven international and national standards including ISO9001, FSSC22000 and HACCP, Mengniu has optimized and upgraded its quality, safety and risk management mechanisms along the industrial chain. The system specifies requirements for every key process from ranch management to the end market and addresses risk identification, risk assessment, risk alert and risk response to enhance quality control throughout the entire industrial chain.

As for the alert indicator system for raw milk quality, the milk source business division established an alarm mechanism that conducts point-to-point warning and prevention on three levels: daily, every 10 days and monthly. In addition, through analyzing data on milk source quality from the previous three to five years, Mengniu formulated a "risk alert map" to guide its milk source departments in carrying out regional quality control. Mengniu has also developed an alarm mechanism in its factories, which has effectively enhanced the passing rate of food safety inspections. During the year, Mengniu pride a 100% passing rate in random inspections conducted by governmental departments on the Group's milk source bases.

The room temperature product business division continued to adhere to the management direction of "striving for excellent quality" and fully implemented all quality management measures, meeting all core quality performance criteria. In order to effectively control the quality of new products, upgrade the quality of pure milk products and enhance warehouse quality management, the business division has integrated quality control systems into different business activities to refine the lean management of the entire industrial chain. It has also carried out quality control evaluation at the retail end, and put in place enhancement measures to strengthen product competitiveness.

The chilled product business division continued implementing Danone Group's newly revised Food Safety Item ("FSI") standards and conducted quality controls for the entire industrial chain to constantly refine the design of the overall workflow from manufacturing to the retail end. By developing a quality control platform for raw and auxiliary materials, regularly training and supporting suppliers, rearranging resources among existing customers and strengthening the cold chain infrastructure, the chilled product business division has effectively reduced food safety risks and consumer complaints.

In response to the three-year quality assurance plan, the ice cream business division followed the newly revised "Frozen Drink Inspection Rules" and aligned itself with the FSI system to implement the business operation standard upgrade 2.0, which includes improving food safety inspection equipment to further increase inspection efficiency. Meanwhile, by enhancing OEM management capabilities and tightening controls on bacteria that have a significant effect on food safety, quality control efficiency was also significantly enhanced.

The fresh milk business division implemented strict supplier hiring standards, enhanced its cold chain infrastructure, introduced new methods of inspection for existing factories and developed new administrative regulations for new factories. During 2019, Mengniu also compiled a manual for quality management at the retail end to ensure the quality and safety of its fresh milk products.

The cheese business division complied with the new requirements for quality control systems and food safety management systems, improving its quality management and control measures during the production process. The division also expedited the customer complaint handling process to create a better customer experience.

Through production system upgrades, quality management system certifications and laboratory system certifications, the overseas business division continued to refine its quality management process. In addition, the quality management system at the factory in Indonesia obtained FSSC22000, ISO22000 and HACCP certifications in 2019.

**Milk Source Management**

Throughout 2019, in order to consistently implement national strategy on the revitalization of dairy industry, targeted towards poverty alleviation, industrial poverty alleviation and rural revitalization, Mengniu launched "Project 136" for dairy industry revitalization to consolidate and strengthen the mutually beneficial ties between processing enterprises and ranchers while facilitating supply-side structural reforms for milk sources. Mengniu also established comprehensive strategic partnerships with various famous dairy-farming companies in China that produce more than 100 tons of milk products per day, and have strategic deployment in places that are conducive to cattle breeding in China in an effort to achieve win-win development. Mengniu has also improved the efficiency of farm operations and achieved high-quality development of the dairy industry with the construction of three major service platforms, namely the "Aiyangniu" integrated procurement platform, the "Dairy Cattle Research Institute" and the "Intelligent Digital Milk Source Ranch", as well as the use of technological and precise management.

Mengniu launched its "Aiyangniu" integrated procurement platform – the first B2B trading platform in the world for the dairy industrial chain, online in June 2019. The platform links members of the Group, including Modern Farming (Group) Co., Ltd., Inner Mongolia Shengmu High-tech Farming Co., Ltd. and Inner Mongolia Fuyuan International Industrial (Group) Co., Ltd., with small and medium-scale ranches to conduct centralized procurement. The aim of "Aiyangniu" is to lower costs and enhance efficiency by eliminating intermediate costs through peer-to-peer trading between ranches and manufacturers. The platform covers all the product categories of the ranches, helping Mengniu maintain steady growth.

In May 2019, Mengniu set up the "Dairy Cattle Research Institute" in the Horinger county, Hohhot city, with the core expert team making up of 25 top local and overseas industry experts. The institute also established strategic cooperative partnerships with 50 top enterprises and academic institutes in the world. At present, the institute has under it a China-Denmark Research and Development Demonstration Farm, the Practice Teaching Base of China Agricultural University and the National Key Laboratory Test Base of Inner Mongolia University. Moreover, it has established strategic cooperative ties in research and development with the Global Dairy Research Institute, DeLaval, Alltech and Zoetis. The “Dairy Cattle Research Institute” has launched five innovative research projects covering dairy farm breeding management, research on rumen health and innovative raw milk development. Such projects have contributed to the sustainable revitalization of the dairy industry by laying the experimental foundation for the research and development of new technologies and enhancing the level of dairy breeding.

Mengniu strives to lead ranches in China to compete in the global market by adopting the “dairy cattle + Internet” model to aid the entry of China’s dairy industry into the 4.0 era. During the year, Mengniu and Alibaba Cloud developed a management platform framework for the “Intelligent Digital Milk Source Ranch”. The platform serves as a solution for ranch operation and management and uses Internet of Things (IoT) devices to offer a set of solutions for ranch operation and management that use information technologies that include cloud computing, big data and artificial intelligence. The platform covers every aspect of ranch operation and management; facilitating data sharing, increased efficiency of ranch staff, reduction in operational costs, enhancement in risk management and improvement in industrial chain management.

Mengniu also launched international cooperation projects. With the support of the Chinese and Danish governments, Mengniu and Arla Foods from Denmark jointly established the China-Denmark Dairy Technical Cooperation Center. By inviting on-site foreign experts and introducing the authoritative Danish dairy farming book *Housing Design for Cattle* to the domestic market, the partnership has introduced the advanced management technology, knowledge and experience of foreign ranches to more than 1,000 ranches in China, enhancing different aspects of China’s dairy industry including ranch design, dairy cattle welfare, ranch cost-cutting and efficiency.

**Corporate Digital Strategy**

In 2019, Mengniu cooperated with many leading local and overseas information technology enterprises to expand the digital transformation of the dairy industry chain from production and manufacturing to both up- and down-stream operations. The Group also focused on the development of the digital factory project, the smart network system and digital milk source project, as well as digital marketing project in collaboration with Alibaba to provide safer, more nutritious and fresher dairy products to consumers.

During the year, Mengniu's digital factory project commenced full operation at Helin (High-tech) and Jinhua pilot plants. The operation of digitalized factories has facilitated real-time control of a range of information such as raw milk sourcing, operation status of equipment, data inspection, production processes and the completion rate of production during the manufacturing process. In October 2019, Mengniu's intelligent manufacturing project was awarded the title of "Intelligent Manufacturing Benchmark Enterprise" by the Ministry of Industry and Information Technology, which further enhanced Mengniu's brand influence.

As of the end of 2019, Mengniu had also fully launched the smart network system, covering all distributors of the room temperature product business division and certain distributors of the chilled product business division. The promotion of smart network system and comprehensive system synchronization allows sales personnel and distribution stations to complete the entire sales process in a more efficient, precise and convenient way. The system also enhances the operational efficiency of support staff and enables administrators to have a more comprehensive and precise understanding on sales, which provides reliable data to support decision-making.

In addition, Mengniu continued to work closely with Alibaba and launched a series of innovative data and technology-driven new retail projects with an aim to better understand new consumption patterns of young consumers. The digital exploration on the consumer end has boosted innovation in Mengniu's business model, research and development and production processes, creating a consumption cycle of positive interaction.

In January 2019, Mengniu's digital milk source project kicked off in the pilot ranch. The project conducted benchmarking analysis by combining lean management models and the digital platform to provide more comprehensive data support for the management of ranches. It is compatible with all mainstream hardware used in the industry to provide the simplest and easiest platform to manage the ranch on the basis of information and digital capabilities without the limitation of the hardware. The platform also allows up-stream farming experts to provide better online support, early risk warning, and industry-related and policy information to ranches.

In the future, Mengniu will continue to utilize digital technology to better understand consumer needs and further empower its business to achieve better development and serve consumers more efficiently.

**Branding Strategy**

In 2019, Mengniu preserved its brand effect from the World Cup themed marketing held in 2018, by continuing to promote its "World-class Quality, Born for Greatness" brand concept. The power of the Mengniu brand was enhanced by further organizing and optimizing the Group's branding structure, strengthening the synergies between the parent brand and sub-brands, persisting with the strategy of brand internationalization, and continuing the transformation from "Mengniu of China" to "Mengniu of the world".

Regarding the marketing of its master brand, Mengniu held a series of marketing events that resonated with the public by tying the growth of China and the celebration of the nation's 70th anniversary with the development process of the Mengniu brand. By working closely with China Central Television (CCTV), Mengniu was able to capture premium publicity resources and promote the brand during the live broadcast of the National Day military parade celebration on TV and online. More specifically, Mengniu successfully introduced the brand concept "Born for Greatness" in the program "Anchors on Joint News Broadcast" through various means, such as discussions on topics like "saying the word 'Niu' 26 times in one breath" and "the New China was founded in 1949, which was the year of the Ox". This led to extensive chats on Weibo. Through a series of online and offline marketing events in celebration of National Day that were bundled with the movie "My People, My Country", Mengniu also significantly boosted conversations surrounding the brand, accumulating 3 billion impressions, thus effectively enhanced the power of the brand and its bond with customers, and further strengthened Mengniu's image as a national brand.

During the year, each of Mengniu's business segments actively pursued a brand strategy that was in line with their own brand positioning and launched comprehensive plans for diverse and precise marketing. For the room temperature product business, *Milk Deluxe* was the title sponsor for popular variety programs produced by Hunan TV during the year, such as "Back to Field Season 3" and "Super Vocal", leveraging IP resources to promote the brand philosophy of "Becoming One's Better Self" and "Better Nutrition to Better Everyone". As a result, sales grew significantly. Meanwhile, *Just Yoghurt* was the title sponsor of "Produce Camp 2019" and "The Chinese Restaurant Season 3". Through product placement of *Just Yoghurt* in various programs, the Group successfully made use of different channels for online and offline marketing. *Fruit Milk Drink* was the title sponsor of "Idol Producer", an inspirational program produced by iQiyi that targets the young population. Combined with the innovative marketing method of using brand IP to boost sales, the strategy has raised the brand power of *Fruit Milk Drink* to a record high.

As for the chilled product business, Mengniu focused on marketing innovation and conducted a series of brand upgrades and marketing activities surrounding key products. The *Yoyi C* brand demonstrated its emphasis on young consumers by inviting youth idol Jackson Yee to be its ambassador and engaging in crossover marketing activities with a tea-based beverage brand. *Yoyi C* also appeared on the variety program "Trump Card vs Trump Card" produced by Zhejiang TV, in WeChat and Weibo campaigns as well as on established popular science platforms to promote its specialized and healthy brand image. Through brand placement in the popular TV program "Sing! China" produced by Zhejiang TV, *Champion* reinforced its image as "the best functional yogurt brand" and further differentiated itself from other products, significantly increasing consumer preference for the brand and their willingness to purchase.

As for the milk formula business, Yashili completed its comprehensive brand upgrading during the year and conducted a press conference for the brand to launch the new television advertisement and to appoint Yao Chen, the famous celebrity for the promotion of the brand concept of "For Chinese Babies, the Best to Offer". The press conference placed advertisement in video media such as iQiyi and TikTok, which reached over 0.18 billion advertisement exposures and attracted heated discussions on Weibo with more than 0.16 billion views. In addition, Yashili continued to strengthen its collaboration with CCTV and increased the investment in advertisement at CCTV in order to cover consumers comprehensively. Yashili also launched "A Journey Tracing the Sources Across Five Countries in Three Continents" integrated marketing event, by leading distributors and media to the milk sources of Yashili, as well as being the title sponsor of iQiyi's first online travel IP program "Feel the World", Yashili showed the public its four major milk sources and production bases overseas so as to enhance consumers' confidence in the brand.

The Group adjusted the structure of the brands in the ice cream business division with a focus on star brands *Suibian* and *Deluxe* while further enhancing product innovation and the investment efficiency of the brands. The marketing target for *Suibian* was to reinforce its leading position as a chocolate ice cream brand and create a "hip and hot" brand image. The Group invited five celebrities to be the brand ambassadors, which improved brand exposure and sales.

Regarding the fresh milk business, Mengniu's *Shiny Meadow* strengthened brand-building and was the sole title sponsor of the program "Our Song" by Dragon TV in the second half of 2019. The show had the highest ratings among variety shows of the same period, which significantly increased the brand exposure of *Shiny Meadow* and its market share.

As for overseas business, the *Yoyic* brand launched its first TV advertisement in Indonesia during the year. The advertisement, together with themed promotion and interaction with key opinion leaders (KOLs), generated wide exposure in the social media in South East Asia and placed *Yoyic* as the fastest-growing brand in terms of awareness in Indonesia, with close to 60 million consumers participating in the online campaigns.

During the year, Mengniu was frequently recognized by renowned industry organizations due to its ever-increasing brand influence and reputation among consumers. Mengniu was ranked 27th on the BrandZ™ list of most valuable Chinese brands, as well as first on the Brand Contribution list and was named Best Trend-setting Brand for the first time. Mengniu was second on the list of Kantar Worldpanel's "Most Chosen Brands in China" based on its consumer index research. It was also ranked among the 2019 Brand Finance Global 500. In the China Brand Power Index (C-BPI) list published by the Ministry of Industry and Information Technology of the PRC in 2019, Mengniu chilled yogurt remained at the top of the yogurt industry for the ninth consecutive year. *Yoyi* C also retained its title as the champion of the probiotics drinks industry for the third consecutive year.

**Sales Management**

In 2019, Mengniu further strengthened its Route to Market (RTM) execution through initiatives such as the "Smart Network Action" and the "Penetration into Towns and Villages" Projects. The Group also optimized its supply chain mode, empowered its distributors, refined its management of channel penetration and enhanced its sales network coverage. While stably expanding in traditional channels, Mengniu also further pursued the B2B new retail mode. In addition to establishing strategic cooperative ties with "lst.1688.com", Mengniu joint efforts with Alibaba to build the "Fresh Express" platform to boost digital new retail growth.

The room temperature product business continued to reinforce product penetration into town and village markets by speeding up the "Penetration into Towns and Villages" project. This was achieved by implementing the RTM strategy, forming and optimizing the channel management and assessment system for distributors, improving the allocation of distributors' resources as well as the quality of distributors' retail-end services. During the year, the Smart Network of the business division had a 100% coverage rate of the domestic market where sales management and customer relationship management were digitalized to strengthen the control of channels and points of sales for highly efficient distribution.

During the year, Mengniu's chilled product business was focused on the development of important sales channels and the thorough implementation of RTM strategies. For modern channels, Mengniu focused on brand-building of key products and strengthened the online and offline cooperation of the retail system, which further improved Mengniu's brand power and market share. While exploring sales points for traditional channels, the Group also looked to special channels. Mengniu's crossover collaboration with Haidilao officially began with the launch of *Hi* yogurt at the end of the year, which was well received by the market. In addition, the smart network system was introduced to some distributors for the chilled product business.

As for the milk formula business, during the year, Yashili developed its channels by focusing infant milk formula on the mother-and-baby store channels, focusing adult milk powder and nutritional products on modern trade channels, actively developing e-Commerce and new retail channels, and entered into a strategic cooperation with Alibaba in order to fully speed up the digitalized operation and implemented advertising and marketing with precise targeting to raise sales of e-Commerce.

The ice cream business focused on major markets and on the development of county-level markets. The Group reinforced the high-quality growth of sales points to effectively achieve refined channel management. As for traditional channels, Mengniu vigorously implemented the channel penetration strategy that aimed at speeding up the sales growth of county-level markets. As for modern channels, while Mengniu explored new retail sales points, convenience stores and vending machines, it also expanded its direct sales business to reinforce cooperation between the brand and retailers. For special sales channels, Mengniu entered the Fangte theme parks, which has become a new source of sales growth.

The fresh milk business continued to adopt a sales mode that is based mainly on distributors and supplemented by direct sales to keep improving its sales channels. The Group covered the channels in hypermarkets and convenience stores across 24 provinces and 50 key cities by focusing on the development of modern channels. Since the factories in Tianjin and Qingyuan started production in the first half of 2019, the number of sales points and penetration for key channels have been significantly increased, which in turn has boosted Mengniu's overall sales. Furthermore, Mengniu collaborated with Alibaba in building the "Fresh Express" platform during the year, and together developed the cold chain delivery model for chilled fresh milk that boosted the new retail sales of fresh milk.

The cheese business division carried out more in-depth segment management of channels, focused on breakthroughs in major markets and achieved significant improvement in customer coverage, number of sales points, and sales in major markets.

On the e-commerce front, Mengniu continued to organize key marketing events including multiple "Super Brand Days" on e-commerce platforms such as Tmall, JD.com and Suning. The Group integrated its resources from the sponsorship of several top variety shows, such as "Produce Camp 2019" for *Just Yoghurt*, "Idol Producer" for *Fruit Milk Drink*, "Back to Field" for *Milk Deluxe* and "Chinese Restaurant" for *Just Yoghurt*, as well as appointment of celebrities including Xiao Zhan, Yang Zi, Lay Zhang, Rocket Girls, Unine and Zhu Zheng-ting as brand ambassadors, to conduct fan base marketing and organize various marketing events. In addition, Mengniu participated in the A100 Strategic Partnership Program by Alibaba where the joint pilot program featuring Tmall Mart, Taoxianda and RT-Mart assisted Mengniu in achieving a seamless switch between online and offline sales; creating more room for the growth of e-commerce sales.

The number of online consumers, online flagship store memberships and sales of Mengniu products this year reached a record high. On June 18, the total sales of Mengniu products on all e-commerce platforms more than doubled to over RMB100 million, ranking first in the dairy product industry. During the "Double 11" shopping festival, sales of Mengniu products on all e-commerce platforms aggregated to more than RMB200 million, representing a 40% growth and ranking first in the dairy product industry.

## FINANCIAL REVIEW

### Revenue

Benefiting from sales growth due to product innovation, proactive brand marketing and excellent sales execution, the revenue of the Group amounted to RMB79,029.9 million for the year ended 31 December 2019 (2018: RMB68,977.1 million), representing an increase of 14.6% year-on-year, of which the revenue from liquid milk recorded a year-on-year increase of 14.3% and the revenue of the milk formula business recorded an increase of 30.8% year-on-year, while the revenue from ice cream recorded a year-on-year decrease of 5.9%.

### Gross Profit

Despite the increase in the price of raw milk as compared with last year, with satisfactory revenue growth and a notably optimized product mix, the Group's gross profit for the year increased to RMB29,678.6 million (2018: RMB25,783.6 million) and gross profit margin increased by 0.2 percentage point to 37.6% as compared with the same period last year (2018: 37.4%).

### Operating Expenses

To enhance channel distribution and brand competitiveness, the Group embarked on active channel development and strengthened its brand promotion strategies during the year, while making provision for impairment of goodwill and intangible assets (both as non-cash charges) during the year. These led to an increase in operating expenses to RMB28,809.7 million (2018: RMB22,684.8 million), representing an increase to 36.5% when expressed as a percentage of the Group's revenue (2018: 32.9%).

Selling and distribution expenses for the year increased by 14.4% to RMB21,536.1 million (2018: RMB18,833.3 million), representing 27.3% when expressed as a percentage of the Group's revenue (2018: 27.3%).

Advertising and promotion expenses for the year increased by 21.3% to RMB8,499.9 million (2018: RMB7,005.8 million), while increasing to 10.8% when expressed as a percentage of the Group's revenue (2018: 10.2%).

Due to Yashili's growth of sales and profit from operating activities changed in the second half of the year, and the growth was not as expected, the Group recognized the provision for impairment of goodwill of RMB2,299.1 million in relation to the milk formula business during the year and provided RMB173.1 million for the relevant intangible assets. Administrative and other operating expenses (excluding provision for impairment of goodwill and other intangible assets), including impairment losses on financial and contract asset and loss on disposal of financial assets measured at amortised cost, increased by 22.4% to RMB4,713.7 million (2018: RMB3,851.5 million), accounting for 6.0% (2018: 5.6%) of the Group's revenue.

**Profit from Operating Activities and Net Profit**

During the year, with the increase in revenue of the Group's overall business, the effect from product structure optimization, enhancement of operational efficiency as well as economies of scale, together with the gain arising from disposal of a subsidiary, Shijiazhuang Junlebao Dairy Co. Ltd. ("Junlebao"), the Group's EBITDA increased by 37.8% to RMB7,404.8 million (2018: RMB5,373.6 million) and EBITDA margin was 9.4% (2018: 7.8%). Excluding the effect of gain on disposal of subsidiaries, provision for goodwill impairment and other intangible assets, EBITDA margin was 8.3%.

Profit attributable to owners of the Company increased by 34.9% to RMB4,105.4 million (2018: RMB3,043.0 million). Excluding the one-off impact of the net gain from disposal of Junlebao, impairment of goodwill and other intangible assets, profit attributable to owners of the Company was RMB3,866.8 million. Basic earnings per share increased by 34.7% to RMB1.049 (2018: RMB0.779).

**Income Tax Expenses**

In 2019, income tax expense of the Group totaled RMB1,309.5 million (2018: RMB649.0 million), representing an increase of 101.8% year-on-year primarily due to the income tax expenses of RMB533.3 million on gain arising from disposal of Junlebao. The effective income tax rate was 23.4% (2018: 16.9%), up by 6.5 percentage points year-on-year, mainly due to the impairment of goodwill and impairment of other intangible assets, which were non-deductible items.

**Capital Expenditure**

For the year ended 31 December 2019, capital expenditure of the Group was RMB11,532.3 million (2018: RMB3,772.3 million), representing an increase of 205.7% year-on-year. Of the total, RMB4,318.3 million was spent on building new production facilities and modifying existing ones and related investments, whereas RMB527.9 million was spent on purchasing biological assets, and RMB6,686.1 million was invested in equities.

### Working Capital, Financial Resources and Capital Structure

For the year ended 31 December 2019, the Group recorded net cash inflow from operating activities of RMB6,307.2 million (2018: RMB6,363.5 million).

As of 31 December 2019, outstanding interest-bearing bank and other borrowings of the Group increased to RMB23,472.8 million (31 December 2018: RMB14,715.3 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB13,838.2 million (31 December 2018: RMB6,522.9 million). More than 80% of the interest-bearing bank and other borrowings were bearing interest at fixed rates. The increase in interest-bearing bank and other borrowings was mainly due to the new borrowings for acquisition of Bellamy's during the year.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as at 31 December 2019 were RMB16,996.6 million (31 December 2018: RMB7,417.3 million).

The Group's total equity as of 31 December 2019 amounted to RMB33,347.3 million (31 December 2018: RMB30,464.3 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 70.4% (31 December 2018: 48.3%).

Finance costs of the Group were RMB644.2 million (2018: RMB550.7 million), approximately 0.8% when expressed as a percentage of the revenue (2018: 0.9%).

## PRODUCTS

Leveraging its advantage in resources and globally advanced technologies, Mengniu's premium products continue to lead the dairy industry. Innovation remains a core competitive advantage of Mengniu. The Group has put great emphasis on product quality and has innovated new products with a focus on product differentiation and premiumization. Mengniu continues to develop functional and customized products to meet the customers' needs for personalization and to drive sales growth.

The principal businesses of the Group are liquid milk, ice cream, milk formula and other products with their performance during the year outlined as below:

### Liquid Milk

Revenue amounted to RMB67,877.8 million (2018: RMB59,388.6 million), accounting for 85.9% of Mengniu's total revenue (2018: 86.1%).

***UHT Milk***

Following the launch of the "DreamCap™" organic milk in 2018, the newly upgraded *Milk Deluxe* pure milk in "DreamCap™" packaging was launched in July 2019. It adopts advanced membrane filtration technology to enhance the texture and quality of the product to improve the experience of customers. With the philosophy of "Better Nutrition to Better Everyone" in mind, the brand launched the *Milk Deluxe* 3.0 era.

Mengniu's comprehensive UHT milk line includes *Mengniu* pure milk, high-calcium milk, low-fat high-calcium milk and skimmed milk, providing more healthy options to consumers.

Mengniu's *Future Star* A2ß-casein pure milk, made with limited-supply premium milk from designated ranches, aiming to raise the quality of children's milk products.

Key Products:

– *Milk Deluxe*

– *Mengniu* pure milk

– *Student's Milk*

– *Future Star*

***Room Temperature Yogurt***

In 2018, the *Just Yoghurt* light flavor yogurt line launched Xiaomanyao, a new product with PET bottle packaging that makes the room temperature yogurt product easier to carry and consume. In September 2019, Mengniu introduced the mango cheese flavor Xiaomanyao product made from Alphonso mangoes and Danish rich cheese using world-class technology. The product has become popular among young consumers.

The *Just Yoghurt* fruit pulp series welcomed the addition in January 2019 of yellow peach and oat flavor yogurt with smiley packaging, presenting consumers with an innovative product like no other. The diamond shaped packaging yogurt series also introduced in May a salted caramel flavor and a chocolate flavor, which were followed by the red jujube and goji berry flavor in June.

Key Products:

– *Just Yoghurt* light flavor yogurt

– *Just Yoghurt* fruit pulp flavor yogurt

***Room Temperature Milk Beverage***

The mango flavor *Fruit Milk Drink* was launched in March 2019. The *Fruit Milk Drink* colorful fruit pulp series, which targets the high-end milk beverage market, introduced the mango and passion fruit flavor in April.

In addition, Mengniu introduced the *Mengniu* GO Chang probiotics beverage in April 2019. The product is made from imported probiotics and beneficial bacteria and has filled a gap in the room temperature probiotics beverage market.

Key Products:

– *Fruit Milk Drink* milk beverage

– *Fruit Milk Drink* high-end colorful fruit pulps series

– *Suan Suan Ru* nutritious milk drink

***Chilled Yogurt***

During the year, Mengniu stepped up promotion of the features of the BB-12 bacteria included in the *Champion* BB-12 series and launched new product packaging to strengthen the product's market position as a "professional and functional" yogurt. Mengniu introduced *Champion* Blue Cap Vigor Bottle Series in October 2019, transforming industry standards by adding the ground-breaking breast milk probiotic, Probi-M8, into the product along with a new and original package design. The flavor of the product was well received by consumers.

*Mengniu* Nordic Cheese Flavor Yogurt was launched in February 2019 and achieved excellent sales performance. In October, *Mengniu* launched Chinese Nourishing Nuan Yan Yogurt, the first Chinese nourishing yogurt which was widely welcomed by consumers.

The *Bio* product series is positioned as a high-end yogurt, with a main feature of being a French-style meal replacement and fruit yogurt. In October, the Danone *Bio* Smoothie Francais, the first Chinese "light meal bottled yogurt", was launched. Aiming to fulfill demand for personalized diets with "controlled sweetness", the product contains less than 0.5% sucrose. The product facilitated the expansion of the high-end product range of *Bio* and optimized its product mix.

Key Products:

– *Champion*

– *Mengniu* European Charcoal Yogurt

– *Mengniu* Nordic Cheese Flavor Yogurt

– *Mengniu* Chinese Nourishing Nuan Yan Yogurt

– *Milk Deluxe* Yogurt

– *Bio*

***Chilled Milk Beverage***

*Yoyi C*'s new passion fruit flavor was launched in January 2019 and achieved brilliant sales performance. In addition, the *Yoyi C* line adopted new packaging in March 2019 to highlight the product's core "live bacteria" selling point, aiming to strengthen its leading position among probiotics products.

Key Products:

– *Yoyi C*

– *Yoyi C* LC-37

***Fresh Milk***

Mengniu's *Shiny Meadow* fresh milk targets the high-end market. It is produced using low-temperature membrane concentration technology and Swedish cream separation technology, enabling it to retain the highest proportion of natural nutrients in quality fresh milk. In the first half of 2019, the 720 ml medium size *Shiny Meadow* fresh milk and *Shiny Meadow* 0% fat fresh milk were launched. In September, Mengniu launched *Shiny Meadow* cold brew caffe latte, leveraging premium milk sources and the fashionable cold brew craft and its rich texture. The product opened a new era of caffe latte.

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

Key Products:

– *Shiny Meadow* fresh milk

– *Shiny Meadow* cold brew caffe latte

– *Shiny Meadow* 0% fat fresh milk

– *Modern Meadow* fresh milk

**Ice Cream**

Revenue from the ice cream business amounted to RMB2,561.4 million (2018: RMB2,723.4 million), accounting for 3.2% of Mengniu's total revenue (2018: 4.0%).

*Suibian* ice cream continued to consolidate its position in the chocolate ice cream segment and upgraded its packaging design in 2019 by placing the images of brand ambassadors on the package and increasing brand exposure in an effort to create a trendy ice cream brand. New *Suibian* ice cream products were launched in January 2019, namely the avocado chocolate ice cream, pistachio crunchy ice cream, hazelnut crunchy ice cream, strawberry ice cream cone and milk tea ice cream cone.

In January 2019, the high-end ice cream brand *Deluxe* welcomed a new strawberry flavor product, which contains fruit pulp and is made from pure milk and Australian cream. It was also well-received after its launch.

Key Products:

– *Suibian*

– *Deluxe*

– *Mood for Green*

– *Mengniu* Ice+

– *Mengniu* Russian style ice cream brick

**Milk Formula**

Revenue from the milk formula business amounted to RMB7,869.7 million (2018: RMB6,017.4 million), accounting for 10.0% of Mengniu's total revenue (2018: 8.7%). The revenue of Milk Formula business mainly included the revenue from Yashili, and the revenue from related milk formula business of Junlebao which was disposed during the year.

*Reeborne* uses organic milk sources from the Alps mountains with more than 3 years of maintenance for the pristine land to ensure purity and cleanliness of the milk sources. The Simmental dairy cows, which produce high protein content milk, are selected. The cows are raised by free-range method so they can produce milk in a natural way. The passing of Wan Tai (WIT) organic product certification proves its strict compliance with the organic standard from milk sources, production to transportation, with each can of *Reeborne* safe and traceable.

*Arla*, as the world's largest organic dairy producer with over 100 years of brand history, was authorized as the dedicated brand for the Danish royal family. The organic milk formula of *Arla Baby & Me* has obtained three major organic certifications and contains high DHA and probiotics at the golden ratio; *Arla Baby & Me* Lanxi contains the unique NutriCollab formula with premium nutrients such as choline, taurine and nucleotide. The brand new upgraded formula of *Arla Milex* is a Pro Plus nutritious formula of OPO structured fat, Bb-12 probiotics and probiotics at the golden ratio, thereby meeting the requirement of a natural product.

Originated from Australia, *Doraler* goat milk formula contains 100% whole goat milk protein, which is natural, easy to be digested and absorbed by the digestive system. Doraler upholds the brand philosophy of "Freedom, Bravery and Exploration" and advocates "Grow in Freedom, Be Loved by Nature".

Yashili's products also include various milk formula products for adults, such as *Mengniu* brand adult milk formula, *Youyi* brand adult milk formula, and *Yourui* brand milk formula for the middle-aged and elderly. *Mengniu* brand adult milk formula is one of the top three domestic adult milk formula brands in China. *Yourui* is the high-end brand among the product range of Mengniu's adult milk formula, particularly customized to deal with common health problems related to bone, constipation, hyperglycemia, cerebrovascular and cardiovascular disease, immunity and muscle on the middle-aged and the elderly; *Yourui* Yitian series adopt the formula with scientific sugar balance which passed clinical experiments conducted by the Beijing Institute of Nutritional Resources, being the low-GI food with its GI reading of 23.1 and suitable for those who need to avoid the threat of higher blood glucose.

In addition, the milk formula business also caters for various instant mix products, including *Zhengwei* brand oatmeal and *Yashily* infant nutritional rice cereal; the *Yashily* infant nutritional rice cereal launched the organic rice cereal series during the year.

Key products：

– *Yashily* Kieember and Kieevagour

– *Mengniu* Reeborne

– *Dumex* Diamor

– *Arla Baby & Me*

– *Doraler*

**Other Products**

Revenue from other products amounted to RMB721.0 million (2018: RMB847.7 million), accounting for 0.9% of Mengniu's total revenue (2018: 1.2%).

***Cheese***

During the year, Mengniu's cheese business division was focused on the development and innovation of new products. The Group introduced more than 10 new products and existing products of upgraded packaging. Among them, the taste of the leading product *Future Star* Golden Cheese Bar for Children's Growth was improved in response to consumer preferences. In addition, Mengniu launched new *Future Star* products including the vanilla ice cream flavor Golden Cheese Bar, Bangbang children's cheese bar and the double-layered *Lao Ru Pian*. The new products have all received positive feedback from consumers since their launch.

In the first half of 2019, Mengniu collaborated with Arla Foods to introduce two new products, namely *Arla* shredded mozzarella and UHT cream (frozen), under the professional catering brand *Arla* Pro. In July 2019, an upgraded mozzarella cheese was launched. Each unit of the product contains enough cheese for a 9-inch pizza and features outstanding stringiness and fluidity as well as rich flavor and texture.

Key Products:

– *Future Star* Cheese for Children's Growth

– *Mengniu* Lao Qu Bei

– *Arla* shredded mozzarella

## PRODUCTION

Mengniu deploys its production capacity according to the potential of relevant markets and its own product strategy. As at 31 December 2019, Mengniu had 41 production bases in China, one production base in Australia, New Zealand and Indonesia respectively. It had a total annual production capacity of 9.50 million tons (December 2018: 9.75 million tons).

## SOCIAL RESPONSIBILITY

In 2019, Mengniu established its sustainable development management system, which was led by the Board, and officially approved the "Three-year Sustainable Development Plan of Mengniu Group". A sustainable development execution committee with working groups for environment, economy and society was established to thoroughly execute the strategic sustainable development plan at the corporate level and implement multiple social supporting plans such as the "Inclusive Nutrition Plan" and the "Youth Teacher Empowerment Education Plan". By launching the "136 Project" for the revitalization of the dairy industry, forming the "3+1" operation team and promoting projects such as the "University of Ranchers" and the "Golden Key of Milk Cow", the Group is working to develop a sustainable ecosystem; and by committing to green operations, Mengniu is committed to building a healthy and green ecological environment.

In 2019, Mengniu continued to expand its "Inclusive Nutrition Plan" and donated milk to students in poorer regions of China for the entire school year in an effort to alleviate nutrition-based poverty and educate the public on issues of health. The donations reached 52,768 students from 186 schools in 122 counties of 88 cities across the country, including 39,652 financially disadvantaged students. In total, Mengniu donated about 200,000 boxes of milk worth RMB9 million. Mengniu also organized the "Inclusive Nutrition Partnership", an online charity campaign with a theme of "Light a star for each cup of milk donated", aiming to attract members of the public to be Mengniu's charity partners by participating online. The Group would then donate milk to students in the poorer regions. Over 150,000 people became charity partners in a short period of time. In addition, Mengniu organized 37 on-campus lectures on health and nutrition that reached about 20,000 students.

In an attempt to effectively improve teaching conditions in poor regions, Mengniu made donations to support the "Youth Teacher Empowerment Education Plan" that provided Internet training to more than 2,000 young teachers in the rural areas of over 20 counties and villages across the country to enhance the quality of teaching and combine poverty alleviation with intellectual growth.

In addition, in June 2019 Mengniu announced the "Project 136" for the revitalization of the dairy industry and achieved high-quality development through the three major services platforms "Aiyangniu", "Dairy Cattle Research Institute" and "Intelligent Digital Milk Source Ranch". Mengniu supported its partners along the supply chain to achieve mutual benefits and established a sustainable ecosystem for milk sources to revitalize the dairy industry by continuously incorporating interconnected systems and measures such as implementing revitalization policies, introducing lean management and fostering technical talents.

As for support in technical training, Mengniu's milk source technicians formed the "3+1" operation team in 2019. Teams were stationed in ranches to provide suggestions for improvements, cost reductions and efficiency enhancements. At the same time, Mengniu continued to carry out projects such as the "University of Ranchers" and the "Golden Key of Milk Cow" technical demonstration events. More than 50,000 people participated in the 3,000 training events organized by the Group.

Mengniu also put great effort in implementing green operations to protect the ecological environment, including continuous upgrading, expanding and modifying wastewater treatment systems and strengthen pollutant monitoring systems; combing through the points of environmental risk management and formulating a visualized map to achieve hierarchic and categorized environmental management. Mengniu also continuously referred to the environmental standards of the Central Government and conducted self-audits and inspections for its internal operations to improve and optimize the existing system for environmental protection for more refined management and contribute to the sustainable green development of China.

Mengniu has been fulfilling its corporate social responsibility by actively engaging in poverty alleviation and intellectual enhancement efforts in poor regions and contributing towards building a green ecological environment, which have been widely recognized by different parties in the community. During the year, Mengniu ranked first in the Corporate Social Responsibility Development Index for Dairy Enterprises (2019) by the Research Center of CSR China Academy of Social Sciences and received the "Evergreen Award in Sustainable Development" from Caijing magazine and China Alliance of Social Value Investment. The Group was also awarded the "Asia Responsible Enterprise Award 2019 – Social Empowerment Category" by Enterprise Asia, the "2019 Top 60 Brands for Chinese Corporate Citizens' Responsibility" by the China Corporate Citizen Responsibility Brand Summit and the "Climate Leader Plant Award" by the Energy Foundation and the China Council for an Energy Efficient Economy.

**Human Resources Management**

As at 31 December 2019, the Group had a total of 37,894 employees in Mainland China, Hong Kong, Oceania, USA and Southeast Asia, including around 3,125 employees working for Yashili and Bellamy's. During the year, the total cost of employees (including salaries of directors and senior management personnel) amounted to approximately RMB7,081.8 million (2018: RMB6,248.6 million).

In order to implement Mengniu's divisional organization management strategy and provide more efficient human resources services to the front offices, the Group continued to drive the transformation of the human resources services towards a three-pillared structure and the establishment of a sound Human Resources Shared Services Center ("HRSSC"). During the year, while maintaining normal business operations, the HRSSC underwent the second phase of its upgrade in areas such as staff experience, process optimization, system automation, terminals digitalization and management report building, so as to continuously improve its efficiency and the degree of satisfaction in business processing, enhancing the effectiveness of the Group's operation and the managerial accuracy.

Mengniu has also expanded its investments in talent development. It implemented the "Blue Ocean Plan" during the year and selected internal personnel equipped with both the right abilities and integrity on four management levels for the training. The goal of the systematic training program is to provide Mengniu with sufficient talent with knowledge in both operations and management for the speedy development of the Group. At the same time, Mengniu continued to improve the comprehensive personnel training system and created a course system for new recruits, on-the-job training, general capabilities training, core professional skills training and leadership skills training. By combining the online learning platform with offline key training programs, Mengniu is able to provide its employees with more accurate and specific training.

Following the issuance of the updated corporate culture and the launch of a series of events on culture cognition in 2018, Mengniu focused on further promoting the embracement of the corporate culture in 2019 through events such as the "Executive Culture Lecture Theatre", "Ranking of Expertise in Corporate Culture" (文化牛人榜) and team building activities titled "Vowed to take action" that included all Mengniu employees in the discussion on corporate culture as well as the implementation of action plans. A survey on Mengniu's organizational effectiveness was conducted in September and staff cognition and commitment to the corporate culture were shown to have improved substantially compared with 2017.

In 2019, Mengniu continued to optimize its incentive system and adhered to the Board's guidelines on adopting a hierarchic incentive system guided by performance and driven by value creation. During the year, 8,201,104 shares were granted to employees participating in the share award scheme.

## PROSPECTS

Since mid to late January 2020, the Group has been facing challenges in epidemic prevention and control, production and operation, sales channels and milk source management as a result of the outbreak and spread of the Coronavirus Disease 2019 ("COVID-19") pneumonia. During the key stage of epidemic control in China, Mengniu implemented measures for the prevention and control of COVID-19 in accordance with

Chinese government guidelines. While ensuring the safety of its employees, Mengniu actively fulfilled its corporate social responsibility and continued to provide consumers across China with high-quality dairy products.

Mengniu swiftly activated the Level 1 response mechanism, formulated emergency plans and established an emergency working group on the epidemic to ensure various programs were carried out. Mengniu puts the highest priority on the safety and health of its employees. The Group quickly and continuously procures the necessary protective gear both domestically and from overseas to ensure that staff who have returned to work are protected. Random tests and verifications on epidemic prevention and control measures at factories are conducted every day to safeguard production standards and the safety of employees. Employees from functional departments who do not need to work on site have been asked to work online from home. Mengniu strengthened its collaboration with both upstream and downstream partners to go through this challenging time together to secure a healthy and sustainable industrial chain. In addition, during the prevalence of the epidemic, Mengniu actively donated cash and goods to support those on the frontline of epidemic prevention. The Group donated in cash and supplies with the provision of milk supply to major medical institutions in Wuhan and nationwide, ranking it first among dairy enterprises. Furthermore, Mengniu collaborated with the China Charity Federation to establish the "China Charity Federation (Mengniu) Emergency Resources Center for Epidemic Prevention and Control" to ensure the smooth transport of donations, and that donated products quickly reach the frontlines, thus help address the issue of meeting nutrition-related supplies faced by hospitals across the country. Mengniu employees have also demonstrated fierce determination in fighting the epidemic, including high efficiency in organization and execution.

The management of Mengniu believes that the impact brought by the epidemic to the business of Mengniu is temporary. Despite the fact that the epidemic has created challenges for the dairy product industry, it brought new momentums and opportunities to consumption upgrades of dairy products. In the process of combating the epidemic, immunity enhancement have become the key words. The "Nutrition and dietary advice on preventing and recovering from novel coronavirus infected pneumonia" issued by the National Health Commission of the PRC clearly states that the intake of sufficient dairy products can help in preventing and recovering from the COVID-19 pneumonia. In particular, chilled yogurt and chilled probiotic drinks that are rich in active bacteria can promote a healthy bacterial population in the gut which, in turn, enhances the immunity of the human body. The continuing trend of consumption upgrades, paired with the public's increasing attention on nutrition and health as a result of the epidemic, will keep boosting the demand for dairy products. In addition, the government's continuous endeavor to promote the policy on revitalizing the dairy industry will be conducive to the long-term healthy development of China's dairy industry. Mengniu will increase its efforts in promoting the benefits of dairy products on improving immunity in order to guide consumers towards a healthy lifestyle.

As for brand innovation, Mengniu promoted the "Born for Greatness" brand concept during the World Cup marketing campaign in 2018, which has resonated with consumers for the past two years. Mengniu will further integrate the core element of "nutrient" into its brand concept, and launch a new concept that is more closely relatable to consumers: "Nutrition for Greatness". Mengniu strives to provide consumers and all Chinese people who want to be great with world-quality nutritious products and a strong physique to assist them in their pursuit of a happy life.

As far as innovation and management upgrades are concerned, Mengniu will continue to adopt shrewd measures to drive the upgrade of the entire process, comprising dairy product research and development, raw material procurement, manufacturing, logistics and sales, in terms of intelligentization and networkization. In addition, as the overall supply of raw milk in the world is expected to remain tight, Mengniu will tackle the challenges proactively. The Group will further improve the industrial chain of dairy products and the scientific and technological strategies in milk source development in order to ensure a stable milk supply and lay a solid foundation for its business development. The Group has also officially launched the "Mengniu APP", which allows for a comprehensive upgrade of Mengniu's digital marketing capabilities and overall strengthening of the retail-end.

Mengniu will continue to set a clear strategic direction and promote the high-quality growth of its business. During 2020, the Group will seek to mitigate the short-term negative impact of the coronavirus epidemic on operations and sales, and actively adjust itself to tap the new market opportunities from the changes in consumer habits and consumption scenarios since the epidemic outbreak. The Group will enhance promotion and education on the nutritional value of dairy products, and accelerate the development of e-commerce and new home-delivery retail businesses. Innovation in various fields such as products, brands and management will also be pushed forward, with a focus on developing high-potential product categories such as high-end pure milk, chilled yogurt, fresh milk, milk powder and cheese to build leading brands in more sub-categories.

Mengniu will keep expanding its business coverage during 2020. Already, the Australian organic infant milk formula and baby food brand Bellamy's have become members of the Mengniu family. The acquisition of Australian branded dairy and beverage company LDD is expected to be completed by the first half of 2020. Mengniu is in the process of achieving synergies in business, management and supply chain. The Group will fully utilize the integration effect and promote further development of its domestic and overseas business.

This year, the Mengniu team, with its love for life and passion for career, will remain committed to the mission of "A Hundred Years of Mengniu, Revitalizing the Dairy Industry" and "500g of Milk a Day Keeps Chinese People Strong" as it continues to forge ahead and bravely tackle the market challenges brought by the epidemic. Mengniu will continue to care for its employees, clients and consumers, and create maximum value for its shareholders. The Mengniu team will demonstrate the "Born for Greatness, Achieving the TOP" spirit and build a stronger foundation for the long-term prosperity of Mengniu.

## CORPORATE GOVERNANCE CODE

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions of the CG Code during the year ended 31 December 2019, except that the Company has deviated from the Code Provision A.5.1 with the reasons explained below.

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

## SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements for the year ended 31 December 2019.

## SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 has been reviewed and agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.181 (2018: RMB0.181) per ordinary share for the year ended 31 December 2019. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Wednesday, 24 June 2020 to shareholders whose names appear on the register of members of the Company on Tuesday, 9 June 2020.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Tuesday, 9 June 2020, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Wednesday, 3 June 2020, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 28 May 2020.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 8 June 2020.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

## BOARD OF DIRECTORS

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

## APPRECIATION

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

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

Hong Kong, 25 March 2020