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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- The Group generated revenue of RMB37,533.5 million for the six months ended 30 June 2020 (2019: RMB39,857.2 million), representing a decrease of 5.8% year-on-year. Excluding the business of Shijiazhuang Junlebao Dairy Co., Ltd. (“Junlebao”), which was disposed in 2019, and Bellamy’s Australia Limited (“Bellamy’s”), which was acquired in 2019, the Group’s revenue from comparable businesses amounted to RMB36,887.7 million (2019: RMB33,715.4 million), representing a year-on-year increase of 9.4%. During the period, the Group continued to maintain a trend of high-quality development while each of its main product categories continued to focus on upgrade and innovation in order to satisfy consumers’ demand for quality life.
- Profit attributable to owners of the Company amounted to RMB1,211.5 million (2019: RMB2,076.9 million), representing a decrease of 41.7% as compared with the corresponding period last year. The profit attributable to owners of the Company from comparable businesses (excluding Junlebao and Bellamy’s) was RMB1,158.4 million (2019: RMB2,001.6 million), representing a decrease of 42.1% as compared with the corresponding period last year. The decrease in profits mainly attributed to an increase in the costs of the Group due to the following measures taken in the first quarter of 2020: (i) the Group had incurred additional expenses on epidemic prevention and control to safeguard the health and safety of its employees, and to ensure the resumption of work and production; (ii) the Group had incurred additional marketing expenses to accelerate the reduction of inventories in its distribution channels; and (iii) the Group had actively fulfilled its corporate social responsibilities and had made cash and dairy product donations to those in need.

* For identification purposes only

- After the outbreak of the COVID-19 Epidemic (the “Epidemic”) in early 2020, Mengniu immediately activated the emergency response mechanism, centralising the deployment of various business divisions around the world to carry out prevention and control work, resuming work and production on the premise that both the employee safety was protected and product safety was ensured. During the Epidemic, Mengniu adhered staunchly to its stance to maintain procurement of every drop of qualified fresh milk, helping partners on the upstream of the industrial chain like ranches achieve sustainable development while providing a strong support to ensure a rapid growth in the second quarter. Mengniu adopted timely measures to inject promotional expenses to reduce channel inventory, actively carrying out e-commerce, home delivery business and community group marketing, thereby facilitating a full recovery of the multi-channel sales. Overall business realized a strong recovery in the second quarter.
- Mengniu undertook social responsibilities actively, donating cash and products to provide nutritional support to the medical institutions and frontline institutions of epidemic control across the country while donating and constructing an emergency supply centre in Wuhan. In addition, Mengniu fully exploited its powerful logistics capacity, joined with the China Charity Federation and the Blue Sky Rescue Team to carry out a large scale delivery of relief materials across the nation, completing the delivery of more than 40 million pieces of supplies in Wuhan alone. Moreover, all the dairy products donated by Mengniu were delivered to the frontline anti-epidemic personnel within two weeks. Through outstanding performance in assuming social responsibility, Mengniu has greatly enhanced its corporate and brand reputation.
- During the period, for room temperature business, the revenue growth of *Mengniu* branded pure milk further increased. After the launch of the new products of *Milk Deluxe*, *Just Yoghurt* and *Fruit Milk Drink*, room temperature liquid milk business achieved a breakthrough in sales growth. By launching the new chilled products with high added value, the sales of the chilled products led the industry. Focusing on the *Shiny Meadow* and *Modern Meadow* brands, the fresh milk business launched new products and packagings which boosted an almost doubling growth in sales as compared to the corresponding period last year.
- The ice cream business focused on its star brands, such as *Suibian*, *Deluxe* and *Mood for Green*, actively communicated with consumers. The cheese business created the *Arla ASCX* brand which achieved a high revenue and profit growth against adverse market trend. In terms of the milk formula business, Yashili continued to make every effort to adjust its channels and product strategies. *Bellamy’s* brand milk formula and baby food products have also achieved a favourable growth with a significant increase in profitability.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2020, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue	4	37,533,459	39,857,239
Cost of sales		<u>(22,881,073)</u>	<u>(24,278,510)</u>
Gross profit		14,652,386	15,578,729
Other income and gains		296,410	292,973
Selling and distribution expenses		(11,499,647)	(11,317,690)
Administrative expenses		(1,438,981)	(1,585,750)
Impairment losses on financial and contract assets, net		(101,731)	(88,817)
Loss on disposal of financial assets measured at amortised cost		(8,253)	–
Other expenses	5	(943,795)	(575,646)
Interest income		564,490	510,908
Finance costs		(324,449)	(321,917)
Share of profits and losses of:			
A joint venture		(14,853)	–
Associates		220,759	103,140
Profit before tax	6	1,402,336	2,595,930
Income tax expense	7	<u>(267,538)</u>	<u>(435,298)</u>
Profit for the period		<u>1,134,798</u>	<u>2,160,632</u>
Attributable to:			
Owners of the Company		1,211,526	2,076,926
Non-controlling interests		<u>(76,728)</u>	<u>83,706</u>
		<u>1,134,798</u>	<u>2,160,632</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)			
Basic	9	<u>0.309</u>	<u>0.531</u>
Diluted		<u>0.308</u>	<u>0.531</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit for the period	1,134,798	2,160,632
Other comprehensive income/(loss)		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	(197,358)	(34,791)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	8,721	(12,988)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	(10,814)	–
	(2,093)	(12,988)
Share of other comprehensive loss of associates	(3,632)	(3,742)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(203,083)	(51,521)
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	27,854	(15,176)
Share of other comprehensive income of an associate	–	78
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	27,854	(15,098)
Other comprehensive loss, net of tax	(175,229)	(66,619)
Total comprehensive income for the period	959,569	2,094,013
Attributable to:		
Owners of the Company	1,054,554	2,008,499
Non-controlling interests	(94,985)	85,514
	959,569	2,094,013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	30 June 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
<i>Notes</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	11,434,326	11,102,702
Construction in progress	2,139,804	2,231,333
Investment properties	64,741	73,548
Right-of-use assets	1,633,551	1,697,808
Goodwill	4,780,238	4,718,657
Other intangible assets	7,532,942	7,583,415
Investment in a joint venture	125,987	140,840
Investments in associates	7,912,866	7,351,265
Deferred tax assets	1,354,914	1,056,099
Derivative financial instruments	29,888	34,009
Other financial assets	6,452,625	4,845,997
Long term prepayments	135,167	215,966
	<u>43,597,049</u>	<u>41,051,639</u>
CURRENT ASSETS		
Other financial assets	19,229,827	19,220,584
Derivative financial instruments	1,392	10,814
Inventories	4,000,363	5,089,944
Trade and bills receivables	4,077,610	3,586,866
Prepayments, other receivables and other assets	2,269,798	3,027,185
Pledged deposits	286,885	74,186
Cash and bank balances	11,512,173	6,476,187
	<u>41,378,048</u>	<u>37,485,766</u>
Assets of a disposal group classified as held for sale	60,000	–
	<u>41,438,048</u>	<u>37,485,766</u>
CURRENT LIABILITIES		
Trade and bills payables	8,051,335	6,738,626
Other payables and accruals	9,268,512	10,807,574
Interest-bearing bank and other borrowings	15,014,658	13,838,201
Derivative financial instruments	5,580	4,346
Deferred income	64,220	50,493
Income tax payable	205,462	294,617
	<u>32,609,767</u>	<u>31,733,857</u>
Total current liabilities	<u>32,609,767</u>	<u>31,733,857</u>
NET CURRENT ASSETS	<u>8,828,281</u>	<u>5,751,909</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>52,425,330</u>	<u>46,803,548</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
POSITION** *(continued)*
30 June 2020

	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	14,650,451	9,634,609
Deferred income	369,185	279,494
Deferred tax liabilities	2,041,573	1,941,902
Other financial liabilities	1,600,000	1,600,206
	<u>18,661,209</u>	<u>13,456,211</u>
Total non-current liabilities	18,661,209	13,456,211
NET ASSETS	<u>33,764,121</u>	<u>33,347,337</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	358,583	358,257
Treasury shares held under share award scheme	(56,916)	(133,671)
Other reserves	11,635,304	12,442,343
Retained earnings	17,676,881	16,465,355
	<u>29,613,852</u>	<u>29,132,284</u>
Non-controlling interests	4,150,269	4,215,053
	<u>33,764,121</u>	<u>33,347,337</u>
TOTAL EQUITY	33,764,121	33,347,337

NOTES:

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any material impact on the financial position and performance of the Group.

- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain lease payments for the leases of the Group's buildings and structures, motor vehicles have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB1,339,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

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

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

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

Segment assets exclude investments in associates and a joint venture, assets of a disposal group classified as held for sale and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

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

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

Six months ended 30 June 2020

	Liquid milk products RMB'000 (unaudited)	Ice cream products RMB'000 (unaudited)	Milk powder products RMB'000 (unaudited)	Others RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment revenue (note 4):					
Sales to external customers	32,565,272	2,229,183	2,281,948	457,056	37,533,459
Intersegment sales	<u>345,461</u>	<u>32,264</u>	<u>19,853</u>	<u>118,341</u>	<u>515,919</u>
	32,910,733	2,261,447	2,301,801	575,397	38,049,378
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(515,919)</u>
Revenue					<u>37,533,459</u>
Segment results	604,961	218,108	86,643	14,602	924,314
<i>Reconciliation:</i>					
Interest income					564,490
Finance costs (other than interest on lease liabilities)					(311,340)
Share of loss of a joint venture					(14,853)
Share of profits of associates					220,759
Corporate and other unallocated income					<u>18,966</u>
Profit before tax					1,402,336
Income tax expense					<u>(267,538)</u>
Profit for the period					<u>1,134,798</u>
At 30 June 2020 (unaudited)					
Segment assets	50,133,621	2,229,772	18,418,896	1,025,520	71,807,809
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(23,303,442)
Corporate and other unallocated assets					28,431,877
Investment in a joint venture					125,987
Investments in associates					7,912,866
Assets of a disposal group classified as held for sale					<u>60,000</u>
Total assets					<u>85,035,097</u>
Segment liabilities	27,266,430	2,473,778	10,898,727	1,362,420	42,001,355
<i>Reconciliation:</i>					
Elimination of intersegment payables					(23,303,442)
Corporate and other unallocated liabilities					<u>32,573,063</u>
Total liabilities					<u>51,270,976</u>

Six months ended 30 June 2019

	Liquid milk products <i>RMB'000</i> (unaudited)	Ice cream products <i>RMB'000</i> (unaudited)	Milk powder products <i>RMB'000</i> (unaudited)	Others <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Segment revenue					
Sales to external customers	33,109,037	2,185,977	4,237,839	324,386	39,857,239
Intersegment sales	<u>452,751</u>	<u>38,520</u>	<u>16,395</u>	<u>151,045</u>	<u>658,711</u>
	33,561,788	2,224,497	4,254,234	475,431	40,515,950
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(658,711)</u>
Revenue					<u>39,857,239</u>
Segment results	1,803,933	231,784	224,078	(507)	2,259,288
<i>Reconciliation:</i>					
Interest income					510,908
Finance costs (other than interest on lease liabilities)					(313,785)
Share of profits of associates					103,140
Corporate and other unallocated income					<u>36,379</u>
Profit before tax					2,595,930
Income tax expense					<u>(435,298)</u>
Profit for the period					<u><u>2,160,632</u></u>
At 30 June 2019 (unaudited)					
Segment assets	43,288,455	2,357,852	11,885,470	714,887	58,246,664
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(16,114,712)
Corporate and other unallocated assets					12,786,988
Investments in associates					7,203,858
Assets of a disposal group classified as held for sale					<u>11,635,812</u>
Total assets					<u>73,758,610</u>
Segment liabilities	20,985,440	2,566,499	2,350,903	1,093,995	26,996,837
<i>Reconciliation:</i>					
Elimination of intersegment payables					(16,114,712)
Corporate and other unallocated liabilities					20,886,195
Liabilities of a disposal group classified as held for sale					<u>10,314,969</u>
Total liabilities					<u><u>42,083,289</u></u>

4. REVENUE

An analysis of the revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Sale of goods	37,525,584	39,841,760
Consigned processing services	7,875	15,479
	<u>37,533,459</u>	<u>39,857,239</u>

5. OTHER EXPENSES

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Write-down of inventories to net realisable value	54,992	46,326
Write-down of assets of a disposal group classified as held for sale	71,628	–
Impairment of prepayments, other receivables and other assets	67,234	–
Impairment of other intangible assets	–	1,332
Losses on disposal of items of property, plant and equipment	–	18,076
Donations	445,858	9,121
Educational surcharges, city construction tax, and other taxes	211,938	254,952
Losses arising from changes in fair value less cost to sell of dairy cows	–	94,098
Net fair value loss on forward currency contracts	10,112	3,199
Net fair value loss on exchangeable bonds	29,672	48,028
Net fair value loss on a convertible promissory note	1,200	165
Net fair value loss on warrants	11,817	29,123
Foreign exchange losses, net	5,824	–
Others	33,520	71,226
	<u>943,795</u>	<u>575,646</u>

6. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June	
<i>Note</i>	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	22,876,292	24,264,843
Cost of consigned processing services	4,781	13,667
	<hr/>	<hr/>
Cost of sales	22,881,073	24,278,510
Impairment of financial and contract assets, net:		
Impairment of trade receivables, net	100,757	88,806
Impairment of financial assets included in prepayments, other receivables and other assets, net	974	11
	<hr/>	<hr/>
	101,731	88,817
Depreciation of property, plant and equipment	845,372	966,505
Depreciation of right-of-use assets	136,400	92,423
Depreciation of investment properties	1,765	1,146
Amortisation of other intangible assets	49,027	44,583
Outsourcing expenses	197,242	130,991
Other rental expenses	140,719	166,620
Display space fees	1,840,301	1,268,898
Employee benefit expense (including directors' and senior executive's emoluments)	2,949,141	3,428,547
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Note:

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

7. 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% (2019: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Unaudited)
Current income tax		
Current income tax charge	460,381	632,979
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	(192,843)	(197,681)
	<u>267,538</u>	<u>435,298</u>

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

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

During the six months ended 30 June 2020, the Company declared and paid a final dividend of RMB0.181 (six months ended 30 June 2019: RMB0.181) per ordinary share as proposed for the year ended 31 December 2019 to the shareholders of the Company.

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

(a) Basic earnings per share

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

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

	For the six months ended	
	30 June	
	2020	2019
	Number of	Number of
	shares	shares
	(in thousand)	(in thousand)
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	3,935,015	3,927,708
Effect of share options exercised	1,013	1,446
Effect of shares purchased under share award scheme	(14,185)	(20,553)
	<u>3,921,843</u>	<u>3,908,601</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>3,921,843</u>	<u>3,908,601</u>

(b) Diluted earnings per share

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

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

	For the six months ended	
	30 June	
	2020	2019
	Number of	Number of
	shares	shares
	(in thousand)	(in thousand)
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,921,843	3,908,601
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	5,734	3,275
Adjustments for share award scheme	5,025	2,092
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>3,932,602</u>	<u>3,913,968</u>

10. TRADE AND BILLS RECEIVABLES

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

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

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 3 months	3,284,814	2,990,016
4 to 6 months	597,750	484,937
7 to 12 months	179,211	95,371
Over 1 year	15,835	16,542
	<hr/>	<hr/>
	<u>4,077,610</u>	<u>3,586,866</u>

11. TRADE AND BILLS PAYABLES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	6,900,850	5,510,608
4 to 6 months	946,893	870,994
7 to 12 months	185,923	333,937
Over 1 year	17,669	23,087
	<u>8,051,335</u>	<u>6,738,626</u>

12. CONTINGENT LIABILITIES

In 2019, 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, has not provided for any claim in these financial statements.

13. EVENTS AFTER THE REPORTING PERIOD

On 24 November 2019, the Company entered into a share sale and purchase agreement (the "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. The Agreement was terminated on 25 August 2020 as one of the conditions stated in the Agreement had not been fulfilled on the conditions precedent end date as defined in the Company's announcement dated 25 November 2019.

On 27 July 2020, the Group exercised 1,197,327,890 warrants for the equivalent ordinary shares of China Shengmu Organic Milk Limited ("China Shengmu") at the exercise price of HK\$0.33 per share with an aggregate amount of HK\$395,118,203.70 (approximately RMB356,966,000). Upon the completion of the transaction, the Group held in aggregate 1,467,193,490 ordinary shares of China Shengmu, representing approximately 17.80% of the total number of shares issued by China Shengmu.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Despite the challenges brought by the Epidemic which have resulted in the decrease in China's GDP in the first quarter of 2020 by 6.8% year-on-year, under the leadership of the Chinese government and the united efforts on epidemic control and prevention across the country, the situation has been continuously improving and resumption of work, production, business and operations has been accelerating. The Epidemic has been gradually alleviating and China's economy has been steadily recovering since April, reversing the contraction in the first quarter. In the second quarter, China's GDP has increased by 3.2% year-on-year. In the first half-year of 2020, China's GDP has reached approximately RMB45.66 trillion, representing a slight decrease of 1.6% year-on-year, reflecting the resilience of China's economy.

For the development of the dairy industry, the upstream and downstream enterprises of the industrial chain, including feedstuff and raw material production, rearing and breeding, processing, point of sales, as well as the logistics between each sector, have faced the impact of the Epidemic in the first quarter of the year. With the alleviation of the Epidemic in the second quarter, production and supply operation of the industry has steadily returned to normal and the demand for dairy products has gradually recovered.

While the Epidemic brought short term challenges to the dairy industry, it further boosted consumption upgrade of dairy products. The Epidemic has raised consumers' concern for nutrition, health, immunity enhancement and the quality of products, which provided the drive for revitalization and transformation of the dairy industry. On 8 February, 2020, the National Health Commission of the PRC issued the "Nutrition and Dietary Advice on Prevention and Recovery from Novel Coronavirus Infected Pneumonia" and recommended that "moderate or recovering patients should consume 300g of milk and dairy products per day (Yogurt can be consumed more as they provide intestinal probiotics)". On 26 February, the National Association of Health Industry and Enterprise Management, the Chinese Nutrition Society, the Dairy Association of China and the China Dairy Industry Association jointly published the "Guidelines on Consumption of Milk and Dairy Products for Chinese Citizens", recommending the public to consume 300g of liquid milk or other dairy products with protein content equivalent to 300g of liquid milk to promote a healthy diet. The above mentioned recommendations from the government and authoritative institutions promoted growth in the consumption demand for dairy products and probiotics beverages as well as consumption demand for functional dairy products, boosting the innovation of dairy product categories. The categories and product mix of dairy products will be gradually enriched and the scale of different product categories, including room temperature pure milk, chilled fresh milk, chilled yogurt and cheese, will be expanded while consumer demand for high-end organic milk with higher quality will become more prominent.

As for channel development, benefiting from consumers' habit of staying at home during the Epidemic and their pursuit of convenience, new retail business mode, such as e-commerce and O2O home delivery, demonstrated rapid growth in the first quarter this year. With the Epidemic slowing down in the second quarter, some of the sales through e-commerce and the new retail mode has moved to offline channels. However, as online shopping had already become a habit, e-commerce maintained a significant growth in the fast-moving consumer products market in the second quarter. Leading retailers successively expanded their small-scale fresh supermarkets in the communities. They strengthened supply of fresh food, utilized internet technologies to build comprehensive channel contacts in order to strengthen customer interaction, sped up the trend of omni-channel development, and further integrated online and offline channels. These actions realized data sharing among supply chains, logistics and users, becoming the new engine of consumption upgrade and market cultivation for the dairy industry and driving the revolution of consumption experience. In line with such trend, Mengniu proactively explored new e-commerce platforms, O2O home delivery services, community marketing and WeChat marketing during the period in order to speed up the integration of online and offline marketing.

BUSINESS REVIEW

In the beginning of 2020, as the Epidemic outbreak began, the Group's management team immediately activated the national public health incident emergency plan. The Group fully implemented and followed the Chinese government's deployment in controlling the spread of the Epidemic, placing priority on the health and safety of employees. The Group actively responded to the country's call for work and production resumption while highly safeguarding employee's safety and protection. On the other side, Mengniu has cooperated with upstream and downstream enterprises of the industry chain, strengthening their confidence in fighting the Epidemic and aiding its partners to overcome difficulties together. Five protective measures were adopted, namely, "Securing Procurement, Ensuring Supply, Guaranteeing Delivery, Maintaining Sufficient Capital, and Securing Operations".

Furthermore, Mengniu undertook the responsibilities as the industry's leading enterprise. In order to provide nutritional support, the Group promptly donated cash and products to more than 10,000 medical organizations and front-line epidemic prevention working units. In February, Mengniu made a donation and established the "China Charity Federation (Mengniu) Emergency Resources Centre for Epidemic Prevention and Control", which played a significant role in the delivery of donated supplies to the front-line of epidemic prevention and control.

Soon after the outbreak of the Epidemic, relevant authorities in China launched emergency public health measures including the extension of Chinese Lunar New Year holidays and the imposition of travel and other work-related restrictions. Some of the routes for transporting products of the Group were restricted and the operations of sales points and product turnover were more significantly affected, with adverse effects on its sales and the normal operation of both the upstream and downstream links of its supply chain between February and March 2020. In addition, the costs of the Group for February and March 2020 have increased mainly due to the following reasons: (i) the Group had incurred additional expenses in epidemic prevention and control to safeguard the health and safety of the employees and to ensure the resumption of work and production; (ii) the Group had incurred additional sales expenses in promotional efforts at sales points, in order to accelerate the resumption of normal sales and reduce inventories in distribution channels; and (iii) the Group had actively fulfilled its corporate social responsibilities by donating cash and products to more than 10,000 hospitals and relevant epidemic control organizations, and establishing the “China Charity Federation (Mengniu) Emergency Resources Centre for Epidemic Prevention and Control”. The Group’s revenue from Comparable Businesses (the “Comparable Businesses” mentioned in the full text refers to “excluding Junlebao and Bellamy’s”) in the first quarter amounted to RMB17,122.7 million, which is comparable to the same period last year, while the loss attributable to owners of the Company amounted to RMB126.8 million.

Since the outbreak of the Epidemic, the Group has actively taken measures to minimize its impact on our business, which included increasing the Group’s promotional efforts through e-commerce, O2O home delivery and close cooperation with fresh food new retail platforms during the period. Furthermore, the Group has strengthened its efforts in upgrading its products, as well as diversifying, digitalizing and internationalizing its operations in recent years, which has improved its ability to control and manage the challenges it faces. Since April, Mengniu’s overall business had recovered well and improved sequentially. The Group’s revenue from Comparable Businesses in the second quarter amounted to RMB19,765.0 million, representing an increase of 19.2% as compared with the corresponding period of last year, while the profit attributable to owners of the Company amounted to RMB1,285.2 million, representing an increase of 86.2% as compared with the corresponding period last year.

Despite the impact of the outbreak on the dairy industry and the Group, the Epidemic has raised an unprecedented level of consumers' concerns on their immune systems, which prompted a rapid increase in the consumption of health-related products such as dairy products. On 15 February 2020, Mengniu and the Food, Nutrition and Health Industry branch of the National Association of Health Industry and Enterprise Management jointly launched the "A Glass of Milk a Day Keeps Chinese People Healthy" initiative, encouraging the public to consume a reasonable amount of milk and dairy products, especially those with probiotics and prebiotics which improve intestinal micro-ecology, as well as the prevention of infection and treatment of COVID-19. In light of the upgrade in the consumption trend and the continuously increasing emphasis by consumers on health and nutrition, the Board expects an increasing consumer demand for dairy products in the future, which will benefit the development of the dairy industry and the Group's business. In the first half of 2020, each of the main categories of Mengniu's products has also continued to focus on upgrade and innovation in order to satisfy consumers' demand for quality life.

Mengniu courageously undertook various social responsibilities during the Epidemic, winning recognition and acclamation from different parties across society. In "The Index Report of the Most Influential Enterprises Against the Novel Coronavirus Pneumonia 2020", Mengniu ranked third nationally and is the only food product enterprise ranked among the top ten. According to the "Consumer Research under the COVID-19 Epidemic" published by the respected research company Ipsos, Mengniu ranked among the top ten in "Awareness of Enterprises that Organized Charity or Cash/Supply Donation Activities and the Most Impressive Donations". As shown in the "3.15 Brand Epidemic Fighting Index Report" published by the Chinese Academy of Social Sciences and the Responsibility Cloud Research Institute, Mengniu was awarded the first place among dairy enterprises after an integrated assessment in dimensions of scale and speed of donation.

The contributions made by Mengniu during the epidemic control period also continuously reinforced its brand influence and enhanced its reputation among consumers. According to the "Asia Brand Footprint 2020" published by the Kantar Consumer Index, Mengniu has once again been awarded second place in the category of "Most Chosen Brands in China," while also being one of the top brands among the Brand Finance Global 500 in 2020. In the China Brand Power Index (C-BPI) list published by the Ministry of Industry and Information Technology of the PRC in 2020, Mengniu has been awarded the first place in Brand Power for China's yogurt business for the tenth consecutive year. *Yoyi C* also once again retained its title as the champion of probiotics drinks sector in China. Furthermore, Mengniu has won the No. 1 position for the third consecutive year in the ice cream sector, and the champion in yogurt bar/stick brand rankings.

BUSINESS DIVISION PERFORMANCE

Room Temperature Product Business

In the first half of 2020, benefiting from increased awareness of health and nutrition among consumers, the revenue growth of Mengniu's basic pure milk has further increased. After the launch of new products like *Milk Deluxe* "DreamCap™" package series, *Just Yoghurt Xiaomanyao* series and *Fruit Milk Drink* floral and fruity flavor light lactobacillus drink series, Mengniu achieved a break-through in sales volume growth, and effectively seized market shares. After the outbreak of the Epidemic, new retail sales channels like e-commerce, home delivery and community group marketing realized significant growth due to offline sales obstructions.

During the period, *Milk Deluxe* "DreamCap™" package series launched upgraded organic milk and pure milk products with 3.8 g of protein and 125 mg of original calcium content per 100 ml, which has consolidated *Milk Deluxe*'s position as a premium brand and facilitated a steady enhancement in its market share. In addition, *Just Yoghurt* launched the white peach and pomegranate Xiaomanyao product, which has been welcomed by young consumers since its launch. Also, *Fruit Milk Drink* launched the first floral and fruity flavor light lactobacillus drink series, which include two flavors, namely, sakura and peach, and rose and strawberry. The floral and fruity flavor light lactobacillus drink has been welcomed by consumer groups that pursue high quality lifestyle since its launch, including urban white-collar workers and university students, resulting in several sell outs via e-commerce platform.

Chilled Product Business

Since the Epidemic, consumers have gained greater awareness of the immunity enhancement properties of yogurt and probiotics drinks, which has stimulated the demand for relevant products. During the period, Mengniu has promptly seized market opportunities by continuously launching new chilled products with high quality and high added value, focusing on value marketing and consumer education, as well as by capitalizing on changes in online consumption trends while deepening its RTM strategy. The sales performance of the Group's chilled product led the industry in the first half year.

During the period, being the only yogurt that passed “healthy food” certification, *Champion* gained tremendous attention from consumers. In May, *Champion* launched the new Qingheng product series, which, based on science, advocates the daily intake of probiotics + prebiotics to realize better intestinal wellbeing. Furthermore, through its Blue Cap package series, Probio-M8 series and Qingheng product series, the *Champion* brand has thus formed a comprehensive multi-function product portfolio spanning immunity enhancement, intestinal comfort and constipation relief, raising the competitiveness of its products in terms of functionality and value. In addition, in focusing on satisfying demand for natural, low-sugar and fresh yoghurt from Chinese consumers, new products for the *Yoyi C* brand was launched in April. Featuring a sugar control and zero fat formula with white peach oolong and grapefruit flavors, the healthy live bacteria drinks have been welcomed by young consumers since their launch.

Fresh Milk Business

In the first half of 2020, with robust demand for fresh milk products, the consumer penetration rate was significantly and rapidly enhanced. Mengniu’s *Shiny Meadow* and *Modern Meadow* brands led the growth of the fresh milk product categories, with overall market share jumping to the second in the fresh milk product category in June (Source: Nielsen). The *Shiny Meadow* brand continued to focus on high quality and launched the desert organic fresh milk and new roof box package product, which achieved breakthrough growth since their launch, helping the *Shiny Meadow* brand to achieve triple-digit growth in sales and consolidating its No. 1 position among high-end fresh milk brands. With respect to the *Modern Meadow* brand, it launched new upgraded product packaging during the period and its market share jumped to the second among basic fresh milk brands.

Fresh Milk Business has continued to focus on maintaining “freshness” in the supply chain. In the first half year, the branded fresh milk T+0 products of *Shiny Meadow* and *Modern Meadow* captured 80% of fresh milk sales. Following continuous enhancements in product power, brand power, channel power and “freshness” power with respect to each of Mengniu’s star fresh milk brands, sales from the fresh milk business has nearly doubled year-on-year.

Yashili Milk Formula Business

As for the milk formula business, Mengniu holds approximately 51% stake in Yashili International Holdings Limited (“Yashili”, stock code: 1230), which has continued to maintain its development in the business of two major categories, namely infant milk formula and health and nutritional products. In the first half of 2020, Yashili initiated various rebranding projects and relaunched the brand matrixes of two high-end functional and nutritional milk formula for adults, namely *Mengniu* “Yourui” series and *Topconic*, which laid a solid foundation for the further enhancement of its business. *Reeborne*, a milk formula brand of the Group, was relaunched at the end of June with the new series mainly focused on the concept of “A Breast Milk-like Formula”, providing a better diet with more nutrient contents and lighter flavors to the Chinese babies. Currently, *Reeborne* has developed a comprehensive brand matrix from milk, organic milk to goat milk by launching seven products under three series, namely *Reeborne* “Breast Milk-like” milk formula, *Reeborne* “Breast Milk-like” organic milk formula and *Reeborne* “Breast Milk-like” goat milk formula.

During the period, Yashili actively adjusted its channel strategy, with infant milk formula products mainly focused on the mother-and-baby channels, while adult milk powder and nutritional products focused on KA modern trade channels and these were done with all-out efforts. At the same time, Yashili continued to adjust the product strategy by gradually fading out products with low production value and gross profit. The consolidation of product mix has partly offset the sales growth of products to a certain extent, leading to a slight decrease in Yashili’s income.

Bellamy’s

In the first half of 2020, Mengniu carried out comprehensive integration in Bellamy’s in terms of finance, human resource management and corporate governance. Bellamy’s, as a crucial member of Mengniu’s international business, adhered to the “Pursuing Organic, Naturally Organic” brand positioning strategy and continued to construct a matrix of quality organic products while expanding channels inside Australia as well as online. Both milk formula and baby food products of the Bellamy’s brand achieved good growth and profit margins were enhanced significantly during the period. Bellamy’s management team in China is continuously strengthened, building a sound foundation for exploring domestic market opportunities in the future.

In addition to the launch of its Chinese-labelled organic baby rice in March, Bellamy's has reacted to the trend towards premiumization and segmentation of infant milk formula in recent years. There has been continuous growth in demands for organic milk formulas, goat milk and A2 milk, and Bellamy's has taken the lead in grasping market opportunities. It launched the first super high-end A2 organic milk formula in Australia in May and a super high-end organic goat milk formula in Australia in June, thereby establishing a matrix of organic formulas. For the cross-border e-commerce channel, Bellamy's products have covered diverse age groups, spanning infant, children and expectant mothers, and included the dual product lines comprising milk formula and baby food.

In addition, Bellamy's has obtained the registration approval of the Chinese-labelled infant milk formula during the period. The first Chinese-labelled infant milk formula series has also been launched through offline channels in China in late August, thereby Bellamy's will accelerate the expansion of key offline channels of the Chinese-labelled milk formula riding on the brand awareness and reputation accumulated over the years through online channels to expand brand awareness and offline distribution networks in first to third-tier cities.

Ice Cream Business

During the first half of 2020, the ice cream business has continued to focus on its star brands, such as *Suibian*, *Deluxe* and *Mood for Green*. Through a series of marketing activities, including collaborations with other products, celebrity endorsements and joint activities with well-known IPs, the brands were able to precisely target their consumer groups and enhance their brand image, facilitating sales. Among them, the *Deluxe* and *Mood for Green* brands realized double-digit growth. In addition, the newly launched black pineapple fruit pulp milk ice cream and the velvety yogurt milk ice cream of *Deluxe* and the new pearl red tea flavor, as well as cheese and green tea flavor of *Mood for Green* that promoted the concept of quality life have all performed exceptionally. *Suibian* also collaborated with the alcohol brand *Jiangxiaobai* and launched "ice cream for adults", accurately targeting young consumer groups, which enhanced sales.

Through effective measures such as penetrating lower tier markets, prompting exploration of major cities, strengthening communications with customers and establishing greater number of point of sales, the ice cream business also realized further enhancement in point of sales management and quality of point of sales growth during the period. Moreover, the ice cream business division continued to promote development of its direct sales system, home delivery business and community group buying business, which resulted in satisfactory results.

Cheese business

Mengniu collaborated with Arla Foods in building the professional cheese brand *Arla ASCX*, which involved comprehensive planning in areas such as brand building, research and development, innovation and construction of factories. Mengniu's significant advantage in channel distribution was leveraged as well in creating a leading Chinese cheese brand. During the period, *Arla ASCX* proactively promoted its innovation across various categories, with product lines spanning kids' cheese, leisure cheese, cheese for complementing meals and high-end cheese products. In building brands such as *Arla ASCX*, the high-end cheese brand *Castello*, and the professional liquid butter brand *Lurpak*, the diverse needs of Chinese consumers have been addressed. In the first half of 2020, due to the growing consumer concern over health, nutrition and quality life in the wake of the Epidemic, *Arla ASCX* has succeeded in realizing high sales growth against adverse market trend and indicating promising prospects in the future.

Quality Management

In the first half of 2020, Mengniu has continued to implement its three-year quality assurance plan. Through the introduction of an advanced ranch management system from Arla Garden and AsureQuality safety management standards from New Zealand, as well as by benchmarking against 52 sets of domestic and foreign laws, regulations and standards relating to animal rearing and breeding, along with observing ISO9000 and ISO22000 management system requirements, Mengniu has established a professional ranch management system. At the same time, by focusing on optimizing and enhancing three aspects, i.e. quality design, product excellence and quality-oriented culture, the 3.0 quality and safety management system has been fully implemented. During the period, Mengniu pride a 100% passing rate in random inspections conducted by governmental departments on the Group's milk source bases.

With the aim of improving the quality of milk sources, the China-Denmark Dairy Technical Cooperation Center, jointly established by Mengniu and Arla Foods, invited Danish experts to visit 15 dairy-farm bases in the western region and Inner Mongolia region of China, as well as provided training to 1,337 personnel, during the first half of 2020. Furthermore, Mengniu's "Dairy Cattle Research Institute" has launched three innovative research projects covering the health of dairy cattle, production capacity enhancement of dairy cattle and forage research, and earned the "Standardized Regional Service and Promotion Platform of National Dairy Cattle Rearing and Breeding" certification.

The room temperature product business division has always adhered to its original intention and mission of “Consumer Oriented” and continuously facilitated the development of quality culture and enhancing employee’s sense of responsibility on quality assurance through launching cultural publicity activities. During the reporting period, the room temperature product business division focused on the enhancement in quality management of the entire industrial chain from three aspects, namely “lean, professional and cooperative”. The quality management manual for the room temperature product business division was established by consolidating Mengniu’s past excellent practices and cases, with an aim to continuously innovate and improve its quality management approaches and results. The chilled product business division continued to align with Danone Group’s newly revised Food Safety Item (“FSI”) standards while maintaining effective prevention on systematic risk by introducing 14 major quality tools, integrating GMP, HACCP, ISO 9001, ISO 22000 systems, and combining quality management system 3.0. In addition, the chilled product business division strictly monitored the quality and food safety of new products and conducted evaluation in different aspects, including quality standard, raw material, food contact material, packaging, equipment, transportation test and sensory experience.

Through the enhancement of production processes, monitoring plans, laws and regulations as well as data analysis, the ice cream business division has established a comprehensive food safety risk identification and control system, and established a “digitalized” quality control standard system that is stricter than national standards. In addition, the business division has introduced new technologies and new technical projects to minimize food safety hazards caused by cross-contamination. With the implementation of standardization across product warehousing, transportation, cold chain of point of sales, business operation procedures and digitalized temperature monitoring, the quality of products is assured.

As for the milk formula business, Yashili has benchmarked against Mengniu’s quality control systems in terms of marketing management, product innovation management, purchase management, production and operation, logistics and warehousing, sales management and customer communications to achieve a comprehensive management methodology that covers planning, monitoring and evaluation, performance and improvement as well as safety support and protection in relation to quality control.

Milk Source Management

During the epidemic period that spanned the first half of 2020, Mengniu strived to resume work and production. Moreover, five protective measures were adopted, namely, “Securing Procurement, Ensuring Supply, Guaranteeing Delivery, Maintaining Sufficient Capital, and Securing Operations” to facilitate the stable operation of its ranch partners and normal operation of Mengniu’s business. With respect to securing procurement, Mengniu safeguarded the procurement of fresh milk from ranch partners in accordance with sales and purchase contracts, promoting sustainable development across the upper stream. As for ensuring supply, Mengniu ensured the stable pricing and timely supply of production materials to cooperating ranches by collaboration with suppliers from the “Aiyangniu” platform. As for guaranteeing delivery, Mengniu worked with the government, dairy associations and logistic partners to ensure the seamless delivery of forage to and fresh milk from ranches. In terms of maintaining sufficient capital, Mengniu liaised with collaborative institutions of supply chain financial platforms to provide support funding to cooperating ranches as well as other forms of support such as lowering interest rates and prepaying milk costs. To secure operations, Mengniu promptly formulated the “Guidance manual for prevention and control of novel coronavirus in ranches” and resolved problems raised by ranchers through various online technology seminars and webcasts, so as to further facilitate cost-cutting and efficiency enhancing among ranches. A total of over 14,000 people participated in the online learning broadcasts.

In order to promote the revitalization of the dairy industry, Mengniu has continued its efforts to realize “Project 136” during the period, which aims to assist ranches in achieving cost reductions and enhancing efficiency, as well as enhancing operational capabilities by integrating upstream information, technology and resources through three platforms: “Digital Milk Source”, “Dairy Cattle Research Institute”, and “Aiyangniu”. The officially upgraded “Aiyangniu” platform, in particular, has opened up to the entire industry, with the aim of removing sales and purchase barriers across the entire industrial chain of the dairy industry, increasing transparency of material sourcing practices in the industry and providing a comprehensive, high limit, inexpensive and convenient supply chain financing solution for upstream and downstream customers in the dairy industry.

Mengniu has also launched policies on subsidies, including those for cattle purchasing and ranch upgrades as well as provided capital support for the collection and storage of forage, helping to further resolve cash flow problem faced by farmers and ranchers. As for technical services, Mengniu’s technicians formed 24 “3+1” operation teams, which were stationed in ranches to assist in cost reduction and efficiency enhancement. At the same time, Mengniu has continued to carry out technical exchange and training activities such as the “University of Ranchers”, “Golden Key of Milk Cow” technical demonstrations, advanced training course for dairy farmers and special courses on livestock rearing, veterinary and equipment, which enhanced the skills of ranchers and laid the foundation for nurturing industry talent.

In addition, Mengniu has entered into a “Strategic Cooperation Agreement on China Dairy Industrial Park” with the municipal government of Hohhot City, Tongliao City and Bayannur City of Inner Mongolia Autonomous Region during the period. The aim of the agreement is to assist Inner Mongolia in completing strategical deployment of the entire industrial chain, covering “planting, rearing and processing” along the Yellow River basin, Xiliao River basin and Nen River basin.

Mengniu has formulated the “Implementation Plan for Protection of Animal Welfare” and “Evaluation Standard for Animal Welfare across Mengniu Dairy Ranches” in 2019. This has established an evaluation standard covering five dimensions and 88 sub-projects. After piloting, promoting and publicising across 123 ranches, Mengniu published the “Implementation System for Welfare of Dairy Cattle” during the period, and conducted promotions and training relating to dairy cattle welfare with cooperating ranches to enhance exchange among the industry practitioners. Such efforts aligned with the Group’s aim of bolstering production capacity of ranches, enhancing raw milk quality, raising competitiveness at international level through developing a comprehensive dairy cattle welfare system.

Corporate Digitalization Strategy

In 2020, Mengniu established the Group’s digitalization strategy management committee and digital strategy project team in order to focus on its main targets, specifically, the integrating of channels and generating synergies between members of the front-line of the supply chain, realizing its “Four Online” goals, wherein the four online goals being “Consumers Going Online”, “Channels Going Online”, “Supply Chain Going Online” and “Management Going Online”, with the aim of speeding up the comprehensive implementation of the Group’s digitalization strategy and establishing an information system that gradually leads to a data-driven business.

In terms of “Consumers Going Online”, Mengniu’s newly added digitalized precise advertising placement system was completed at the end of April. The seamless matching of the system with Mengniu’s digitalized marketing strategy has resulted in the precise launch of advertising and marketing efforts according to consumer data, as well as enhanced media exposure and conversion rate of clicks.

With respect to “Channels Going Online”, Mengniu’s smart network system provides coverage of distributors of its room temperature product business across the nation, and will gradually encompass other business units.

As for “Supply Chain Going Online”, Mengniu has started the smart warehousing (WTO) project as planned in the first half of 2020. WTO will enable it to address the development trends of warehouse and logistics industry and integrate product warehousing, allocation and delivery operations. Correspondingly, the project will allow for the management and tracking of key processes, spanning warehousing of raw and ancillary materials, warehousing of products to delivery to customers, so as to enhance efficiency of warehouses and create added synergy throughout the order fulfilment process.

In regard to “Management Going Online”, phase three of the supply chain financing project initiated by the Group last year is undergoing a system upgrade. Through the addition of functions and optimization, the platform will be able to take up greater workload arising from business growth, contribute to business expansion and resolve difficulties in and the high cost of obtaining financing for business partners from the upstream and downstream of the industrial chain. Furthermore, based on softwares such as DingTalk, Mengniu has constructed a highly efficient collaborative platform covering the upstream and downstream of the industrial chain. This powerful platform has helped to safeguard business activities from front-end sales to delivery, and has facilitated synergies between back-end businesses during the Epidemic, laying a solid foundation for Mengniu to resume work and production during the period to fight against the epidemic.

Branding Strategy

In the first half of 2020, Mengniu has sought to fulfill its mission as encapsulated in the maxim: “A Drop of Nutrition Blooms Every Single Life”. Hence, it has sought to further optimize the branding structure, enhance brand synergy and continue to promote the strategy of brand internationalization. By further enhancing brand equity, Mengniu has moved one step further on the road towards “Mengniu of the World”.

With regard to the marketing of its master brand, Mengniu has capitalized on the popularity of well-known Chinese animation IPs such as “Nezha” and “Jiang Ziya” at the beginning of the year to launch a collection of product with packaging featuring Chinese animation themes to deepen the brand concept of “Nutrition” and to support offline sales. Also, after the outbreak of the Epidemic, Mengniu – being a leading enterprise in China’s dairy industry, took up its corporate social responsibilities and advocated the slogan “Fight Against the Epidemic Courageously, Greatness for China”. Consequently, Mengniu contributed both cash and in-kind donations successively to those on the frontlines of epidemic prevention and control, as well as diligently supported the promotion and implementation of “Nutrition and Dietary Advice on Preventing and Recovering from COVID-19” issued by the National Health Commission of the PRC. In addition, Mengniu collaborated with the Food, Nutrition and Health Industry branch of the National Association of Health Industry and Enterprise Management to advocate the initiative of “A Glass of Milk a Day Keeps Chinese People Healthy”, and proposed the concept of “500g of Milk Daily, Nourish Your Greatness” as guidance on consumption of dairy products.

For the room temperature product business, *Milk Deluxe* has continued to serve as the title sponsor of the popular variety program “Back to Field Season 4,” produced by Hunan TV, during the period. This aligns with the brand concept of “Betterment” by “Supporting the Betterment of Everyone”. Benefiting from the high ratings and tremendous popularity of the program, together with superb brand exposure, the prominence of *Milk Deluxe* has been further strengthened. Similarly, *Fruit Milk Drink* floral and fruity flavor light lactobacillus drink series has served as the title sponsor of “Idol Producer 2”, an inspirational program produced by iQiyi that targets the young population. The program is appealing and topical, enabling content marketing to achieve encouraging results and the *Fruit Milk Drink* brand to enjoy faster revenue growth.

In respect of the chilled product business, Mengniu has staged the first Yogurt Culture Festival, National Nutrition Week and the online activity of “5.20” Chinese Student Nutrition Day. In addition, ten live broadcast classes on the theme “Yogurt, Probiotics and Immunity” were launched in collaboration with renowned nutrition experts. Through multichannel communications, the awareness of Chinese people towards nutrition associated with live bacteria yogurt was raised. At the same time, the two major brands, *Champion* and *Yoyi C*, took advantage of TV commercials, title sponsorships of variety programs, short videos and live broadcasts in the first half of year to continuously enhance brand exposure and stimulate purchases.

Regarding the fresh milk business, Mengniu’s *Shiny Meadow* brand has directed its focus on Eastern China in the first half year, and sponsored “Go Fighting! Season 6”, a popular variety show of Dragon TV. Furthermore, *Shiny Meadow* has sought coverage on quality major media from all spheres to strive for ever greater brand exposure and influence, consequently gaining greater market share. As for *Modern Meadow*, it has focused on publicizing the concept of “Good Cattle Produces Good Milk, Naturally Good and Fresh” to highlight its product features, in particular, every 100 ml of fresh milk contains 110 mg of original calcium. From such effort, *Modern Meadow* was able to enhance its brand power as well as capture greater market share.

In terms of the milk formula business, Yashili has launched various rebranding projects in the first half of 2020 and relaunched brand matrixes of two high-end functional and nutritional milk formulas for adults, namely *Mengniu* “Yourui” and *Topconic*, which laid a solid foundation to the further enhancement of its business. *Reeborne*, a milk formula brand of the Group, was relaunched at the end of June and the new series mainly focused on the concept of “A Breast Milk-like Formula”, seizing the market by more nutrient contents and lighter flavors. Currently, *Reeborne* has developed a comprehensive brand matrix from milk, organic milk to goat milk by launching seven products under three series, namely *Reeborne* “Breast Milk-like” milk formula, *Reeborne* “Breast Milk-like” organic milk formula and *Reeborne* “Breast Milk-like” goat milk formula. Through a comprehensive product structure, it strived to become the first choice of brand providing nutritional solution for Chinese mothers and babies.

With reference to the ice cream business, *Suibian* has engaged idols such as Chen Feiyu, Ren Jialun, and skier Gu Ailing to serve as brand ambassadors and to help increase the trendiness of the brand. Meanwhile, *Deluxe* has put forward the brand concept “Less is More”. In addition, it has cooperated with the brand ambassador Qi Wei in launching a new brand image to appeal to its target group – new age women, and building a high-end image for the brand. As for *Mood for Green*, it has adopted a series of marketing activities such as the cross-sectoral co-branding of “Jiang Ziya” IP and title sponsoring the gourmet documentary, “Once Upon a Bite” of Zhejiang TV, integrating internal and external resources to promote online and offline sales.

For the cheese business, *Arla* invited the world-renowned pianist Lang Lang and his wife Gina Alice Redlinger as the global brand ambassadors of the brand, to jointly promote cheese cuisine culture. In addition, new brand image advertisements will be broadcasted on offline platforms across the country; social media platforms will be leveraged to conduct innovative promotion campaigns; and close interaction with consumers will be facilitated through Tmall and JD.com to strengthen loyalty among consumers.

Sales Management

In the first half of 2020, the Epidemic swept across the country. Offline sales were significantly affected due to preventive measures imposed such as home isolation. Various business divisions of Mengniu responded rapidly to the changing consumption practices in the Epidemic. Online sales channels such as e-commerce, home delivery and community marketing experienced a boom. With the support of digital strategies, Mengniu was able to further advance its delicacy management of sales channels. The Smart Network System for room temperature business has been fully launched, covering all distributors. Consequently, both distributor management and operational efficiency have been enhanced by online management of display costs and sales staff expenses.

Concerning the room temperature business, it has upgraded its “Penetration into Towns and Villages Project 2.0” in the first half year, which has included the adoption of a four-pronged approach comprising “Exclusive Products”, “Exclusive Storekeepers”, “Exclusive Platforms” and “Exclusive Partners”. Rural markets have been further developed, such that the number of sales points and sales volume have increased. E-commerce home-delivery platforms such as JD Daojia, Taoxianda, Ele.me have attained impressive year-on-year growth. During the period of 618, *Milk Deluxe* upgraded the brands’ organic products and ranked first among its peers in terms of online market share, while remarkable growth in sales volume of *Just Yogurt* and *Fruit Milk Drink* was realized. In addition, through community group marketing, the room temperature business succeeded in developing a sales model for delivering products directly to communities. Mengniu also collaborated with online fresh food procurement platforms such as Meicai, which resulted in rapid sales growth.

As for the chilled product business, sales volume and market share have been effectively enhanced through deeper channel penetration and faster development of innovative new retail models. The proportion of sales from e-commerce, community marketing and O2O businesses has increased quickly. In addition, the launch of new products such as the *Champion* Qingheng series and *Yoyi C* sugar control series witnessed significant improvement in overall profitability across modern trade channels, while in traditional channels, chilled product business was able to benefit from opportunities arising from the ongoing exploration of lower-tier city markets. Consequently, it achieved steady growth in product distribution rate and market coverage.

The fresh milk business currently covers 18 provinces and 4 municipalities, including Shanghai and Beijing. During the period, Mengniu has quickly expanded its channels and point of sales by deploying them around factories, while at the same time has strengthened collaboration with distributors. Due to the Epidemic, the fresh milk business saw sales volume derived from e-commerce platforms such as Tmall and JD.com increase by more than six folds as compared with the same period last year. The sales volume from seven home-delivery business platforms, such as 100.me, Miss Fresh, Taoxianda and JD Daojia, have also increased each month.

Regarding the milk formula business, Yashili continued to enhance its strategy in channel deployment, including “Focus on Mother-and-baby Store Channels for Infant Formula Products, Focus on Modern Trade Channels for Nutritional Products, Rapid Development for E-Commerce Channels and All-round Development for New Channels and New Products”. During the Epidemic, Yashili accelerated its development from traditional retail to e-commerce and new retail by facilitating multi-dimensional consumer interaction modes like live broadcast selling, community communication and community group buying so as to deepen consumers’ brand awareness. It also attracted customers and promoted sales through KOL marketing.

Bellamy’s launched an organic baby rice product with Chinese label in March. It was also the first in exploring the opportunity in the new market segmentation of infant milk formula by launching the first super high-end A2 organic milk formula in Australia in May and a super high-end organic goat milk formula in Australia in June, thereby establishing a matrix of organic milk formula series. The first Chinese-labelled infant milk formula series of Bellamy’s has launched through offline channels in China at the end of August and Bellamy’s will gather its resources in building the foundation of the offline image stores to entice new customers for baby food and promote the consumption bundle of baby food and milk formula categories. Also, through the expansion in online cross-border channels such as the flagship stores and social e-commerce for organic A2 milk formula and organic goat milk formula, Bellamy’s will also speed up offline channel deployment of the general organic products matrix.

As for the ice cream business, the Group continued to work on channel penetration and expedited its development in core cities. Besides, it also engaged in information management tools such as “Mengniu Storekeeper” to standardize and improve procedures for refrigeration management, and developed convenience store systems to effectively enhance the coverage of sales points. As for modern trade channels, the ice cream business has continued to promote the development of direct sales systems such as Walmart, Fresh Hema and Super Species, etc. For online channels, the ice cream business division expands coverage to include JD Daojia, Walmart home delivery services, etc., resulting in significant improvement in market share. Mengniu has also swiftly deployed new retail businesses and developed multiple e-commerce platforms for fresh food, including Miss Fresh and 100.me, as well as over thousands of group-purchase groups such as Pupu and Shixianghui.

FINANCIAL REVIEW

Revenue

The Group generated revenue of RMB37,533.5 million for the six months ended 30 June 2020 (2019: RMB39,857.2 million), representing a decrease of 5.8% year-on-year. The Group's revenue from Comparable Businesses amounted to RMB36,887.7 million (2019: RMB33,715.4 million), or an increase of 9.4% year-on-year.

Since the outbreak of the Epidemic at the beginning of this year, the Group has actively taken measures to help distribution channels reduce inventory as soon as possible, accelerate the resumption of normal sales activities and minimize its impact on the business. These measures included increasing the Group's promotional efforts through e-commerce, O2O home delivery and close cooperation with fresh food e-commerce platforms. In the first quarter, the Group's revenue from Comparable Businesses amounted to RMB17,122.7 million (2019: RMB17,130.1 million), which is comparable to the same period last year. Since April, the overall operation of the Group resumed to a satisfactory level and continued to improve sequentially. In the second quarter, the Group's revenue from Comparable Businesses increased by 19.2% to RMB19,765.0 million (2019: RMB16,585.3 million).

Gross Profit

The Group's gross profit for the period declined by 5.9% to RMB14,652.4 million (2019: RMB15,578.7 million) with the gross profit margin slightly decreased by 0.1 percentage points to 39.0% as compared with the same period last year (2019: 39.1%).

Operating Expenses

The Group's operating expenses during the period rose by 3.1% to RMB13,992.4 million (2019: RMB13,567.9 million), representing an increase to 37.3% of the Group's revenue (2019: 34.0%). Such increase was mainly due to the following measures taken by the Group in the first quarter of 2020 that resulted in an increase in extra costs, including (i) additional expenses by the Group for epidemic prevention and control to ensure the health and safety of staff and the normal resumption of work and production; (ii) additional marketing expenses by the Group to reduce its channel inventory as soon as possible; and (iii) active efforts by the Group for assuming social responsibility with donation of cash and products to the society.

During the period, selling and distribution expenses increased by 1.6% to RMB11,499.6 million (2019: RMB11,317.7 million), representing an increase of 2.2 percentage points to 30.6% of the Group's revenue (2019: 28.4%).

Advertising and promotion expenses during the period decreased by 6.2% to RMB4,578.2 million (2019: RMB4,880.4 million), representing 12.2% of the Group's revenue (2019: 12.2%).

Administrative and other operating expenses, including impairment losses on financial and contract assets and loss on disposal of financial assets measured at amortised cost, increased by 10.8% to RMB2,492.8 million (2019: RMB2,250.2 million), accounting for 6.6% (2019: 5.6%) of the Group's revenue. The increase was mainly due to the active donation of cash and dairy products during the Epidemic.

Profit from Operating Activities and Net Profit

During the period, due to the decrease in the overall revenue of the Group and the increase in the above mentioned operating expenses, the Group's earnings before interest, taxes, depreciation and amortization ("EBITDA") declined by 37.5% to RMB2,194.9 million (2019: RMB3,511.6 million) with EBITDA margin at 5.8% (2019: 8.8%).

Profit attributable to owners of the Company decreased by 41.7% year-on-year to RMB1,211.5 million (2019: RMB2,076.9 million). Basic earnings per share were RMB0.309 (2019: RMB0.531), down by 41.8% year-on-year. The profit attributable to owners of the Company from Comparable Businesses was RMB1,158.4 million (2019: RMB2,001.6 million), representing a decrease of 42.1% as compared with the corresponding period last year, of which loss attributable to owners of the Company for the first quarter amounted to RMB126.8 million (2019: Attributable profit of RMB1,311.4 million); the profit attributable to owners of the Company for the second quarter amounted to RMB1,285.2 million (2019: RMB690.2 million), representing an increase of 86.2% as compared with the same period last year.

Income Tax Expenses

For the six months ended 30 June 2020, income tax expenses of the Group totaled RMB267.5 million (2019: RMB435.3 million), representing a 38.5% decrease year-on-year. Effective income tax rate was 19.1% (2019: 16.8%), up by 2.3 percentage points year-on-year, and was mainly due to the effective income tax rate of Bellamy's, a newly consolidated subsidiary of the group, was higher than that of other operations of the Group.

Capital Expenditure

For the six months ended 30 June 2020, capital expenditure of the Group amounted to RMB2,457.5 million (2019: RMB2,141.5 million), representing an increase of 14.8% year-on-year. Of the total, RMB1,682.4 million was spent on building new production facilities and modifying existing ones as well as related investments, and RMB775.1 million was invested in equities.

Working Capital, Financial Resources and Capital Structure

For the six months ended 30 June 2020, the Group recorded net cash inflow from operating activities of RMB2,696.8 million (2019: RMB2,640.3 million), representing an increase of 2.1% as compared with the corresponding period last year.

As of 30 June 2020, outstanding interest-bearing bank and other borrowings of the Group increased to RMB29,665.1 million (31 December 2019: RMB23,472.8 million), of which interest bearing bank and other borrowings repayable within one year amounted to RMB15,014.7 million (31 December 2019: RMB13,838.2 million). More than 70% 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 additional cash reserves during the Epidemic, part of which had been repaid after the reporting period.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as at 30 June 2020 were RMB18,152.9 million (31 December 2019: RMB16,996.6 million).

The Group's total equity as at 30 June 2020 amounted to RMB33,764.1 million (31 December 2019: RMB33,347.3 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 87.9% (31 December 2019: 70.4%).

Finance costs of the Group were RMB324.4 million (2019: RMB321.9 million), or approximately 0.9% when expressed as a percentage of revenue (2019: 0.8%), representing an increase of 0.1 percentage points year-on-year.

PRODUCTS

Mengniu insists on drawing on its innovation capability as its core competitiveness and strives to develop functional and customized products in response to the market trend and to satisfy the diverse needs of consumers. In continuing to innovate, Mengniu has focused on product differentiation and premiumization. This has involved the leveraging of its resource advantages and international leading technologies to continuously improve product categories, flavors and packaging, which in turn drive further sales volume growth and industry leadership underpinned by excellent products.

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

Liquid Milk

Revenue amounted to RMB32,565.3 million (2019: RMB33,109.0 million), accounting for 86.8% of Mengniu's total revenue (2019: 83.1%).

UHT Milk

The *Milk Deluxe* 3.0 era began following the launch of its pure milk in upgraded “DreamCap™” packaging last year. This year, upgraded organic milk and pure milk containing 3.8 g of protein and 125 mg of original high-calcium per 100ml have been launched in May and June. In satisfying health needs and enhancing the consumption experience, they have been awarded certifications for organic products from China and the European Union. Such achievements will further reinforce the premium position of the *Milk Deluxe* brand.

Mengniu’s comprehensive UHT milk line includes *Mengniu* pure milk, high-calcium milk, low-fat high-calcium milk and skimmed milk, offering healthier options to consumers.

Mengniu’s *Future Star* A2 β -casein pure milk comes from selected ranches that have limited milk supplies, and is aimed at enhancing the quality of children milk products.

Key Products:

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

Room Temperature Yogurt

Since the *Just Yoghurt* light flavor yogurt line launched Xiaomanyao, a new product with PET bottle packaging, its portability and practicality have increasingly won the hearts of the young. In April, *Just Yoghurt* launched peach and pomegranate flavor Xiaomanyao, which is made from pure raw milk and imported Danish probiotics. Its protein content is above the national standard for flavored yogurts, hence combining delicious flavor with good nutritional value.

Key Products:

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

Room Temperature Milk Beverage

During the period, *Fruit Milk Drink* developed the first series of floral and fruity flavor light lactobacillus drink products and launched the sakura and peach flavor as well as the rose and strawberry flavor in January this year. The series emphasizes the innovative pairings of “flower + fruit + light lactobacillus drink”. Made with low-fat lactobacillus, the series has been well received by consumer groups such as urban white-collar workers and university students, and was sold out on multiple occasions on the e-commerce platform since its launch.

Key Products:

- *Fruit Milk Drink* milk beverage
- *Fruit Milk Drink* high-end colorful fruit pulps series
- *Fruit Milk Drink* floral and fruity flavor light lactobacillus drink series

Chilled Yogurt

Champion, the only yogurt awarded the “health food” certificate, launched the new Qingheng product series in May, and promoted the daily replenishment of probiotics and prebiotics for intestinal wellbeing. Through the Blue Cap series, the Probi-M8 series and the Qingheng series under the brand, *Champion* has formulated a comprehensive and multi-function product range that can enhance immunity, promote intestinal health and relieve constipation so as to strengthen the competitiveness of its products in both functionality and value.

The *Bio* product series is positioned as a high-end yogurt, with the main features of being a French-style meal replacement and fruit yogurt. Since launching the first “light meal bottled yogurt”, the Danone *Bio* Smoothie Francais last October, *Bio* has expanded its high-end product range and optimized its product structure. A highlight of this product range is a sucrose content of less than 0.5%, which suits consumers seeking “controlled sweetness”.

Key Products:

- *Champion*
- *Mengniu* Nordic Cheese Flavor Yogurt
- *Mengniu* Chinese Nourishing Nuan Yan Yogurt
- *Bio*

Chilled Milk Beverage

In order to meet the personalized needs of Chinese consumers for natural, low-sugar products, the *Yoyi C* brand launched a controlled sweetness and 0 fat formula series in April 2020. The peach and oolong tea flavor and red grapefruit flavor of this series taste light and not too sweet. These healthy drinks can provide consumers with live bacteria, and both have already been very popular among young consumers.

Key Products:

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

Fresh Milk

Mengniu's *Shiny Meadow* fresh milk targets the premium 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 2020, the *Shiny Meadow* desert organic fresh milk was launched, which is produced using pure milk that is originated from desert oases and certified for European organic standards. In addition, *Shiny Meadow* launched a new product with roof box packaging to provide consumers with refreshing experiences, while consolidating the brand's leading position in the high-end fresh milk market. Similarly, *Modern Meadow* has released brand new upgraded packaging in the first half of 2020, thereby further grasping its share of the mid-end fresh milk market.

Key Products:

- *Shiny Meadow* fresh milk
- *Shiny Meadow* cold brew café latte
- *Modern Meadow* fresh milk

Ice Cream

Revenue from the ice cream business amounted to RMB2,229.2 million (2019: RMB2,186.0 million), accounting for 5.9% of Mengniu's total revenue (2019: 5.5%).

Suibian ice cream has collaborated with the liquor brand *Jiangxiaobai* in launching "Ice Cream for Adults", which, targeted specifically at young consumers, pushed product sales.

The premium ice cream brand *Deluxe* has launched the snow velvet yoghurt milk ice cream and black pineapple fruit pulp milk ice cream in February 2020. The former is made from rich milk and is infused with delicious yoghurt, providing an intense, pure taste. The latter contains premium pineapple pulp and high-quality ingredients that are covered in an elegant black coating. Both products have been well received since their launch.

Mood for Green has launched two innovative products in January 2020 that feature trendy drink flavors, specifically, red bubble tea and cheese matcha, to satisfy consumers' desire for innovative tasting products. The flavored ice cream products have been welcomed by young consumers.

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 RMB2,281.9 million (2019: RMB4,237.8 million), accounting for 6.1% of Mengniu's total revenue (2019: 10.6%). Revenue of the milk formula business mainly includes revenue from Yashili and Bellamy's.

Yashili

Reeborne reshaped the brand proposition by featuring a lighter taste and more nutritious ingredients to target customers with different needs. The brand launched seven new products in the breast milk-like powder series, covering mainstream milk powder, organic milk powder and goat milk powder. By adopting advanced MSD drying technology, *Reeborne Kieember* series is able to retain the active nutrients of its ingredients. With double premium protein, patented OPO and highly active CPP and prebiotics that are in the golden ratio, the product provides babies with all kinds of nutrition that can be easily absorbed. *Reeborne Qinyou* organic milk powder adopts the pure organic milk from free-range dairy cows that are grass-fed for 300 days on seven-year clean soil farms in Alps, in a way to provide milk powder with protein content of up to 20% for babies and toddlers. It passes the (WIT) organic certification and adopts the “One Can, One Code” tracking system to provide quality assurance. *Reeborne TruYn* goat milk powder selects high-quality small molecule goat milk protein, specifically adds rare ingredients such as lactoferrin, the body-friendly OPO structured lipid and prebiotics and prebiotics to maintain easy digestion and good absorption.

Arla, the world's largest organic dairy producer with over 100 years of brand history, is an authorized purveyor of dairy products to the Danish royal family. The organic milk formula of *Arla Baby & Me* has obtained three major organic certifications and contains high DHA and probiotics that are in the golden ratio. As for *Arla Baby & Me* Lanxi, it contains the unique NutriCollab formula featuring premium nutrients such as choline, taurine and nucleotide. In addition, the newly upgraded formula of *Arla Milex, Pro Plus* contains OPO structured fat, BB-12 probiotics, and probiotics in the golden ratio, hence is able to satisfy those seeking natural products.

Yashili's products also include various milk formula products for adults and multiple series of instant mix products. In the first half of this year, the Group launched two series of milk formulas for the middle aged and the elderly, namely *Mengniu* "Yourui Liyi", "Yourui Xinpei". Through selecting functional ingredients that benefits the muscles as well as cerebrovascular and cardiovascular health, this series of milk formula promote the health of the middle aged and elderly population. *Topconic*, the first domestic healthcare milk powder ever been certified as a healthcare food product in China, was also launched by Yashili in May. *Topconic's* high-end adult milk powder for the middle-aged and elderly adopts professional formula and scientific production to boost "nutrition + immunity" and contains "probiotics + prebiotics" as the selling point, both setting a new benchmark for high-end functional milk powder.

Bellamy's

Bellamy's launched the Chinese-series organic baby rice series, which is directly canned in and imported from Australia, in March 2020. It also launched the first super high-end organic A2 milk formula as well as super high-end organic goat milk formula in Australia from May to June. The super high-end organic A2 milk formula series is made from 1% rare organic milk source, and contains BB-12 active probiotics, algae oil DHA and lutein. The super high-end organic goat milk formula series, being awarded Australia dual organic certifications, contains 100% pure goat milk protein, D-Geni-X™ probiotics and prebiotics, over 20 types of nutrients and a full lactose formula.

Key Products:

- *Reeborne*
- *Arla Baby & Me*
- *Bellamy's* organic milk powder
- *Bellamy's* organic baby rice

Other Products

Revenue amounted to RMB457.1 million (2019: RMB324.4 million), accounting for 1.2% of Mengniu's total revenue (2019: 0.8%).

Cheese

During the reporting period, the cheese business division consolidated all existing cheese brands under the *Arla ASCX* brand, hence the *Arla ASCX* brand products now have included kids' cheese, leisure cheese, cheese to go with meals and high-end cheese. Furthermore, the premium cheese brand *Castello* and liquid butter brand *Lurpak* have been launched, thereby covering all consumption scenarios. Cheese dessert product with no white sugar content and fresh cheese with 100% cheese content have entered the market in the first half of 2020 as well, so as to address consumers' demand for healthier and more nutritious cheese options which offer rich flavors.

Key Products:

- *Arla ASCX* Cheese for Children's Growth
- *Arla ASCX* cheese dessert
- *Arla ASCX* shredded mozzarella

PRODUCTION

Mengniu deploys its production capacity according to the potential of relevant markets and its own product strategy. As at 30 June 2020, Mengniu had 40 production bases in China, one production base in Australia, New Zealand and Indonesia respectively. It had a total annual production capacity of 9.75 million tons (December 2019: 9.50 million tons).

SOCIAL RESPONSIBILITY

In the first half of 2020, Mengniu strived to deepen the sustainable development plan and put the vision of "Protecting the Health of Mankind and the Earth" into practice. Apart from continuously advancing the integration of the sustainable development plan and the Group's operation targets and implementing the work for sustainable development in social, economic and environmental aspects, Mengniu leveraged on its abundant corporate resources and network, quickly provided support to various parties during the Epidemic in order to shoulder its corporate social responsibilities proactively.

Following the outbreak of the Epidemic at the beginning of 2020, in response to the government's call for a swift resumption of work, Mengniu, through strengthening safety precaution and control measures, safeguarded the safety of staff as well as the quality of products. Through initiatives such as procurement of raw milk from ranches, prepayment for milk, financial credits and replacing products close to the end of shelf-life, Mengniu assisted upstream and downstream collaborative partners in weathering the difficulties and ensured the stable supply and pricing in the national dairy market.

During the Epidemic, Mengniu swiftly donated cash and products, thereby providing nutritional support to healthcare institutions and epidemic control frontlines across the nation and established the "China Charity Federation (Mengniu) Emergency Resources Center for Epidemic Prevention and Control" in order to connect the logistics channels for delivering donated resources to epidemic control frontlines. On the first day of lifting the lockdown of Wuhan city, Mengniu announced the free supply of *Milk Deluxe* milk for the entire year to over 40,000 medical staff who supported Hubei, showing respect and care for the epidemic control frontlines.

Mengniu's series of actions in proactively fighting the Epidemic was widely covered by domestic and overseas mainstream media, including CCTV, People's Daily, Associated Press and Reuters, which generated considerable social recognition for the Group as well as acclamations from authoritative institutions. For instance, Mengniu ranked third countrywide in "The Index Report of The Most Influential Enterprises Against COVID-19 2020" and was the only food enterprise among top 10 of the list. In the market research on consumers affected by the Epidemic conducted by Ipsos, a renowned research institute, Mengniu ranked fifth in the "Top 10 in Awareness of Enterprises that Organized Charity or Cash/Supply Donation Activities" and was the only food/dairy enterprise to make the list. In the "3.15 Brands Epidemic Fighting Index Report" published by the Chinese Academy of Social Sciences, Mengniu was also awarded 90.7 points in the Index, being No.1 in the dairy industry.

In the first half of 2020, Mengniu continued to implement the "Inclusive Nutrition Plan" and promoted the "Fresh Nutrients, Ferment Love" online charity event at the first "Yogurt Cultural Festival" initiated in April, which accumulated donations of 65,000 cups of yogurt to children in poorer regions. In June, Mengniu, together with China Youth Development Foundation, announced the donation of 4.8 million packs of Student's Milk to more than 500 schools in 24 provinces and autonomous regions across the nation, covering over 700,000 students.

Moreover, Mengniu strived to promote the development of the industry in spite of the Epidemic and facilitated the technical exchange and training between ranchers through projects such as “Golden Key of Milk Cow” and “University of Ranchers”. In the first half of 2020, with the operational technology support provided to 1,800 people via the “Aiyangniu” platform, Mengniu assisted ranches in realizing profit enhancement, and by organizing online learning for workman, Mengniu realized the technological knowledge upgrade for 30,000 people from ranches and contributed to the cost reduction and efficiency enhancement of the ranches.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2020, the Group had a total of 37,834 employees in Mainland China, Hong Kong, Oceania, the USA and Southeast Asia, including around 2,574 employees working for Yashili. During the period, total employee costs (including salaries of directors and senior management personnel) amounted to approximately RMB2,949.1 million (2019: RMB3,428.5 million).

During the first half year, Mengniu completed the upgrading of the human resources information system, successfully driving transformation of human resource services into a three-pillar model, with Human Resources Shared Services Center (“HRSSC”), Human Resources Business Partner (“HRBP”) and Center of Expertise (“COE”) as its core.

The Group has also continued to improve various management systems associated with human resources, strengthening the foundation for human resources management. Subsequent to the implementation of the “Quantum Plan” involving pilot scheme for the room temperature business in 2019, which successfully improved results from the frontline operation units, the Group has further promoted the development of such agile organizations this year. Mengniu has also improved its development and promotion system for professional staff, as well as constructed the evaluation models for sales and marketing staff across major business units in order to optimize its human resource evaluation system. Furthermore, the “Future Star” Trainee program, which is an important program for nurturing talents for Mengniu, has fully improved the system of talent development.

To further optimize the comprehensive personnel training system, Mengniu has initiated phase two of the “Blue Ocean Plan,” which caters for senior management talent in each department, launched the “Boundary-less” online community learning project in response to the Epidemic outbreak, and established the Mengniu Marketing Institution in the first half of 2020. Mengniu also increased 242 internal trainers, developed over 500 online professional courses, and conducted 129 face-to-face professional courses in the first half of 2020, so as to provide professional knowledge in different aspects such as marketing, manufacturing and milk sourcing by internal business experts.

Mengniu has continued to optimize its incentive system as well, which is performance-based and is aimed at promoting camaraderie and facilitating synergies among staff members. To retain and motivate personnel in middle and senior management, 8,199,897 shares were granted under the share award scheme and 1,016,887 share options were granted under the share option scheme in the first half year. Furthermore, the Group has optimized employee benefits during the year through such means as upgrading health checkups and by adding new two-child benefits to enhance the cohesiveness of the Mengniu Team.

PROSPECTS

In the first half of 2020, Mengniu flexibly adjusted its business strategy and succeeded in minimizing the short-term negative impact of the Epidemic on operations and sales. Looking ahead to the second half of the year, Mengniu will seize the new market opportunities brought by changes in the trends of the nation's consumption habits and channels after the Epidemic, continue to strengthen the promotion and education of the nutritional value of dairy products, expedite the development and deployment of new retail modes such as e-commerce, O2O home-delivery, community marketing and WeChat sales. The Group will also foster improvements and innovations in various fields such as branding, products and management.

As for product innovation, Mengniu will continue to commit to improving the overall health level of the public, concentrating on product development and innovation, as well as focusing on providing higher-quality, more nutritious, healthier, and more diversified dairy products to consumers. Mengniu will continue to emphasize the development of high-potential product categories such as high-end pure milk, chilled yogurt, chilled milk beverages, fresh milk, milk formula and cheese, and to create star products that are organic, low-fat, and low-sugar in the nutritional and health food categories.

The Group strategically acquired Bellamy's at the end of last year in order to implement the overseas strategic layout, thereby driving further upgrade and innovation for infant milk formula and baby food categories. Having obtained the world's top milk sources, formulas, brands and research and development capabilities, along with opening up every sector in the production process from milk sources to production and sales; from research and development to quality control in Australia and New Zealand, this would benefit the Group in achieving full coverage of room temperature, chilled and milk formula products. Through a multi-category and multi-brand portfolio, Mengniu is committed to providing consumers in the Asia-Pacific region with better quality products and becoming a regional market integrator.

Regarding innovation in its channel deployment, Mengniu will continue to drive strategies such as the deepening of channel penetration and “Penetration into Towns and Villages,” vigorously developing online sales channels including e-commerce, O2O home delivery, WeChat sales and community group marketing. Moreover, it will further promote the use of the Smart Network in its various businesses, thereby enhancing the management of distributors and operational efficiency through the online management of display and personnel costs.

As far as management innovation and upgrades are concerned, Mengniu has established the Group’s Digitalization Strategy Management Committee and Digitalization Strategy Project Team this year in order to accelerate the overall implementation of the Group’s digitalization strategy. The Group is gaining in-depth insights into and accurately assessing and meeting consumer needs, achieving synergies in the value chain, opening up the entire marketing chain as well as completing the online and offline omni-channel integration, thereby creating the core competitive advantage driven by Mengniu’s digitalization.

Mengniu deeply understands that in order to become a commendable and honest enterprise, firstly, every Mengniu staff member should be an honest person. As a food enterprise and a dairy industry practitioner, the highest integrity is exerting the best effort to ensure product and service quality. Quality performance is not only the responsibility of the quality department, it is also the shared responsibility of all the employees and partners. Following up on the release of the “Quality Culture Manual” in March this year, Mengniu will continue to better live the quality culture and uphold the “Four Uncompromisings” management philosophy, which includes the product uncompromising, quality uncompromising, value uncompromising, and execution uncompromising in order to provide world-quality products and services for global consumers. Mengniu will utilize its unique 4Qs quality management system, which comprises the quality policy and objective system (QPOS) as the guidance; the quality assurance system (QAS) as the fundamental standard; the quality control system (QCS) as the systematic procedures; and the quality support system (QSS) as the resources for management support. These efforts are aimed at establishing a centennial nutritional and healthy food company driven by innovation, actively contributing to the revitalization and achieving the high-quality development of China’s dairy industry.

In the future, Mengniu will also fully implement the integration of the sustainable development strategy with the operational objectives of the Group, adhering to the vision of “Protecting the Health of Mankind and the Earth” and encompassing the three major aspects, namely the economy, society and the environment, to create sustainable competitiveness. The Group will continue to promote the “Inclusive Nutrition Plan” to improve the nutritional level of children in poverty-stricken areas, while improving the quality of business talents and protecting the rights and interests of employees, thereby paving the way for a better life. To achieve a win-win situation for the entire industrial chain, Mengniu will continue to pay attention to the animal welfare and ranch environmental work, while expanding the proportion of green energy and green packaging materials. On the basis of optimizing the efficiency of resource utilization, Mengniu is committed to establishing a green and sustainable ecosystem. In the future, the Group will continue to implement the concept of sustainable development in order to foster its high-quality development in the long run, thereby creating greater value for all of Mengniu’s stakeholders.

In order to further arouse Mengniu staff to forge ahead and drive for innovation, Mengniu has also initiated a new upgraded version of the corporate culture, formulating new corporate vision, mission and core values as well as culture. With the mission of “A Drop of Nutrition Blooms Every Single Life” and the vision of “Provide Prairie Cow’s Milk for Two Billion Consumers Worldwide,” the Group carries through the Mengniu spirit of “Born for Greatness, Outperforming Oneself” in inspiring the employees to work diligently, thereby guiding Mengniu to achieve the goals of the 2025 Strategy.

CORPORATE GOVERNANCE CODE

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

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2020, except that the Group has deviated from the Code Provision A.5.1 with the reasons explained below.

Code Provision A.5.1 of the CG Code provides that an issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. The Company deviates from this provision as less than half of the members of the Nomination Committee are independent non-executive Directors during the six months ended 30 June 2020. 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 none of them is an independent non-executive director as required under Code Provision A.5.1.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with the Company’s management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group’s unaudited interim financial statements for the six months ended 30 June 2020.

SCOPE OF WORK OF ERNST & YOUNG

The unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies for the six months ended 30 June 2020 have been reviewed and agreed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2020 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

BOARD OF DIRECTORS

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

APPRECIATION

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

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

Hong Kong, 26 August 2020