



China Mengniu Dairy Company Limited
2020 Sustainability Report (ESG Report)

Stock code: 2319

About this report

Reporting Period

This report covers the period from 1 January 2020 to 31 December 2020. Some contents and data are from previous years.

Organisational Coverage

The report covers China Mengniu Dairy Company Limited and all its branches, subsidiaries, and affiliates.

Publication

China Mengniu Dairy Company Limited Sustainability Report (2020) is the eighth non-financial report issued by the Company.

References

This report was prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") of the Stock Exchange of Hong Kong Limited ("HKEX") Main Board Listing Rules and in particular in compliance with its "comply or explain" requirements regarding the reporting principles of materiality, quantitative, balance and consistency, and with reference to the Global Reporting Initiative (GRI)'s Sustainability Reporting Standards ("GRI Standards").

Abbreviations

For ease of presentation and readability, China Mengniu Dairy Company Limited is also referred to as "Mengniu", the "Group", the "Company" and "We" in this report.

Data Sources

All information and data used in this report originate from formal documents, statistical reports, and financial reports of the Company. The materials in this report were provided by our employees and partners and intended for Mengniu to provide information about the progress of its sustainability management and may not be used for commercial purpose.

Language Versions

This report is available in simplified Chinese, traditional Chinese, and English. In case of inconsistency, please refer to the simplified Chinese version as it shall prevail.

Report Request

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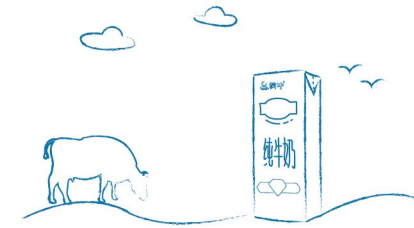
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Contents



CEO's Statement	03
About Mengniu	05
Corporate Culture	07
Sustainability Commitments	09
Sustainability Highlights	11

Sustainability Management



Sustainability Strategy	15
Sustainability Governance System	16
Stakeholder Communication	17
Determination of Material Topics	18

Corporate Governance



Corporate Governance	21
Risk Management	22
Business Ethics	23

Economy: More Nutritious Products



Superior Quality	29
Research and Innovation	37
Digital Mengniu	40
Win-Win with Industry Chain Partners	42
International Presence	46

Society: A Better Life



Healthy Life	49
High-Quality Service	52
Social Responsibility	55
Employee Well-being	67

Environment: A More Sustainable Earth

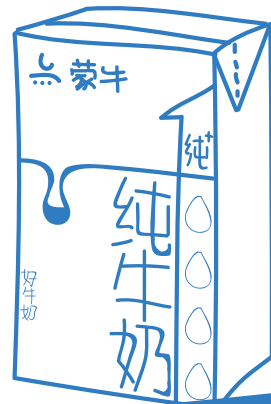


Mengniu's Performance on Key Environmental Indicators in 2020	75
Environmental Friendly Ranches	77
Green Production	82
Circular Economy	93
Sustainability Performance Data	99
Content Index of HKEX ESG Reporting Guide	101
GRI Content Index	104

CEO's Statement

Chief Executive Officer and
Executive Director

Lu Minfang



Every drop of nutrition makes a sustainable world

The just-ended 2020 saw the combined forces of the Covid-19 pandemic and major changes unseen in a century that challenges the world from climate change and ecological degradation.

Sustainability is the golden key to addressing global challenges. At the 75th Session of the United Nations General Assembly, Chinese President Xi Jinping announced China's carbon peaking and neutrality targets and commitment to promoting the green transformation of China and the world. This message has not only boosted the confidence of the world but also pointed to the future direction of all sectors.

As one of the top eight dairy companies in the world, Mengniu has not only focused on providing nutritious, healthy, and delicious dairy products to consumers in China and around the world but also been consistently committed to sustainability as the foundation of our business. We took the lead in committing carbon neutrality as part of our relentless efforts on green development, continuously increased environmental, economic and social benefits, and led the entire industry chain on a path of sustainability.

Looking back on 2020, we resolutely implemented our sustainability strategies and advanced our ten sustainability commitments through 27 actions towards a healthier world.

Since 2019, when sustainability was elevated as a corporate strategy, we have been steadily advancing our ten sustainability commitments through 27 actions and put in place a rigorous three-level ESG governance structure. Every department and its management has been deeply engaged in ESG governance and translated sustainability from a concept into everyday actions and an integral part of activities of all business divisions and functions within our organisation.

Driven by our moto - More Nutritious Products, A Better life, and A More Sustainable Earth, we comprehensively advanced economic, social and environmental actions and made solid progress in a full range of material sustainability topics including quality and safety, carbon emissions management, responsible supply chain, environmentally friendly ranches, animal welfare, nutrition and health, green production, circular economy, charity, etc.

We made a significant progress in ESG rating and became the only food enterprise from mainland China to be included in the Hang Seng Corporate Sustainability Index. This year, Mengniu also implemented the largest ever charity action since its inception by donating cash and dairy products valued at RMB740 million in support of Covid-19 epidemic alleviation. In addition, we continued our efforts in fields such as targeted poverty alleviation and charity for inclusive nutrition, which allowed us to gain recognition from the stakeholders. We fully promoted our poverty alleviation program that is driven by our leading dairy industrial power.

Looking forward to 2021, we will further enhance the quality of our sustainable development through precisely targeted, digitally empowered, and professional knowledge-backed actions.

The year of 2021 is critical for implementing Mengniu's sustainability strategy. We will elevate our sustainability work while comprehensively answering our stakeholders' needs in a timely manner. We will adopt ESG as a KPI for our management for the first time in order to accelerate and deepen the implementation of the sustainability strategy.

We will take full advantage of digital technologies to refine the quality of our ESG management. As Mengniu has implemented its digital and intelligent transformation, data analysing is becoming an important process during our sustainable development. Based on a solid data foundation, we will effectively utilise digital tools to back our ESG decision-making, and set qualitative goals in order to accurately improve our ESG performance.

We will continue to strengthen the integration of our ESG and business activities. From the developmental point of view, quality ESG management not only boost the Company's business but it also can help the Company in terms of risk management, cost reduction and green transformation, and enable Mengniu to grow sustainably and contribute more to the society and all stakeholders.

Looking further into the future, we will put forward our sustainability oriented "FIRST" strategy to advance our mission of Every Drop of Nutrition Makes Every Life Thrive.

As the global economy recovers, the government has put forward a new development paradigm with domestic circulation as the mainstay while reinforcing the domestic and international circulations to unlock vast market potentials and build strong economic resilience. This helped China's dairy industry gradually recovered with an encouraging outlook.

During the 14th Five-Year Plan period, we will continue to endorse the sustainability concept of "Creating a New Mengniu" to guide our "FIRST" (First-Choice, International, Responsibility, Spirits, and Technology) strategy. We strive to build a Mengniu beloved by consumers, a digitalized Mengniu, an internationalized Mengniu, a Mengniu with strong cultural gene, and a Mengniu with strong sense of responsibility. We will continue to benchmark United Nations 2030 Sustainable Development Goals and carry out our four-dimensional sustainable practices: Responsible supply chain, Green production, Inclusive nutrition, and Rural revitalisation.

Guided by the conviction that lucid waters and lush mountains are invaluable assets, we strongly believe that a sustainable development path is MENGNIU's best choice. For the good of humanity and of the planet, we will as always imbed social responsibility into the foundation of our business and sustainable development into the DNA of Mengniu and steadily advance our mission of nourishing every life with healthy products.

About Mengniu



China Mengniu Dairy Company Limited (stock code: 2319) and its subsidiaries mainly manufacture and distribute quality dairy products in China. It is one of the leading dairy product manufacturers in China, with MENGNIU as its core brand. In 2020, Mengniu moved up to the eighth place on the "Global Dairy Top 20" list published by Rabobank. In March 2014, Mengniu became a Hang Seng Index constituent, making it the first blue chip Chinese dairy product enterprise. In August 2020, Mengniu was included as a constituent of the Hang Seng Corporate Sustainability Index and the Hang Seng ESG50 Index



Mengniu focuses on providing nutritious, healthy and delicious dairy products to Chinese and global consumers through a rich variety of product lines including liquid milk, ice cream, milk powder, cheese and other categories under brands such as *Milk Deluxe*, *Just Yoghurt*, *Champion*, *Yoyi C*, *Shiny Meadow*, *Deluxe*, *Reeborne*, *Bellamy's* and *Arla ASCX*. It has a leading market share in segments such as high-end pure milk, chilled yoghurt, high-end fresh milk and cheese. Besides the Chinese mainland, Mengniu products have entered the markets of more than ten countries and regions in Southeast Asia, Oceania and North America. In 2020, the Company achieved revenue of RMB76 billion.

Mengniu has established 41 production bases in China and 3 overseas production bases in New Zealand, Australia and Indonesia with a combined annual production capacity of 9.9 million tonnes. Mengniu has made strategic investments in three major dairy groups, namely Fuyuan International, China Modern Dairy and Shengmu with a view to integrating high-quality resources. At present, it maintains cooperation with more than 1,000 ranches and 100% of raw milk coming from large-scale intensive ranches.

Mengniu has established Mengniu European Innovation Research Centre, and has strategic cooperation with a number of well-known research institutions at home and abroad to carry out joint research in areas such as forage cultivation, breeding and processing, basic research in dairy food science and product innovation, and has made great progress in areas including smart manufacturing, raw milk preservation, probiotics and quality control technology. We continuously improve our "pasture to milk cup" whole industry chain quality management system, which covers all aspects of dairy production including breeding, processing and logistics with digital and intelligent means of management and monitors the whole process of production to ensure that every packet of milk is of assured superior quality.

Mengniu has been widely recognised at home and abroad for its first-class product quality and sterling

brand image, being a global partner of the Olympic Games, official sponsor of the FIFA Russia World Cup, strategic partner of China's space programme, official dairy products provider for the BRICS Summit in Xiamen, official partner of the 14th National Winter Games, official partner of the Chinese Football Super League, official dairy partner of the Shanghai Disney Resort, and exclusive supplier of dairy and ice cream products for the Universal Beijing Resort.

Benchmarking against the United Nations Sustainable Development Goals (SDGs), Mengniu has gradually improved its social responsibility system which aims at fields including poverty alleviation, environmental protection, emergency and disaster relief, inclusive nutrition and rural education. During the Covid-19 epidemic, Mengniu donated to establish the "China Charity Federation (Mengniu) COVID-19 Prevention and Control Emergency Materials Center" in Wuhan to provide nutritional support for medical workers and other personnel fighting on the anti-epidemic frontline. As an industry leader, Mengniu is committed to revitalising the rural area through the revitalisation of the dairy industry by providing steady financial, technical and other support for ranchers. As a main participant in the National School Milk Programme, Mengniu launched the Inclusive Nutrition Plan, which has donated more than 20 million packs of student milk to over 1,000 schools in underdeveloped areas across China.

During the 14th Five-Year Plan period, Mengniu, standing at a new stage of development, will lead in the construction of a new paradigm of development of China's dairy industry and formulate its strategic plan of "Creating a New Mengniu", striving to develop into a Mengniu beloved by consumers, a digitalized Mengniu, an international Mengniu, a Mengniu with strong culture gene, and a Mengniu with strong sense of responsibility. Looking to the future, Mengniu will continue to meet the customers' needs for a better life with high-quality products and services, promote the high-quality development of China's dairy industry and build itself into an icon of Made in China.

Corporate Culture

Vision

From the grasslands across the world, Mengniu products nourish and are loved by over 2 billion consumers around the world

Mission

Every drop of nutrition makes every life thrive

Core values

Consumers are at the heart of all our decisions
Creative solution wins the future
Empower and inspire talents to succeed
Our integrity and honesty support our continued success

The Mengniu Spirit

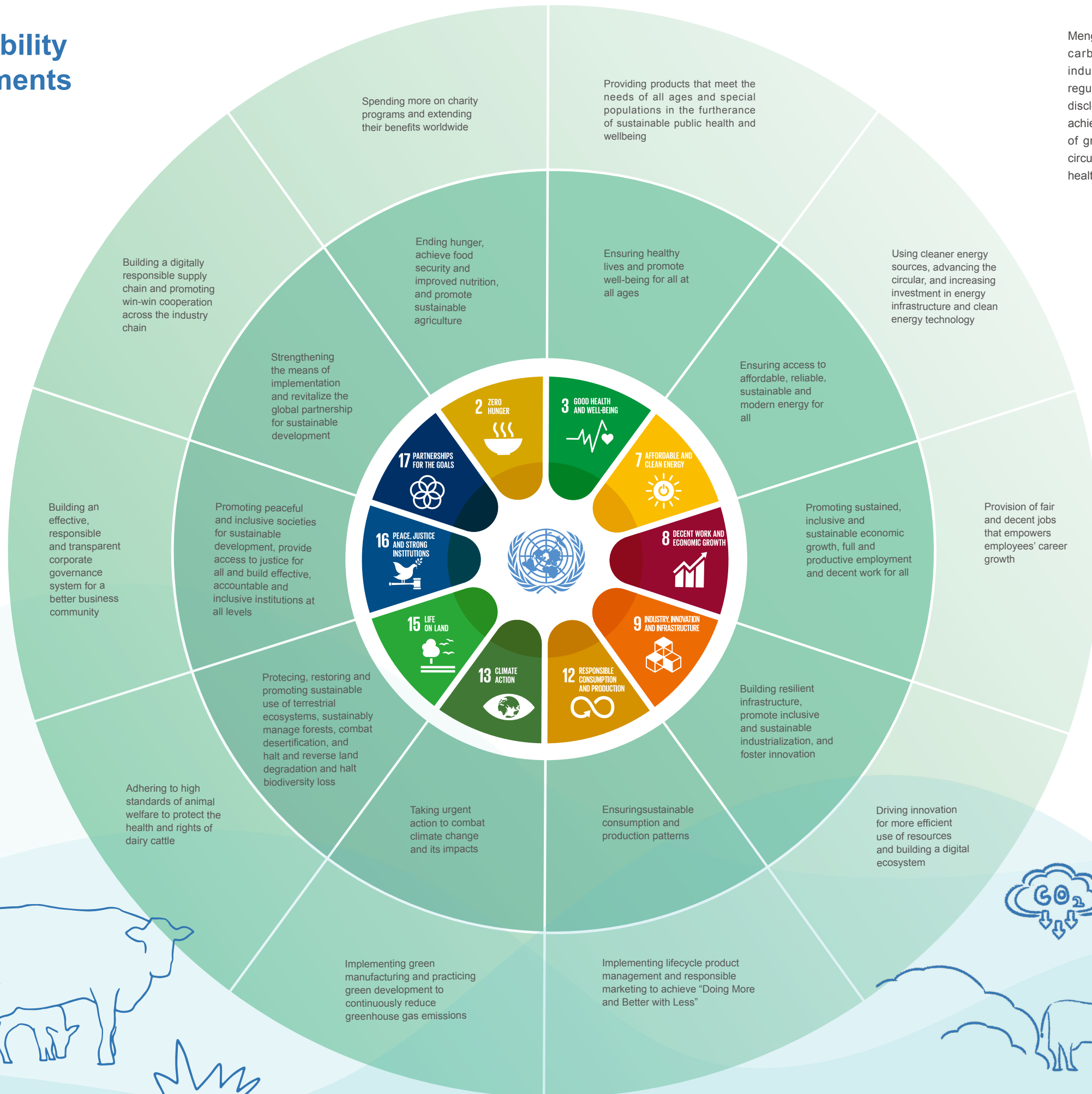
Born to excel, constantly strive for self-improvement



Honours and recognitions

1. Mengniu was selected as a constituent of the Hang Seng Corporate Sustainability Index (TOP30), becoming the only Chinese mainland based food company;
2. Mengniu had eight factories certified as "National Green Factory" in 2020, bringing the total number of its national green factories to 17;
3. Mengniu was awarded the Green Finance Certification by the Hong Kong Quality Assurance Agency, making it the first company in China's dairy industry to pass the certification;
4. Mengniu was awarded the "2020 Five-Star Chinese Corporate Citizen" title by the China Committee of Corporate Citizenship;
5. Mengniu's poverty alleviation achievements were recognized by the State Council Leading Group Office of Poverty Alleviation and Development among the "50 Best Corporate Targeted Poverty Alleviation Programs-Integrated Program" and "50 Best Corporate Targeted Poverty Alleviation Programs-Individual Program";
6. Mengniu ranked first in the Chinese Academy of Social Sciences's CSR Development Index for Dairy Enterprises, for the third time in four years;
7. Mengniu's "3+X" targeted poverty alleviation model was selected as an outstanding case in the Blue Book of Enterprise Poverty Alleviation (2020);
8. Mengniu was honoured with the Award of Outstanding Contribution to the Fight against Covid-19 at 11th China Charity Awards, reaping the highest honour in the field of public charity in China;
9. Mengniu was awarded the "Special Contribution Award" and the "Medal of Humanitarian Merit" by the Red Cross Society of China in recognition of its efforts in the fight against Covid-19;
10. Lu Minfang, CEO of Mengniu, was named Honorary Vice President of China Charity Federation, becoming the first entrepreneur in China's dairy industry to hold the position;

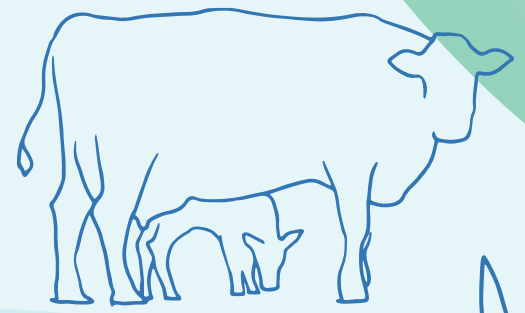
Sustainability Commitments



Mengniu proactively supports the goal to achieve carbon neutrality by 2060, and to lead the industry in carbon neutrality commitment with regular emission reduction targets and roadmap disclosure. We will align with our value chain to achieve industrial carbon neutrality through actions of green production, responsible supply chain, circular economics, etc., to fulfill our promise of a healthier world.

Mengniu's ten sustainability commitments:

- United Nations 2030 Sustainable Development Goals
- Mengniu's commitments

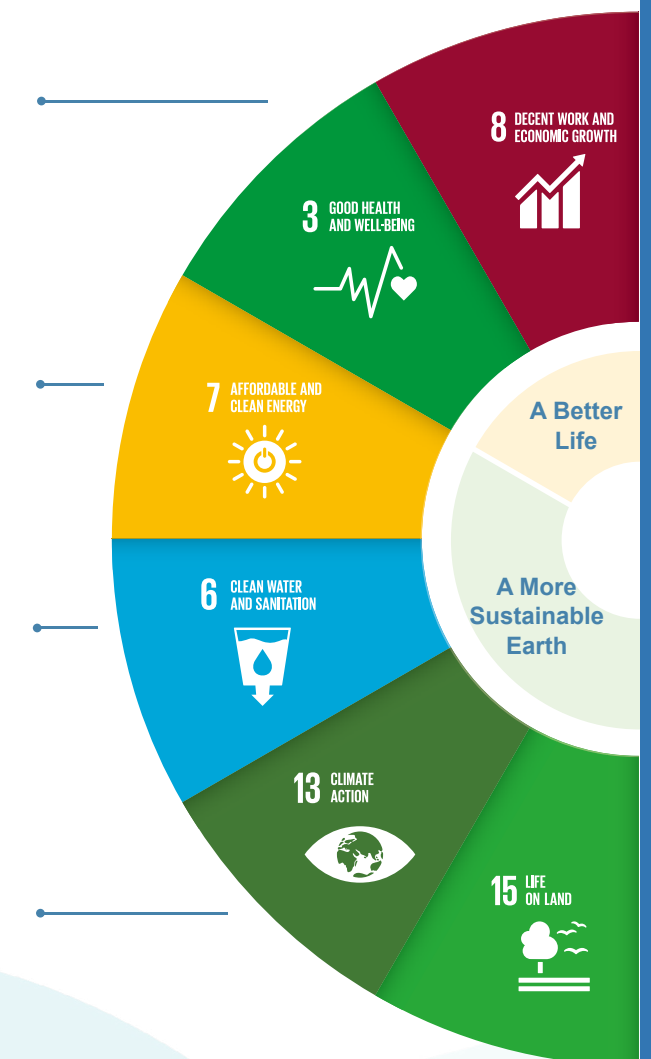


Sustainability Highlights



- 2,070 patents accumulative total
- Digital Milk Source programme piloted in more than 300 locations
- More than 30 automation platform projects
- A total of 111 innovative processes in smart factories
- A total of 18,126 batches of products sampled and inspected with a 100% pass rate for post-factory quality inspection; 2,797 inspections conducted at milk sources with a 100% pass rate
- 100% factories obtained ISO 9001 quality management system certification, and 100% dairy factories obtained HACCP certification
- Established an effective responsible supply chain and formulated the Code of Conduct for Suppliers
- Signing of Antibiotics Use Pledge with all ranches, pledging not to use growth-promoting antibiotics and to reduce the unnecessary use of antibiotics in disease treatment
- Forest Stewardship Council (FSC) certification for all packaging paper;
- 100% of palm oil purchased from RSPO certificated suppliers
- 100% closure for alleged regulatory and disciplinary violations
- 179 educational sessions on professional integrity
- 0 litigation incident arising from misconduct or fraud
- 100% signing of Anti-Bribery Contract
- 1,600+ domestic and foreign suppliers
- Supplier training covered 51,459 person-times
- A total of 47 live online training sessions hosted on "Aiyangniu" platform with a total length of more than 70 hours, reaching more than 100,000 dairy technicians
- During the pandemic, Mengniu corporated with third party to provide RMB 3 billion of interest-free loans and RMB 10 billion of credit for partner farms, and more than 1.5 million ranchers
- 250,000 cartons of student milk worth RMB 15 million donated under the Inclusive Nutrition Plan to 498 schools in 50 cities in 20 provinces. We sponsored the "Strong Angel" project to provide free student milk to the children of the Baseball Base
- More than 500 volunteering activities conducted with the participation by nearly 10,000 person-times and a total service time of more than 10,200 hours
- Anti-pandemic donations worth RMB 740 million, including milk donations covering 31 provinces and cities, 10,000+ medical units and first-line anti-epidemic institutions, providing free Milk Deluxe worth RMB 6.7 million for the children of 160 epidemic-fighting heroes who lost their lives in the epidemic fight for up to 22 years, and covering all the educational and growth expenses for the children of 15 heroes from families in particularly difficult circumstances for 22 years.
- Empowerment training provided to nearly 1,250 young rural teachers in 13 prefectures, counties and cities in 5 provinces under the Youth Teacher Empowerment Education Plan

- 40,626 employees in mainland China, Hong Kong China, Southeast Asia, Oceania, Europe and North America
- 90.5% employee training rate with an average of more than 87.62 hours of training per employee
- More than 50 new products launched in 2020
- Continuing to develop a wide range of organic, low-sugar, low-fat, high-nutrition, zero-artificial-additive and functionally enhanced products
- Having 8 factories certified as "National-level Green Factory" in 2020, bringing the total number of green factories to 17
- 4.66 million kWh of solar power generated; 1 new solar powerplant was built; 4.7 MW of energy generated from the new photovoltaic systems, with the total installed distributed photovoltaic capacity reaching 13.4 MW
- Total 309,000 tonnes of steam generated from biomass energy
- Renewable energy accounted for 13%
- 2.011 million tonnes of water saved in 2020
- Water consumption per tonne of factory output down 5.25%, with reclaimed water rate reaching 7.63%
- Carried out 145 environmental protection and energy conservation improvement projects
- 100% self-owned coal fire-boilers were eliminated
- Completing dephosphorization, denitrification, and deodorization of 19 wastewater treatment plants
- 30 kilograms of CO₂ emission was reduced per tonnes of dairy product production comparing to last fiscal year
- 300 tonnes of carbon emissions reduced through recycling of packaging plastics
- Zero environmental complaint
- 100% compliance for supervisory inspections throughout the year
- 100% training on the animal welfare system for all ranches
- Yashili Reeborne adopted two pandas, Rui Rui and En En, and donated RMB 3 million to the China Conservation and Research Centre



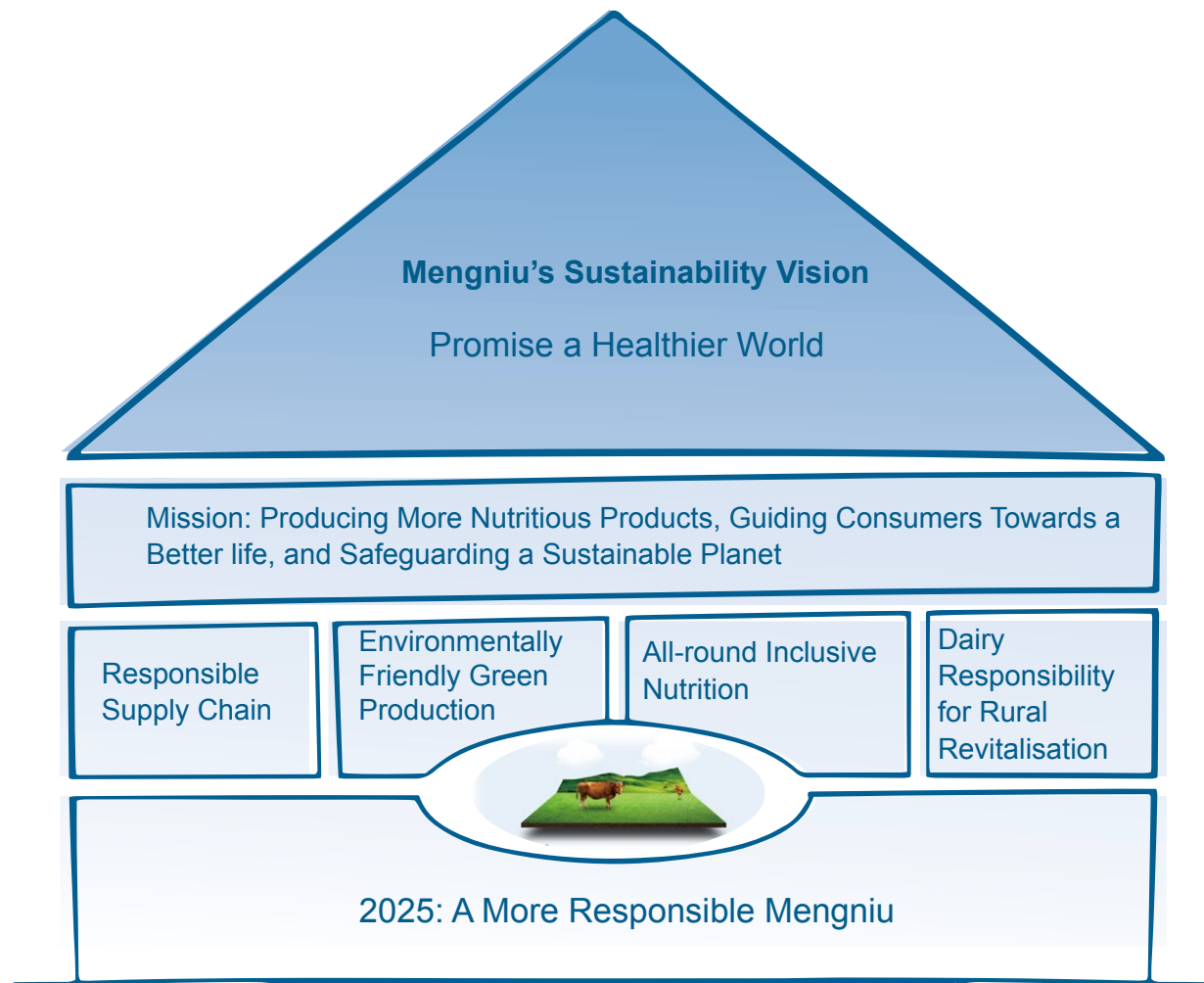


SUSTAINABILITY MANAGEMENT

As a leader in social responsibility in the dairy industry, Mengniu believes that health of human and earth are inextricably linked. We have always made it our goal and mission of sustainability management to produce more nutritious and healthier products and to protect the ecological resources of the Earth.

Sustainability Strategy

As Mengniu's vision of Promise a healthier world making the production of more nutritious products, the enabling of a better life and contribution to a more sustainable Earth the fundamental requirement is a fundamental prerequisite for everything we do. Mengniu will benchmark itself against the United Nations 2030 Sustainable Development Goals and develop sustainable practices in four dimensions: responsible supply chain, environmentally friendly green production, inclusive nutrition and responsibility of the dairy industry for rural revitalisation, and has set the "Mengniu model" of sustainable development. We are fully committed to the UN 2030 Sustainable Development Goals and our ten sustainability commitments covering economic, social and environmental aspects, and have built a Group sustainability system comprising 12 sustainability issues and 27 Mengniu actions to deliver value for our stakeholders.



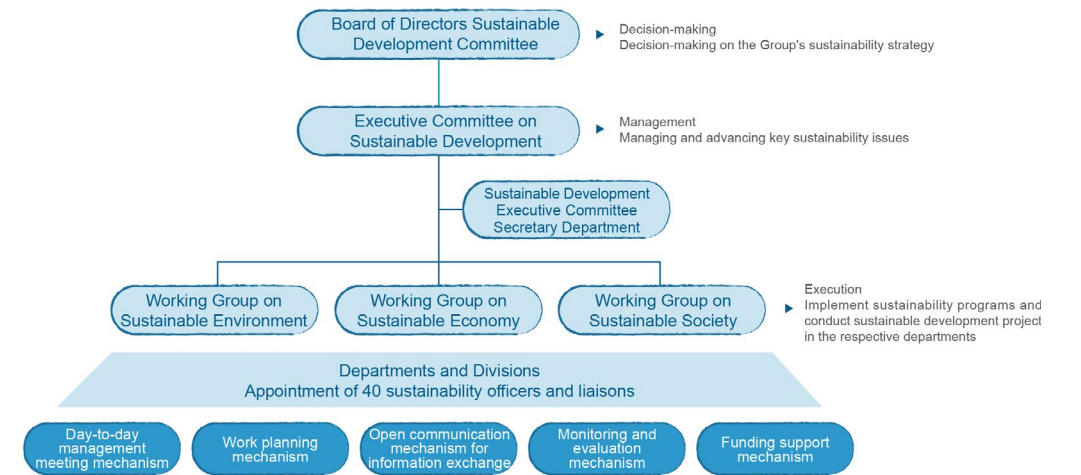
Mengniu motivates its management to achieve the company's sustainable development goals by setting specific ESG appraisal targets for management and including them in the annual performance contract, in accordance with the characteristics of the management's business and the company's main sustainable development issues.



Sustainability Governance System

Mengniu released the Mengniu Group Sustainability System Management Approach, which sets out the Group's ten commitments and specific action paths for sustainability on the economic, social and environmental dimensions and clearly coordinates the working mechanisms of each responsible department for institutionalised, standardised and professional management of the Group's sustainability work.

Three-level sustainability management system



Decision-making

As of the reporting time, Mengniu's Sustainable Development Committee comprises an executive director (Mr. Lu Minfang), a non-executive director (Mr. Simon Dominic Stevens), and an independent non-executive director (Mr. YAU Ka Chi), with Mr. Simon Dominic Stevens as the chair. The committee is the Company's highest decision-making body for sustainability work and is responsible for considering the Company's sustainability strategies, goals and risk profile and directly manages the Energy Conservation and Emissions Reduction Committee.

Management

The Mengniu Sustainable Development Committee has an executive committee comprising core executives of the Company, which is responsible for sustainability management and strategy advancement, overseeing strategy implementation and reviewing annual work plans and reports.



On May 18, 2020, Mengniu held the 2020 Sustainable Development Executive Committee meeting. The management attended the annual ESG work reporting and planning, and make decisions on important ESG issues for the Group.

Execution

The Mengniu Sustainability Executive Committee has economic, environmental and social working groups with the participation of the divisions and functions that lead 27 Mengniu initiatives, which are responsible for setting the corresponding work objectives and plans, implementing the Company's strategies and maintaining communication with internal and external stakeholders.

Stakeholder Communication

We pay attention to the concerns of our stakeholders and communicate with them through various channels. Based on the characteristics of the Company, industry developments and the development of the Company, we have identified stakeholders including shareholders and investors, government and regulatory bodies, consumers, suppliers, distributors, the environment, employees, and the community.

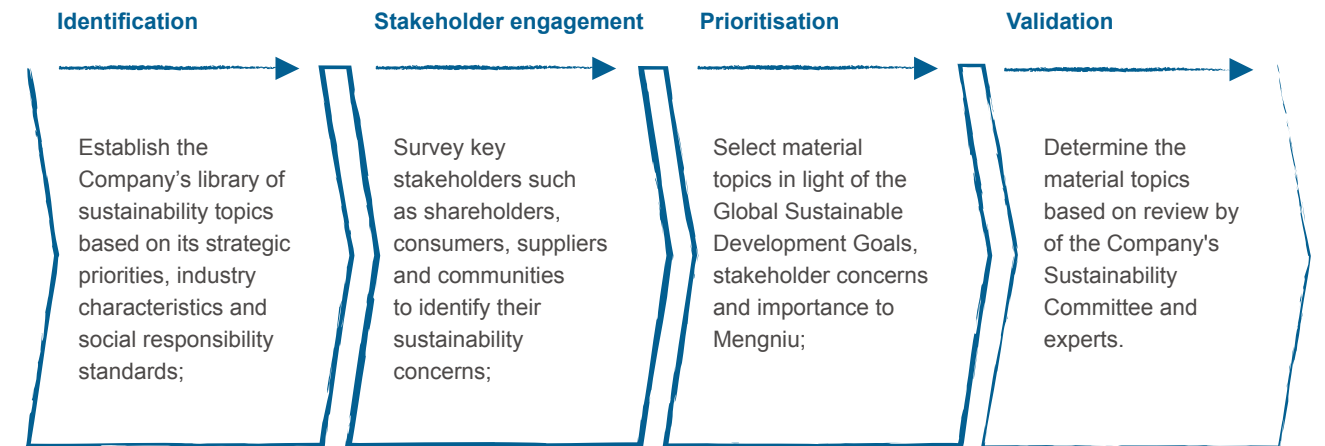
Mengniu continuously improves the information disclosure mechanism and actively enhances communication with investors: In 2020, the Investor Relations Department conducted various forms of interactive communication with the capital market through emails, conference calls, face-to-face meetings and the platform of capital market. During the reporting period, the company participated in 18 large-scale investor conferences, conducted a total of more than 220 investor conferences and sell-side analyst meetings on a daily basis, and 19 ESG-themed conference calls, establishing a smooth communication channel with the capital market, continuously strengthening the transparency of listed companies, and realizing the long-term and sustainable improvement of the company's intrinsic value and market value.

Stakeholders	Topics covered	Communication and response channels
 Shareholders and Investors	<ul style="list-style-type: none"> Preventing business risks Asset preservation and appreciation Developing new markets and opportunities Steady returns on investment and value growth 	<ul style="list-style-type: none"> Corporate annual reports and announcements Roadshow Special meetings Official website and investor relations website
 Government and regulators	<ul style="list-style-type: none"> Compliant operations Paying taxes in accordance with the law Contributing to local economic development 	<ul style="list-style-type: none"> Regulatory supervision Proactive tax payment Special meetings
 Consumer	<ul style="list-style-type: none"> Providing high-quality products Comprehensive customer services Smooth channels of communication Diverse product 	<ul style="list-style-type: none"> Information disclosure and dissemination Transparency factory Interactive activities Consumer service hotline
 Suppliers	<ul style="list-style-type: none"> Open, fair and equitable procurement Business integrity and good faith Confidentiality of information 	<ul style="list-style-type: none"> Supplier conference Supplier assistance Supplier training
 Distributor	<ul style="list-style-type: none"> Mutually beneficiary win-win cooperation Mutual growth 	<ul style="list-style-type: none"> Distributor conference Distributor satisfaction survey Decision management committee Customer communication platforms
 Environment	<ul style="list-style-type: none"> Ecological & environment protection Green and low carbon development 	<ul style="list-style-type: none"> Government environmental information platforms Information disclosure and dissemination
 Employees	<ul style="list-style-type: none"> Health and safety Compensation and benefits Building career growth platforms Work-life balance 	<ul style="list-style-type: none"> Manager's mailbox Staff and workers' congress Training and exchange
 Community	<ul style="list-style-type: none"> Promoting employment Driving local economic development Helping poverty alleviation Community development and well-being 	<ul style="list-style-type: none"> Providing employment Promoting the development of related local industries Improving local infrastructure Targeted poverty alleviation Charity programs

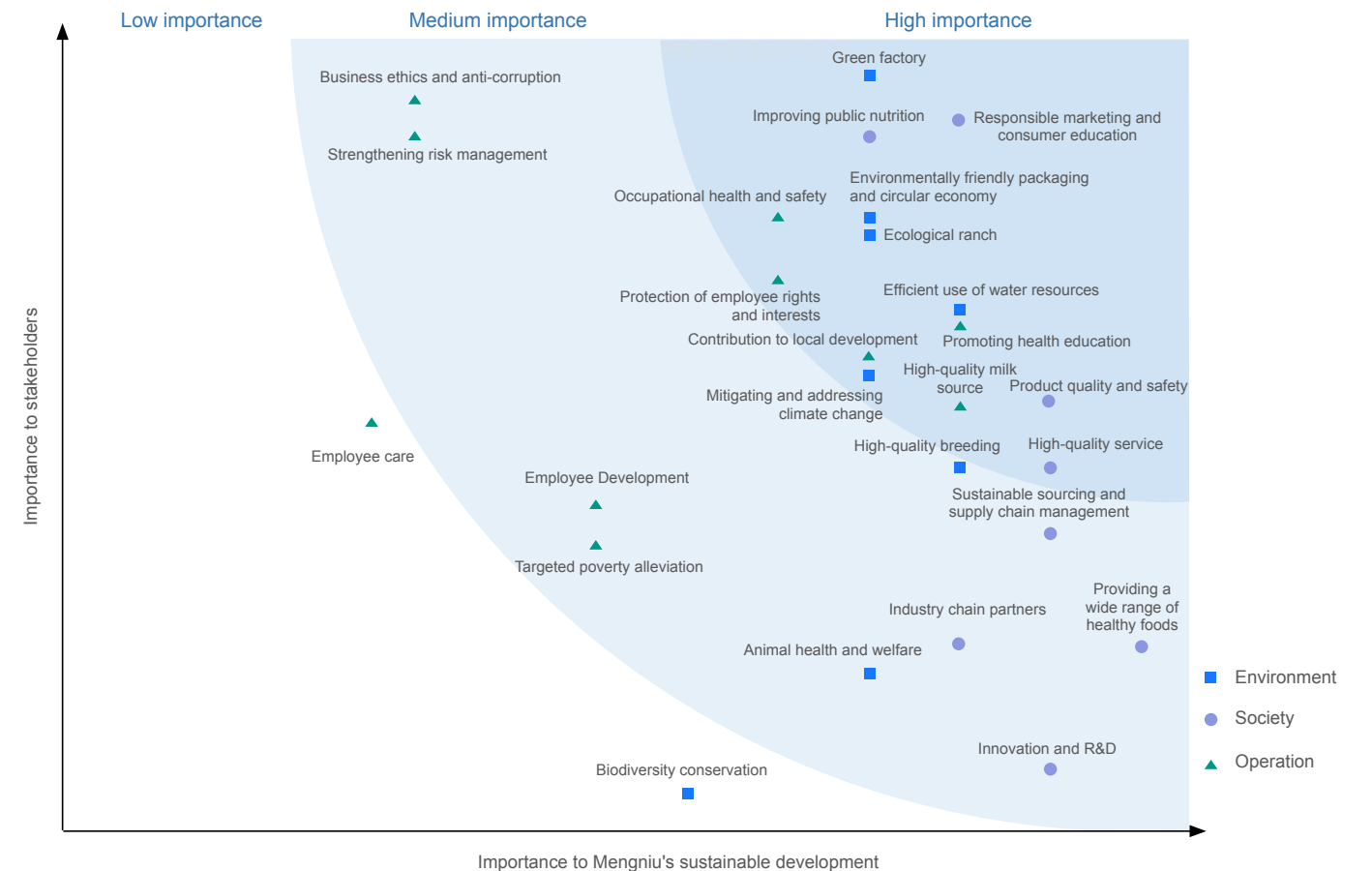
Determination of Material Topics

In order to truly understand and respond to stakeholders' concerns and expectations in a timely manner, the Company organised stakeholder communication and analysis of material topics, identified material topics, and gave effective responses to the relevant stakeholders on their specific concerns and expectations.

The process of materiality analysis is as follows:



Mengniu's ESG Matrix in 2020



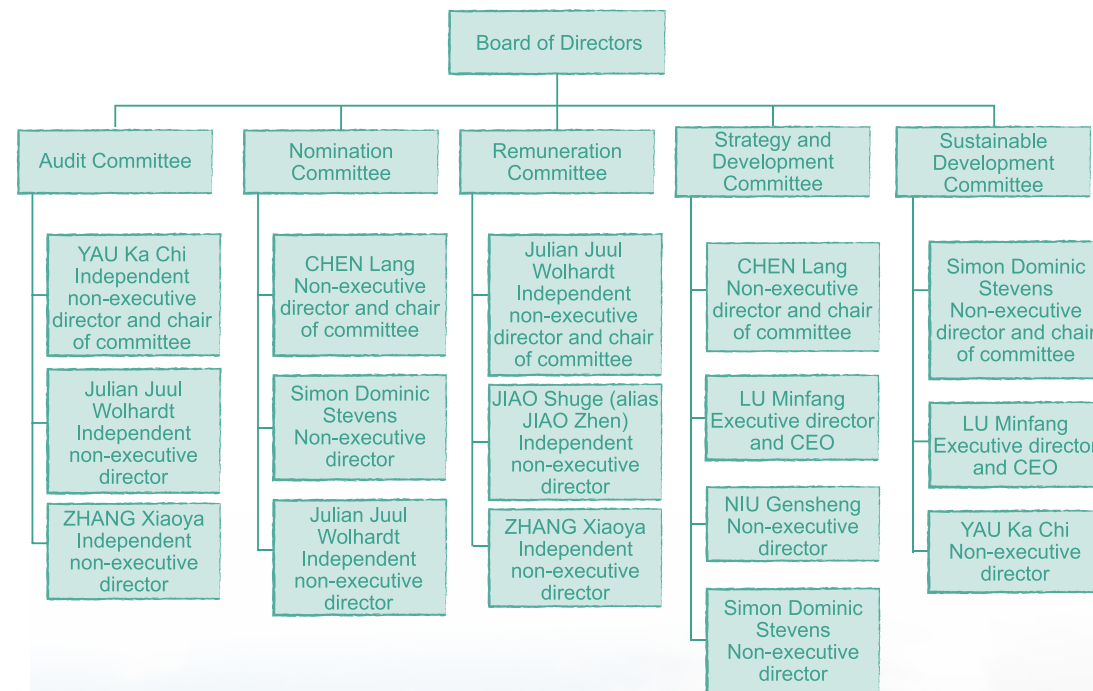
Corporate Governance

Mengniu attaches great importance to the establishment of a sound corporate governance system and procedures, building a widely representative governance structure, clearly defining the powers, responsibilities and decision-making procedures at all levels, and protecting the interests of shareholders. Within the Company, we implement comprehensive risk management and continuously improves business ethics management to ensure a stable and efficient business operation and achieve long-term sustainable development.

Corporate Governance

Mengniu has formed a diversified governance structure to fully mobilise resources from all parties for synergy and improve corporate governance.

The Board of Directors of the Company comprises nine directors, including two executive directors, three non-executive directors and four independent non-executive directors. The Board is primarily responsible for formulating the Group's overall strategies and policies, setting performance and management targets, assessing business performance and monitoring management performance. The Board has five professional committees, namely remuneration, nomination, audit, strategy and development, and sustainability committees, which are responsible for examining specific tasks of the Company and assisting in the performance of its duties to ensure the efficiencies during Company's decision-making process.



Risk Management

Our risk management and internal controls systems are constantly enhanced. We have established six management documents, including the *Risk Management System* and the Risk Management Rules, to form the basic norms of risk management and related management processes.

Mengniu has put in place three lines of defences of risk management, with the various business units serving as the first line of defence, the Risk and Internal Control Management Committee (hereinafter referred to as "Risk Control Committee"), the Risk Management Department and the various functional departments with a supervisory function serving as the second line of defence, and the Internal Audit Department and the Discipline Inspection Department serving as the third line of defence. The Company gradually improves the professional quality of risk managers by complying with the COSO (Committee of Sponsoring Organisations of the Treadway Commission) risk management framework, introducing external consultants for risk management guidance and training, and promoting a risk management culture.

Three lines
of defences
of risk
management



Every year, the Company organizes the various business and functional units to comprehensively identify the risks in the seven areas of strategy, market, finance, operation, legal and regulatory compliance, quality and food safety, and sustainable development of the Group with the focus on major risks and formulates appropriate risk response strategies to effectively reduce and avoid the adverse impact of major risks on the strategic goals, business targets and sustainable development of the Company.

In 2020, the Group objectively assessed the difficulties affecting the achievement of the Group's strategic objectives and cross-departmental coordination through a three-level assessment approach of "self-assessment and identification by business departments, specialised assessment by the risk department, and integrated assessment by senior management", with the Risk Control Committee examining and determining the significant risks at the Group level, including work safety risks, quality management risks, legal and regulatory risks, environmental risks, information security risks, etc. In order to effectively prevent and control significant risks of the Group, departments are divided into two categories of responsible entities, with the functional departments being risk management entities responsible for coordinated planning and supervision, and the business departments being response entities responsible for effective implementation by incorporating significant risks in regular business management processes and adopting project-based coordinated response and control. Thanks to this mechanism, risks were effectively controlled and no significant risk case occurred in 2020.



Business Ethics

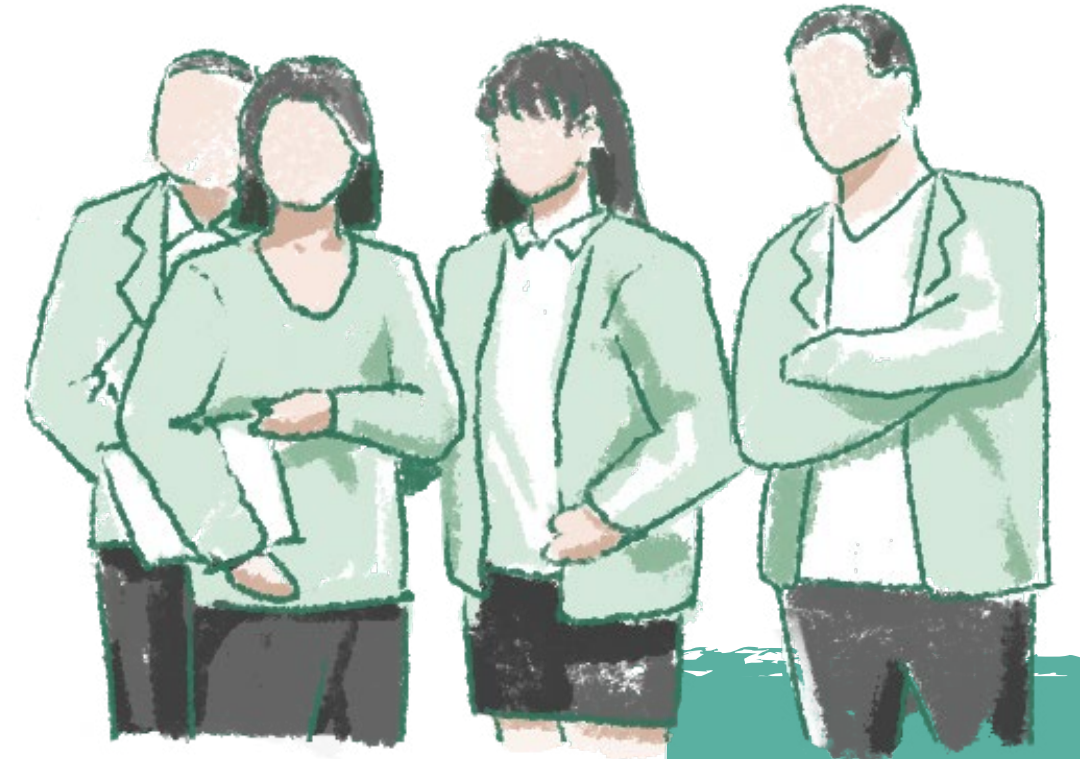
Mengniu continuously improves its business ethics management organisation system, maintains smooth feedback channels for complaints and reports and strengthens internal integrity culture building, advancing its honest and upright corporate image.

On the basis of strict compliance with the *Supervision Law of the People's Republic of China*, the *Company Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China*, the *Contract Law of the People's Republic of China* and other relevant domestic laws and regulations as well as applicable laws and regulations in overseas regions where the Company operates, Mengniu has formulated the *Senior Management Code of Conduct*, *Ten Regulations on Management Integrity and Self-Discipline* and *Administrative System for Discipline Inspection and Supervision* other internal business ethics rules and regulations covering all subsidiaries to regulate the Company's business activities and the business conduct of its employees.



The main contents of the Mengniu code of ethics and business conduct include:

- **Ten Regulations on Management Integrity and Self-Discipline**
Exercise authority correctly; protect Company assets; observe financial discipline; adhere to the principle of integrity; avoid conflicts of interest; value the interests of customers; treat subordinates fairly; adhere to professional ethics; respect the personality of employees; and uphold the Company's image.
- **Anti-commercial bribery**
An Anti-bribery Contract is required to be signed when signing a business contract with a third party, and it is strictly prohibited to give or accept any form of financial gifts such as kickbacks, intermediary fees and favours in the course of cooperation.
- **Anti-unfair competition**
Comply with the relevant laws and regulations and ensure that business activities do not violate the relevant provisions of the Anti-Unfair Competition Law of the People's Republic of China.
- **Avoidance of conflicts of interest**
Management personnel shall not use the convenience of their position to obtain personal benefits for their relatives and specific relations by arranging for them to take up positions under their oversight.
- **Respect for the personality of employees**
Treat each employee fairly in recruitment, promotion and appraisal and in optimising the organisational structure, uphold the dignity and privacy of employees, and refrain from corporal punishment and verbal abuse.
- **Compliance with organizational discipline**
No employee shall violate organisational or personnel discipline, such as provoking fights and falsifying during work.



Regular Supervision and Management

In order to clearly define the supervisory responsibilities for business ethics and anti-corruption work, Mengniu has established a discipline inspection committee as a supervisory department and assigned disciplinary work leaders to each division and subordinate company for supervision, guidance and evaluation. The discipline inspection department organises internal learning and participates in external professional competence training to enhance its ability to perform its duties and professional competence.

In 2020, we carried out both regular and special supervisory inspections with the focus on key areas susceptible to corruption, such as procurement, sales and marketing, to identify the main corruption risk points in business and operation and regulatory loopholes, and improved the relevant processes in a timely way. During the year, Mengniu conducted a total of 48 special supervisory inspections, and the various business divisions carried out over 40 special supervisory inspections.

We attach great importance to the business ethics of our management staff. We establish integrity files for our middle and senior management staff, review and assess the integrity performance of our management through pre-appointment reminders, in-office supervision and control of key links, and provide timely feedback to our human resources department on discipline violation and non-compliance incidents and give corrective guidelines. In 2020, we reviewed 308 newly appointed managers in the Group and updated and collected a total of 258 integrity files of middle and senior management members.



In 2020

Mengniu conducted
48 dedicated
supervisions and inspections

Business division conducted
over
40 inspections

Complaint Management

The Mengniu Discipline Inspection Office is responsible for the processing, investigation and supervision of complaints and reports of violations of business ethics, including violations of law, malpractices, corruption and fraud.

We maintain smooth reporting channels and publicise our reporting telephone number and email address on our website, *Anti-commercial Bribery Contract* and the "Voice of Mengniu" module of our official WeChat account and encourage interested parties to report violations and incidents.

We encourage real-name reporting and clearly stipulate in the *Mengniu Group Administrative System for Discipline* that the name, work unit, home address and other relevant information of the whistle-blower and the content of the report will be kept strictly confidential, and the verification of the reported situation will be carried out under the condition that confidentiality is well maintained, the personal safety of the whistle-blower is protected and the identity of the whistle-blower is not publicly exposed. Any department or individual shall not, on any pretext, obstruct or suppress the whistle-blower's report, withhold the reporting materials or retaliate against the whistle-blower. Any retaliation against whistle-blowers will be dealt with seriously in accordance with the system, and cases where a crime is constituted will be transferred to the judicial authorities.

Mengniu will issue internal review and investigation recommendations after reviewing and investigating the complaint leads, and will refer those suspected of breaking the law and committing offences to the judicial authorities. An employee who objects to the disciplinary actions taken against them may submit an appeal and we will complete the reconsideration within three months after accepting the appeal.



Integrity Culture Building

Mengniu continuously builds a culture of integrity and ensures that training related to business ethics covers all employees through diversified training, education and awareness activities. We organise "Integrity Awareness Month" activities across the Company to ensure that the Company's anti-corruption requirements are communicated to and complied by all staff through pre-appointment integrity interview, production of anti-corruption awareness videos, visits to educational bases, special seminars, the setup of integrity culture gallery, and the distribution of circulars on typical discipline enforcement cases.

We constantly strengthen anti-corruption education for our directors and senior management by requiring management to sign the *Integrity Statement* and organising our directors and senior management to attend various anti-corruption publicity and education sessions organised by regulatory bodies, COFCO and the Company, as well as promoting anti-corruption awareness at our monthly senior management meetings.

We attach great importance to distributors' performance in business ethics. We organise customised integrity training on a regular basis, sign *Anti-bribery Contracts* with partners including distributors and suppliers, supervise their performance in business integrity, and blacklist and end cooperation with those that violate Mengniu's code of business ethics.

As a member of the Trust and Integrity Enterprise Alliance¹, we actively participate in the various activities organised by the alliance, continuously improve our business ethics practices and awareness of integrity compliance, and share and exchange information with other alliance members to create an integrity ecosystem. In 2020, we participated in a total of five training and experience sharing events organised by the alliance.

¹Trust and Integrity Enterprise Alliance: Initiated by JD Group in February 2017 and jointly launched by Tencent, Meituan and other well-known enterprises and the Criminal Law Research Center of Renmin University of China. The alliance aims to build a joint security wall against corruption, fraud, counterfeiting and information security crimes.

In 2020,

Mengniu organised **179** integrity violation trainings

Covered a total of **19,603** employees in management

Organized **6** director's integrity training

with total **32** hours



Provided **17** sessions of integrity training for distributors/partners,

covering **5,100 +** people



ECONOMY: MORE NUTRITIOUS PRODUCTS

We are committed to providing high-quality products and services to global consumers, injecting vitality into our product innovation and business through innovation and digital transformation, building a sustainable and cooperative ecosystem with our business partners and the industry, creating a global value chain, and making continuous progress towards becoming an international leader in the dairy industry.

Superior Quality

Quality is the best expression of integrity. Therefore, we implement whole-chain quality management, from farm to table. We strictly control quality, ensure the quality of milk from source, enhance our staff's quality assurance awareness, and provide world-class products. In 2020, we met our target of zero food safety incidents.



Lifecycle Quality Assurance

Mengniu strictly abides by the *Food Safety Law of the People's Republic of China*, the *Product Safety Law of the People's Republic of China* and other relevant laws and regulations. It has also established internal quality management systems such as the *Food Safety Review Management Scheme*, *Food Safety Equipment Configuration Management*, and *Equipment Management System for New Factories (Production Lines)* and has set up a whole process management system covering raw material control, product design, product quality inspection and product recall to ensure product quality and safety in all aspects.

Mengniu is benchmarked against international standards and the best practices of our contemporaries. Our 4Q quality management covers the whole industry chain, workforce and process:

Quality Plan

Formulate quality vision and quality policies and goals, identify quality management boundaries and production processes, and determine the framework and specific requirements for quality control, quality assurance and quality support based on analysis of the needs and expectations of stakeholders, the internal and external environment, and risks and opportunities.

Quality Control

Implement quality management of all business activities along the entire industry chain, including market management, design and development, procurement, milk sourcing, production, logistics and storage, sales, and customer communication with the focus on productivity

Quality Assurance

Carry out "whole industry chain" review of production processes, from the perspective of risk management, compliance and validation to identify opportunities for improvement and ensure effective implementation and steady improvement of quality plan and quality control requirements.

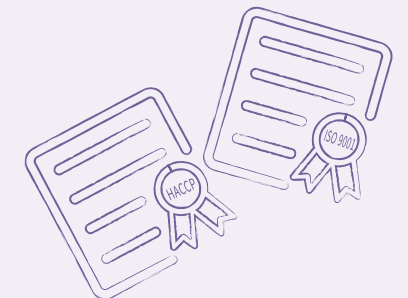
Quality Support

Provide resources required for efficient quality management.



In 2020, we established a quality risk management model, focusing on industry chain processes and with products at its core. With well-defined boundaries, we carried out regular quality risk management at Group, business division and business unit levels. Risk management maps, quality indicators and revisions of raw milk monitoring plans assisted the implementation of the 4Q system.

Mengniu continuously promotes third-party management systems and product certifications related to quality and food safety standards, including ISO 9001, GMP, HACCP, FSSC 22000 and BRC. As of 31 December 2020, all of Mengniu's factories had been certified to the ISO 9001 quality management system and all dairy factories had been certified to HACCP.





Quality Control of Raw Materials

Mengniu performs strict testing on each batch of raw and auxiliary materials to ensure their quality and committing to no genetically modified ingredients in all its products. In 2020, we built a risk evaluation model for raw and auxiliary materials, identified food safety risks along the entire chain of raw and auxiliary materials from suppliers to factories, carried out risk evaluation, implemented grade-based risk management, and developed corresponding quality risk control management methods. In addition, we made continuous efforts to raise the entry threshold for suppliers of raw and auxiliary materials, conducted comprehensive evaluation of providers in terms of the quality of raw materials based on quality big data, and guided suppliers to continuously strengthen their product quality management systems in order to enhance the quality risk prevention and control capability of the industry chain. We attach great importance to quality of raw material and food safety in our overseas divisions. Mengniu Bellamy's encourages suppliers to obtain Global Food Safety Initiative (GFSI) certifications such as SQF, BRC and FSSC.

Product Quality Design and Testing

Based on the pre-quality management concept that "all risks are expected to be eliminated before exposure, and all competition begins at the time of design", the Company introduces quality design tools at the very beginning of product design and has established a quality design risk management mechanism that covers the entire lifecycle of new products with quality risks and food safety risks as the core. To implement consumer-centric quality management, we collect graded feedback through consumer expectations assessment and testing in our quality design to ensure consistency in the consumer experience across product batches, production lines and factories.

In 2020,

18,126 batches of Mengniu products were inspected by the national product quality regulator

Pass rate was
100%

2,797 batches of raw milk were inspected by the national product quality regulator

Pass rate was
100%



Full Traceability Management and Product Recall Management

To control quality and food safety risks, our *Product Traceability Management System* covers the entire process from raw milk to consumer. We continually improve traceability and strictly define our requirements for tracing scope and time. Our assessment criteria ensuring that content and information are traced on products at all stages of their journey from farm to table. By integrating our Laboratory Management and SAP systems, we are able to promptly trace information forwards and backwards along the chain.

In line with national recall regulations such as the *Administrative Measures for Food Recalls*, Mengniu has developed its emergency management systems such as the *Food Safety Incident Management System* and the *Product Recall Management System* to put in place a sound product recall mechanism, which implements three-level control of product recalls according to the degree of harm and urgency of unsafe products and ensures rapid response, in addition to clearly defining the recall initiation process, information transmission, recall implementation process and subsequent analysis and improvement requirements. Mengniu had no product recall in 2020.

High-Quality Milk Sources

Mengniu has formed a “global value chain” of milk sources through its forward-looking efforts to secure high-quality milk sources worldwide. Besides premier milk source bases in foreign countries such as Australia and New Zealand, we have more than 30 milk source bases located in areas with excellent climate that are suitable for pasture and cows across China. With around one thousand ranches and around one million cows, we can guarantee the quality of our milk products from their original sources.

Standardised Management of Dairy Farms

Mengniu has benchmarked itself against international best practices and gradually introduced advanced management experience from leading international dairy ranches. Through five initiatives including the Dairy Cattle Research Institute, the “Intelligent Digital Milk Source Ranch” management platform, the “Aiyangniu” integrated procurement platform, the ranch SOP technical standard system, and the farm quality and safety management system, it has steadily promoted the implementation of advanced technical achievements of ranch quality management. We have formulated our *Ranch Quality and Safety Management System* based on the ISO 9000 system, and developed internal standards such as the *Mengniu Standard Operating Procedures (SOPs)* and the *Ranch Operation Technical Guidance Manual*, which cover 18 modules, 108 secondary modules and 469 key points relating to a broad range of subjects such as ranch design, disease prevention and control, breeding, forage management, herd management and milk hall management and enable standardised construction and management of ranches.

As of the end of 2020, 100% of corporate's ranches had achieved standardised, intensive and scaled production in the process of mechanical milking, specific mixed ration feeding, silage covering, integrated technical servicing and animal welfare promoting.

Management of Veterinary Drug Use

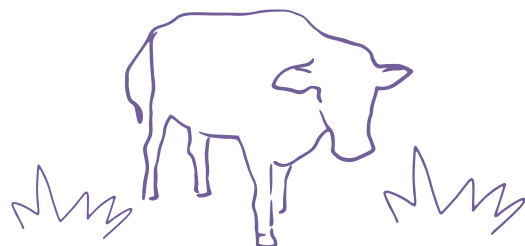
In line with the veterinary drug use principle of “reduced use and no antibiotics”, we have established a comprehensive management system for the use of veterinary drugs. Based on strict compliance with the Animal Epidemic Prevention Law, we have formulated our Compliant Veterinary Drug Use Procedures and released the Mengniu Principles and Commitment for the Use of Veterinary Anti-Microbial Drugs. We appoint specialised personnel to comprehensively strictly monitor and manage the use of veterinary drugs (including antibiotics), ensuring that the raw milk used for production does not contain any antibiotics.

Mengniu's three principles of veterinary drug management:








Strictly prohibit drugs banned in China or internationally and post the prohibited list to the partner ranches.

Restrict the use of veterinary drugs on which limits are imposed in China or internationally and which pose risks, and find alternative drugs and phase them out in the future.

Regulate the use of other types of veterinary drugs and ensure that use is in strict accordance with the product label and instructions in terms of the scope of animals, indications, usage and dosage, withdrawal period, etc.

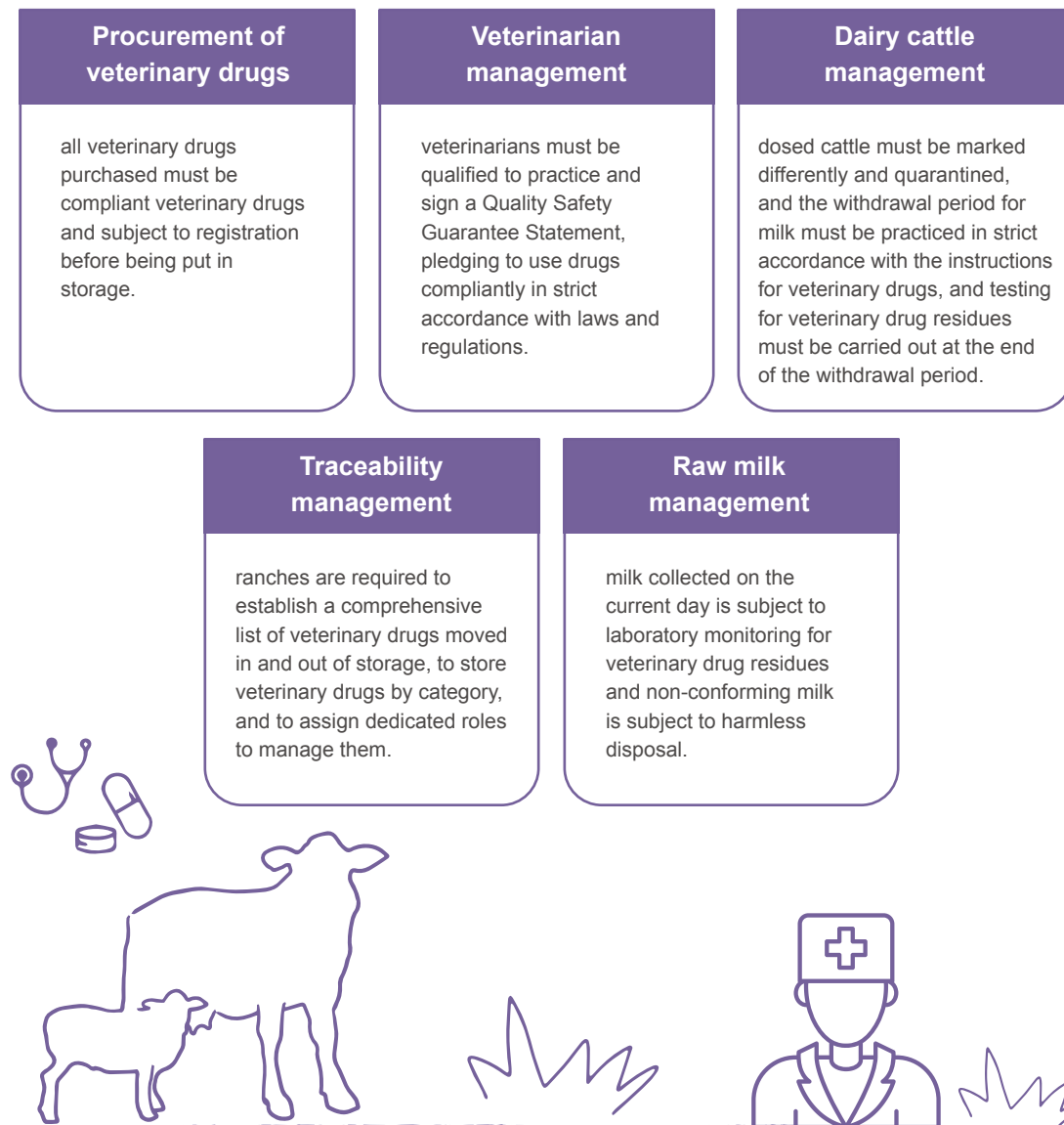


Mengniu's commitment on use of veterinary antimicrobial drugs

-  We do not use any veterinary antimicrobials to promote animal growth or for routine disease prevention;
-  We require suppliers to use veterinary antimicrobials for the treatment of animal diseases only when prescribed by a veterinarian;
-  We require suppliers to prioritise the reduction of all veterinary antimicrobials classified as “Medically Important Antimicrobials” (MIAs);
-  We require suppliers to base their veterinary antimicrobial reduction programmes on good animal welfare practices and management (e.g. vaccination, hygiene and animal welfare practices);
-  We require suppliers to adhere to strict withdrawal periods and ensure that our products are free from any residual veterinary antimicrobial through routine monitoring and sampling;
-  We work with farmers, suppliers and other stakeholders to reduce the use of veterinary antimicrobials throughout the industry;
-  We support suppliers who meet the commitments in this policy and exclude those who refuse to accept these commitments.



Mengniu's five key measures of veterinary drug management:



Mengniu organises regular training for dairy farmers and veterinarians on laws and regulations, the safe use of veterinary drugs, and the management of dosed cattle and raw milk. In 2020, Mengniu organised a total of more than 10 online and offline veterinarian training sessions and four special seminars on veterinary drugs with partner farms and achieved a 100% signing rate of the *Quality Safety Guarantee Statement* and a more than 15% reduction in the types of veterinary drugs used.

Quality Culture Building

Mengniu attaches great importance to building a quality culture and has launched a diverse range of quality culture activities across the Group in line with the quality culture building philosophy that "everyone has a stake in quality." In 2020, we enhanced the Company's quality culture atmosphere by organising "Quality Month" activities and quality knowledge competitions and fully demonstrated Mengniu's robust quality culture to stakeholders through a series of reports on Mengniu's quality culture.

Mengniu Issues Quality Culture Manual



On the World Consumer Rights Day on 15 March, Mengniu officially released its quality culture manual titled *Continuing Excellence*. On the same occasion, it launched a quality culture initiative with the theme "High Quality: From Culture to Action," which officially introduced Mengniu's code of conduct summed up as: "act in integrity and good faith; let data speak for scientific decision-making; do right things right; lead innovation internationally; and put quality and safety first." In his message prefacing the manual, Mengniu CEO Mr. Lu Minfang said: "Quality is the best expression of integrity." The manual, which provides the first-ever systematic presentation of Mengniu's corporate culture on quality, aims to inherit and carry forward the quintessence of Mengniu's quality culture.

Mengniu Quality Month

In September 2020, Mengniu carried out a total of 21 "Quality Month" activities, which centred on the three dimensions of "Expanding Impact", "Business Improvement" and "Capacity Enhancement".

During the month, Mengniu launched a quality management effectiveness review project, improved its quality adjudication system, and conducted quality traceability exercises, among other activities. At the same time, we helped our staff improve their quality management skills through a variety of activities such as a quality culture competition that covered all employees, quality culture ambassador selection, internal training instructor evaluation, and selection of most skilled workers.



Mengniu Releases White Paper on Quality Safety

On 6 November 2020, China Import Expo, at the Third Global Dairy Forum, Mengniu officially released the *White Paper on Quality Safety*, marking the first time Mengniu had put together contents on its quality culture, quality philosophy, quality practices and other quality matters and published them in the form of a white paper. The publication of the white paper will further help the Chinese dairy industry to meet the needs of consumers for a high-quality life with high-quality products, thus advancing the building of China into a leading country in the dairy industry.





Research and Innovation

Mengniu deems innovation as the core driving force of its development and is committed to steadily strengthening its R&D strength to inject new vitality into a healthy China. We have established a comprehensive innovation and R&D framework and comprehensively advanced research on relevant fields including basic consumer research, process technology innovation, basic science research and packaging within the framework.

Collaborative Research with Universities

To capture the high ground in scientific research, we cooperate with top research institutions at home and abroad. Our world-leading High-Tech Research Institute and High-Intelligence Production Base draw on the expertise of 16 domestic and international dairy research institutions, including Tsinghua University, Peking University, the Chinese Academy of Sciences, China Agricultural University and an overseas research and development (R&D) centre. We also have more than 30 R&D partners around the world.

Mengniu partners with universities in 2020 for in-depth collaborative nutrition research

- Mengniu and Jiangnan University jointly carried out research on infant formula - the "Chinese Breast milkLipid Research and Development of Breast milkFat Substitutes" project, which proposed the new concept of UPU, a new full-valent breast milkstructure fat, achieving a world first in fully simulating human milk. For the first time, the similarity of breast milk fat is greater than 90%
- Mengniu and Tsinghua University School of Public Health have carried out the collaborative "China Maternal and Infant Nutrition Health Cohort Study during Pregnancy and Lactation."
- Mengniu collaborated with the Zhejiang Academy of Agricultural Sciences Laboratory of Intestinal Microecology to analyse the intestinal microecological characteristics of breastfed and formula-fed infants by way of in-vitro simulation of the infant intestinal ecology.

Application of R&D Results

Mengniu has made continuous efforts in product packaging as well as nutritional research. In the R&D of green packaging, Mengniu uses scientific research and innovation to accelerate product and service updates and iterations and efficiently translates scientific research results into products and services.

In packaging R&D, we have adopted sustainable product packaging by not only providing consumers with more choices but also reducing food waste. We have also been committed to optimising our packaging design by using non-stick lid films to reduce milk waste. In addition, Mengniu has been practising green packaging design and application by replacing non-environmentally friendly PVC sheets with environmentally friendly, recyclable PET materials and using smaller packaging materials that provide more eco-friendly and healthier ways to eat.



Main progresses of R&D in 2020

Awards

- Mengniu has carried out in-depth research on intestinal flora and probiotics and invented precise screening techniques based on the role of intestinal microorganisms, high-density fermentation technology for probiotic lactic acid bacteria, and highly effective protectants for freeze-drying of probiotic lactic acid bacteria, which are capable of screening out suitable microbial species according to the characteristics of intestinal microorganisms of different groups of people, thus enhancing nutrient absorption. This research outcome won the first prize for technical inventions from the Ministry of Education.
- The Yoyi C "reduced sugar and controlled sweetness" series responds to the national "Three Reductions & Three Kinds of Health" (reducing the intake of salt, oil and sugar and maintaining healthy oral cavity, weight and bone) initiative by reducing sugar by 25% while containing 30 billion active probiotics and zero fat. This series won the Technology Progress Award from the China Dairy Industry Association.

Nutrition research

- To meet the nutrition and growth needs of children, the Mengniu Future Star brand has launched Future Star Double Original Pure Milk. Each packet of milk (190mL) contains 19mg of native DHA and 228mg of native high calcium.
- Mengniu has conducted research on new dairy-based functional ingredients and their application in infant food to improve the nutritional value of infant products.



Mengniu co-founds China Nutritional Health Alliance

In 2020, Mengniu joined hands with authoritative nutrition and academic institutions including China Nutrition Society, China Agricultural University and Inner Mongolia Agricultural University, as well as upstream and downstream enterprises in the nutritional food industry to establish the China Nutritional Health Alliance with the mission to promote nutritional health in China and improve the health of the nation.

Participation in Government S&T Programs

In 2020, Mengniu started research projects supported by the government science and technology programs of Inner Mongolia Autonomous Region and Hohhot City to conduct a series of research work on functional dairy products and new dairy-based functional ingredients. In the meantime, Mengniu's research into the bioactive components of Chinese breast milk has led to the development of infant formula enriched with functional active ingredients to improve the nutrition of infants and help them grow healthily.

Intellectual Property Protection

Mengniu attaches great importance to the protection of intellectual property rights by implementing effective intellectual property management and establishing a sound management system to ensure responsible advertising and marketing. Mengniu follows the *Patent Law*, the *Trademark Law*, the *Copyright Law* and other laws and regulations, and continuously improves its internal systems such as the *Compliance Management Manual*, the *Management Measures for the Protection of Intellectual Property Rights*, and the *Advertising Slogan and Trademark Review System*. Among them, the *Compliance Management Manual* strengthens the protection of trade secrets, trademarks, patents and copyrights and requires timely application and registration to protect intellectual property achievements and prevent infringement; the *Management Measures for the Protection of Intellectual Property Rights* stipulates the principles of Mengniu Group's intellectual property management; the *Advertising Slogan and Trademark Review System* mainly provides for the specific management methods, management processes and the use of related materials regarding the Group's advertising slogans and trademarks. In 2020, we reviewed 3,596 packaging and advertisements, registered 17 copyrights, and were granted accumulation of 2,070 patents in products, materials, processes, and technologies.



Digital Mengniu

In 2020, Mengniu continued its digital transformation. The transformation began with the business center and data center office, and the piloting of a smart supply chain. We use digital and intelligent tools to enhance capability, increase efficiency, and build our core competitiveness as the dairy industry enters the digital era.

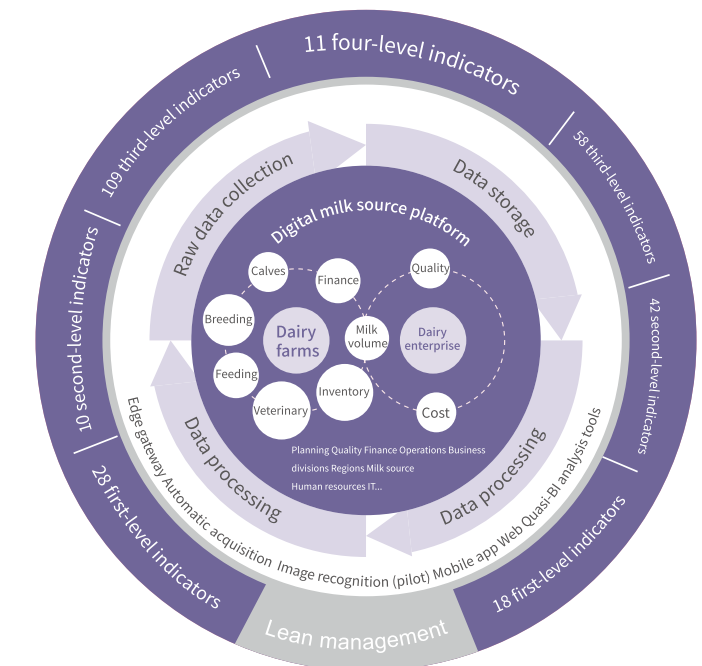
The data center uses an interface to collect, integrate and manage data from our different business systems. This simplifies data analysis and traceability, which enhances our efficiency and accuracy.

Through the business center, Mengniu solves problems and pain points in business processes by introducing front-end applications on the one hand and enabling subsequent related applications through super interfaces on the other hand, thereby improving operational efficiency.

Digital Milk Source

In 2020, Mengniu built a set of standardized management models to open up the information chain of "cow"- "ranch"- "dairy enterprise"- "third party", and maximize the information sharing of the raw milk supply chain through information technology.

The Digital Milk Sources and Smart Ranches management platform, developed with Aliyun, connects breeding, health, milk production, feeding, quality, veterinary drug management, and dairy management and operation. This supports the integration of the business, and government-industry coordination.



Mengniu's Digital Milk Source Platform Model

With the aim of improving the management of the industry chain, the platform has formed a set of effective solutions of forecasting and supervising ranch operations management. In 2020, Mengniu integrated raw milk procurement processes, enhanced ranch data collection to include data about the quantity of milk and the number of cows, and refined the platform's functions, which on the one hand helped synchronize cow information between dairy farms and Mengniu and on the other hand increased the cow management efficiency of dairy farmers. In addition, Mengniu took efforts to gradually apply the ranch management information system in all partner dairy farms nationwide. As one of the three key service platforms of Mengniu's "136 Project", the "Digital Milk Sources and Smart Ranches" management platform will become an important tool to promote the revitalisation of the dairy industry by providing a boost to the stable operation and sustainable growth of partner farms for the high-quality development of the industry.



Smart Ranches 4.0 Platform

Intelligent Manufacturing

As a national smart manufacturing benchmark company, we drive transformation. Our digital factory project is based on integrating manufacturing execution systems with other systems such as enterprise management and laboratory information management. This enables lean production, process automation, information digitisation and management transparency. We plan to extend this to factories nationwide.

In 2020, we strengthened the applications of our digital manufacturing factory. The digital factory refined its management of production process data and the digitisation of business management information in the production process, making workshop management more efficient and transparent. Through continuous advancing of application and operation, we have achieved automatic scheduling for more than 70 per cent of orders in pilot factories. We have improved 74 business process improvement applications and accumulated more than 200G of business management data assets. These help us reduce costs and increase efficiency.

Intelligent Supply Chain

Our intelligent supply chain centres on the efficient distribution of the products. Our aim is an online platform that synergizes planning, procurement, production, sales and logistics. This in turn supports a complete industrial-chain information platform that integrates farming, planting, procurement, production, storage, sales, distribution and retail.

The intelligent supply chain platform mainly consists of modules including industry distribution, sales forecasting, intelligent ordering, accurate scheduling and trunk line logistics. It enables us to tailor our use of resources according to regional supply and demand.

Consumer Insights

To meet the needs of consumers, Mengniu tailors its product design front-end and improves the quality of newly launched products. In 2020, Mengniu signed a strategic cooperation agreement with JD.com to carry out comprehensive and in-depth cooperation in areas such as user operation and product customisation according to consumer needs. In the future, Mengniu will leverage JD.com's increasingly sophisticated data tools to achieve behaviour tracking and point-of-contact analysis of existing users and complete user stratification.

Mengniu's business divisions have established a matrix of WeChat mini-program based online stores capable of sophisticated consumer data analysis and generation of accurate insights into consumer preferences in different scenarios, thus providing a reliable basis for management decision-making and for the relevant business departments.



Automation of supply chain terminal risk management

In response to the abnormalities in the supply chain terminal system, such as crosstalk in the order delivery process, as well as the time-consuming and error-prone processing of basic data, which would seriously affect the accuracy of order delivery, Mengniu has established a data collection platform to effectively integrate order data and quickly track and correct abnormalities, delivering the following results:

1. Real-time acquisition of data and output of calibration results;
2. Three-times improvement in account verification efficiency;
3. 5% reduction in terminal delivery exception rate;
4. 100% billing accuracy.

Win-Win with Industry Chain Partners

To support a national dairy revitalisation strategy, we launched our 136 Project. This aims to reduce costs and enhance efficiency at ranches, to integrate technology, resources and experts worldwide, to provide technical and financial support for ranches, and to achieve high-quality and sustainable development.

One major strategic layout: Focus on the rational layout of advantageous regions to achieve sustainable development

Three service platforms: the "Digital Milk Sources and Smart Ranches" platform, the Dairy Cattle Research Institute, and the "Aiyangniu" integrated procurement platform

Six interest linkage initiatives: financial support, technical services, scientific pricing, contract volume and price, talent-training and Party-building

In 2020, we set out a plan to develop ten major planting, rearing and processing industrial clusters to achieve our goal of "one million cows, one million mu of pasture, one million tonnes of milk." The realization of the plan will stimulate the development of surrounding areas, benefit more than 1.5 million farmers and herdsmen in terms of income growth, hence revitalise rural areas by revitalisation of local dairy industry.

Dairy Farm Construction

In 2020, Mengniu focused on the Yellow River, Nengjiang River and Xiliao River basin dairy clusters and launched 65 new dairy farms with strategic partners with the "Hohhot, the Dairy City of China" as the core.

Mengniu implements the development strategy of "integrating planting, rearing and processing" with a view to developing an emerging pillar pasture industry that integrates environmental protection, planting structure adjustment, income growth for farmers, and talent development.



Mengniu undertook a high-quality forage grass project supported by the key science and technology program of the Hohhot municipal government of Inner Mongolia Autonomous Region and achieved a world-leading level in terms of forage quality and output for a 3,000 mu alfalfa production base, accumulating valuable experience in exploring a new model of high-yield and high-quality alfalfa grass cultivation and industrial development. The Mengniu Dairy Research Institute has established a ryegrass R&D experimental field of more than 5,000 mu, where it has conducted trials and research on more than 20 high-quality ryegrass varieties from Europe, including Germany, the Netherlands and Canada, and has independently developed three ryegrass varieties suitable for local cultivation, playing a positive role in "reducing costs and strengthening areas of weakness" in the animal husbandry industry.

In 2020, the Party branch of the Mengniu Milk Source Quality and Technology Management Centre provided more than 50 technical training sessions in the forms of technical training, on-site observation and practical guidance for farmers and herdsmen, covering more than 2,000 person-times, in addition to making more than 200 technical assistance visits. In the year, Mengniu successfully developed three ryegrass varieties suitable for local cultivation, which can bring an income increase of more than RMB1,000 per mu compared with maize and an combined annual income of RMB1.89 million.

Technical Support

Mengniu leverages technologies such as big data, 5G, blockchain, Internet of Things, cloud computing and artificial intelligence to achieve mutual development mechanisms such as industrial interconnection, resource integration, joint innovation and capacity sharing in order to accelerate the construction of modern milk source demonstration bases and promote high-quality modern development in the upper reaches of the industrial chain. In 2020, through the "University of Ranchers" technical support programme, Mengniu organized a total of over 3,000 training sessions for over 50,000 people nationwide, which helped improve the performance of rural ranches by over RMB1.5 billion.

In 2020, Mengniu's "Aiyangniu" platform, through its "Virtual Diary Technology Academy" and "Niurenhui 2.0" and joining hands with 100 experts in different fields, launched five training programs dedicated to animal husbandry, veterinary drugs, equipment, management and business operation, respectively, and organized a total of 47 online live training sessions with a total length of nearly 70 class-hours, which benefited more than 100,000 person-times including partners and their technicians, leveraging technology to enable dairy farms to cut costs and increase income.



Mengniu Provides Online "Aiyangniu" Training

During Covid-19 epidemic, Mengniu, through its "Aiyangniu" platform, organised a series of livestreaming lectures open to all dairy partners nationwide to provide them with guidance and technical support.



Financial Support

In order to accelerate the modernisation of small and medium-sized ranches, Mengniu has provided subsidies for cattle purchase, ranch upgrade and relocation, and breeding of improved breeds, as well as financial support offered in cooperation with financial institutions to fund their above-mentioned activities and IT infrastructure enhancement and forage purchase, continuously helping them solve financing and cash flow challenges.

In order to provide comprehensive, large-amount, low-cost and convenient supply chain financial services to upstream and downstream customers of the dairy industry chain, Mengniu's "Aiyangniu" supply chain distribution platform has joined hands with China Zheshang Bank to jointly launch the "Distribution Express" supply chain financial product – "Aizheli", and has developed a blockchain-based industrial internet financial product "Niunaihua" in cooperation with Tencent and Linklogis to provide tailor-made financial services for customers and promote the high-quality development and revitalisation of the dairy industry. In 2020, the Company organised 26 campaigns through its B2B trading platform, including "Spring Prevention Mobilisation", "Silage Season", "99 Collective Procurement Alliance" and "18 December Spring Festival Shopping Spree", to help reduce costs and increase efficiency for ranches and meet the specific needs of industry chain customers in different seasons.

Responsible Supply Chain

Creating a responsible supply chain is our response to global challenges such as climate change, carbon emissions, and health and safety. We are committed to responsible sourcing. We integrate ESG concepts into our supply chain management. And we empower suppliers to reduce social, environmental and governance risks throughout the chain.

Internal policies and systems such as our *Supplier Management System*, *Quality Management System for Raw and Auxiliary Material Suppliers*, *Supplier Onboarding Management System* and *Management System for Direct Material Suppliers* clearly define the responsibilities of each division. They ensure our supplier management is thorough and standardised. We follow the principles of open, fair and equitable procurement. We regulate supplier selection, assessment, survey, rectification and exit, and grade suppliers according to their performance and strategic potential. And we have strategies to enhance the relevance and effectiveness of supplier management.

In 2020, Mengniu formulated its *Supplier Code of Conduct* with reference to international conventions and standards such as the *United Nations Convention against Corruption* and the *Convention on Occupational Safety and Health*, requiring all partners to sign the code, encouraging suppliers to communicate the relevant standards to their own suppliers, subcontractors and partners, and advocating that suppliers carry out their own ESG management and effectively communicate environmental, social and governance requirements to their upstream and downstream partners with a view to establishing a consistent sustainability framework and code of conduct.

Main contents of the Supplier Code of Conduct

Environment

- Compliance with environmental laws and regulations
- Environmental management
- Resource conservation
- Climate change
- Waste management
- Green packaging

Health and safety

- Prevention of occupational diseases
- Healthy and safe working environment

Labour rights

- Non-discrimination
- Freedom of association
- Freedom of expression
- Protection of human rights
- Elimination of child labour
- Prohibition of forced labour
- Regulated working time

Business ethics

- Compliance with anti-corruption laws
- Anti-unfair competition
- Anti-commercial bribery
- Gifts and hospitality

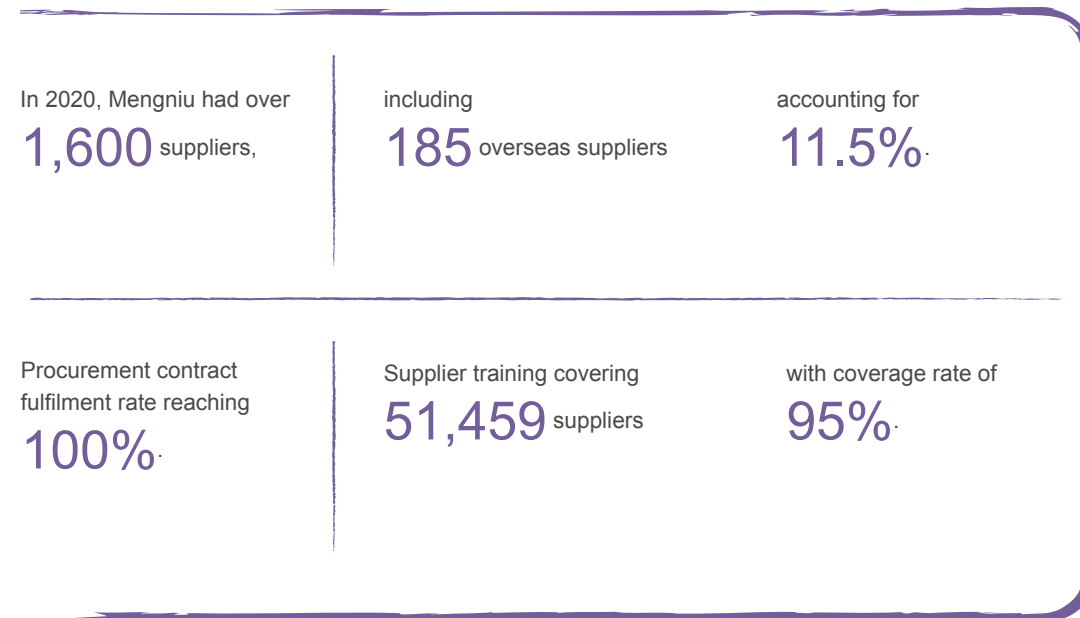
Mengniu encourages suppliers to establish a comprehensive ESG management system, incorporates supply chain ESG performance into the supplier selection, exit and assessment management of its supply chain management system. Besides making it a prerequisite for suppliers to protect the human rights and labour rights of employees and meet safety and environmental standards, it actively explores sustainable raw material sourcing and gives priority to suppliers who are certified to relevant international standards in procurement. All materials sourced by Mengniu that come into direct contact with food are certified to ISO 9001 and ISO 14001 standards. We are committed to prioritising sourcing and supporting sustainable palm oil production, with RSPO certified palm oil suppliers accounting for 100% in 2020. Mengniu conducts regular supply chain assessments for compliance with environmental, health and safety, labour rights and ethics standards and related risks and develops targeted training and improvement plans.



In 2020, Mengniu commissioned a third-party organisation to conduct a supply chain ESG risk assessment and required suppliers to identify management practice weaknesses and ESG risks based on the results of the assessment and to submit corresponding improvement plans.

We attach great importance to integrity and honesty in supply chain procurement, require suppliers to sign the *Anti-Commercial Bribery Contract* when entering into cooperation agreements with them, publicise complaint and whistle-blowing channels, and educate suppliers on integrity in regular communication and training. We have a discipline inspection department responsible for supplier anti-corruption review and blacklist suppliers who violate the relevant rules. In 2020, our Anti-Bribery Contract signing rate with suppliers reached 100%.

We are highly attentive to the performance and needs of our suppliers and are committed to providing them with targeted resources and assistance. We carry out supplier training on topics such as supplier lifecycle quality management, supply chain financing platform, and quality improvement of agricultural products, as well as product quality improvement training sessions, and develop corresponding capacity improvement plans and quantitative improvement targets for suppliers who need to make improvements. In addition, we continuously empower our suppliers through mechanisms such as supplier support, special improvement projects, process review, performance interview, and supplier training.



International Presence

As a leading dairy company in China, Mengniu is on a mission to take the Chinese dairy industry to the world by advancing business internationalisation, advocating the building of a "global dairy community" and promoting a more efficient allocation of resources in the global dairy industry.

Mengniu has made extensive deployments in overseas markets, and its products have entered the markets of more than ten countries and regions, including Singapore, Mongolia, Myanmar, Cambodia, Indonesia, Malaysia and Canada. Mengniu has established 41 production sites in China and one production site each in Australia, New Zealand and Indonesia with a combined annual production capacity of 9.9 million tonnes.

As one of the pioneers among Chinese dairy companies going global, Mengniu has built a liquid milk plant in Indonesia as the first Chinese overseas liquid milk production base to provide nutritious and healthy chilled yoghurt and probiotic beverage products for overseas consumers. Mengniu acquired Australia-based Bellamy's as part of its effort to develop resources, production capacity and brands in Oceania and build up a complete overseas supply chain.

Benchmarking against international standards and systems, Mengniu has established its Innovation Centre Europe in the Netherlands which is dedicated to activities including R&D on dairy processing technologies, international academic and technical exchanges, and talent introduction.

- Strategic cooperation with Arla Foods
- Quality milk sources in Denmark, Germany and Austria
- Establishment of the Mengniu European Innovation Centre in the Netherlands
- Products are sold in Singapore, Malaysia, Indonesia, Cambodia, Myanmar, Mongolia and other countries as well as Hong Kong and Macao regions of China
- Establishment of Mengniu Indonesia plant with a design capacity of 260 tonnes per day
- Signing of a framework agreement with Uruguay's National Cooperative of Milk Producers (Conaprole), under which the two companies will carry out a series of cooperation in the trade of dairy products
- Partnership with Pengxin and Miraka to establish Yashili New Zealand plant with access to high-quality milk sources
- Strategic acquisition of Australia-based Bellamy's to expand the position of Mengniu's milk powder business in the high-end segment

Mengniu Yashili ranch in New Zealand



SOCIETY: A BETTER LIFE

Mengniu is committed to spreading nutritional and healthy life to all households, striving to improve the service experience of consumers, proactively assuming social responsibility, promoting the wellbeing of employees, bringing a bright future for rural children and poor areas. We work together with the public to build a better life.

Healthy Life

In line with our aim of "Promising a Healthier World", Mengniu strives to develop and provide more nutritious and healthier products. We advocate optimal dietary patterns, promote healthy lifestyles and enhance public health.

Health Products

Shouldering our mission of "Every drop of nutrition makes every life thrive", we implement a nutrition and health plan by strongly supporting the "Three Reductions & Three Kinds of Health" campaign (reducing the intake of salt, oil and sugar and maintaining healthy oral cavity, weight and bone). On the basis of nutritional health research and improvement of relevant standards, Mengniu has continued to expand our product categories and launched a succession of products with healthy features such as being organic, low fat, low sugar, low artificial ingredients and enhanced nutritional elements to provide consumers with high-quality nutritional dairy products.

Liquid milk Accounts for 89.1% of the total revenue



Milk Deluxe (Dream Cap)

Each 100ml of milk has been upgraded from 3.6g to 3.8g of milk protein, 125mg of natural high calcium, and has obtained both China and EU organic certification.



Mengniu Pure Milk

With the healthier products including high-calcium milk, low-fat high-calcium, and skimmed pure milk, the new Premium series boast 3.3g of protein per 100ml.



Shengmu Organic

Products in this series are 100% produced from organic raw milk and certified to both Chinese and EU organic standards with no added flavour, colour additive or preservative content.



Just Yogurt

Just Yogurt introduced yellow peach and oat flavor, which reduced sugar content by 31%.



Champion Yogurt PET Series

Containing BB-12 probiotics + prebiotics, scientifically supplementing with probiotics.



Champion Yogurt Blue Cap

The products can help strengthen the body's immunity and effectively regulate the bacteria population in the digestive system, which is the only yogurt product that is certified as a healthcare product in China.



Champion Yogurt 0 Sucrose

Containing no cane sugar, no artificial sweeteners and no preservative, which effectively help control and reduce sugar.



Yoyi C

The newly launched LC-37 series contains 50 billion active probiotics per vial and is formulated with zero fat, low sugar and high calcium plus vitamin D to better care for intestinal health.



Shiny Meadow Organic Milk

Products in this series feature milk originating from the desert pasture ranches and are certified to both Chinese and EU organic standards, bringing more immunoglobulins and lactoferrins to consumers.



Oatist

Oatist is a plant-based beverage. It is a food with low glycemic value (GI), high-fibre and rich in dietary fiber, which provides consumers with more nutritional and flavour options.

Ice cream Accounts for 3.5% of the total revenue



Deluxe

With 100% viable bacteria fermentation, the product is made from fresh milk and it also introduces reduced sugar formula.



Green Mood Mung Bean Paste Flavor Ice Cream

It has been upgrading and improving since it was launched 18 years ago. The product adopts low-sugar recipe for consumers enjoyment without burden.



Green Mood Zhiqing Black Currant Flavor Ice Cream

The product has unique leaf shape with blackcurrant jam and a reduced sugar and sweetness control formula for a healthy boost.

Milk powder Accounts for 6.0% of the total revenue



Bellamy's Jingyue

JINGYUE wins an full combination of SIX nutritional ingredients ----DHA, ARA, Choline, TAU, Inositol, Carnitine, meanwhile the newly added combination of GOS/FOS could help rebuild gut health and immunity.



Topconic Milk Powder

Made from fresh milk from desert pastures, with 16 billion active probiotics, this product has been evaluated in animal experiments and has the health function of enhancing immunity.



Yourui Adult Milk Powder

High dietary fibre – inulin, polyfructose, and zero white sugar, based on an advanced slow-digesting carbohydrate formula with low GI that stabilise blood sugar levels.

Cheese Accounts for 1.4% of the total revenue



Arla Children's Growth Cheese Stick

No artificial additives such as artificial flavours, colour additives and preservatives, rich in protein and calcium, and available in a variety of tastes.



Cheese Dessert

These imported cheese contain zero white sugar, which are rich in high calcium and high protein.



Mengniu's light butter box

A low-salt light-flavour butter which contains less than 12mg of sodium.

Nutrition Education

We take into account the varying views of dairy products by different people in different regions, and are committed to consumer education about nutrition and our products. We promote healthy lifestyles and encourage consumers across age groups to adopt healthy habits. In 2020, Mengniu launched the "Drink Milk Every Day for a Healthy China" initiative by sponsoring the release of the updated Guidelines on Dairy Products Consumption for Chinese Residents. This promoted awareness among the public and called for better nutrition. In 2020, Mengniu was named Ambassador of Public Communications on Dairy Products.



Shiny Meadow Held Youhu A2 β-casein Fresh Milk Launch Event

On 5 February 2021, Shiny Meadow launched a new product, the Youhu A2β-casein fresh milk, by way of an online expert seminar attended by renowned parenting expert Dr. Cui Yutao, chief brand officer and chief R&D officer of Shiny Meadow, and other specialists to discuss and share parenting knowledge. The seminar featured a Q&A session on everyday pain points facing consumers about dairy products, among others, for a targeted two-way communication with consumers.



Mengniu Held the Inaugural Yoghurt Culture Festival

On 8 June 2020, Mengniu held a launch event for the Inaugural Yoghurt Culture Festival, aiming to convey the concept of healthy living and spread nutritional and health knowledge.

On the occasion of the World Digestive Health Day on 29 May, the Company together with China Nutrition Society jointly released the Chinese Gut Health White Paper and held a series of activities such as an offline yogurt carnival. The campaign raised the public awareness of gut health and conveyed healthy nutritional knowledge and dietary habits to consumers.



High-Quality Service

Mengniu is precisely aligned with consumer needs and is committed to developing better quality products, protecting the legitimate rights and interests of consumers. We conduct efficient and engaging communication with consumers of different regions, ages and physical conditions to bring them well-informed service experiences, and improve customer satisfaction.

Protecting Consumer Rights

Mengniu protects consumers' legitimate rights and interests and upholds a core value of "putting consumers first". We strictly comply with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, treats consumer complaints fairly and effectively protects consumers' privacy and information.

An independent department deals with complaints, and consumers can lodge complaints via channels such as telephone, Weibo, WeChat and email. We receive, classify, respond to, disseminate and track information in accordance with the Customer Feedback Management System. The officer responsible for handling complaints contacts the consumer within the time limits after receiving the information and complete the process in time. In 2020, the Company received a total of 28,837 complaints with a 100% complaint handling rate.

In terms of consumer privacy protection, Mengniu complies with the national standard Information Security Technology - Personal Information Security Specification (GB/T 35273-2017) and has formulated internal documents such as the Management System for Compliance of Consumer Data Management and Specification of Baseline Management of Information Security, which require protection of consumer data and personal information and safeguard the legitimate rights and interests of consumers. The Company has established a cloud platform to enhance the confidential management of consumer big data.

Consumer Reach

Mengniu is committed to achieving responsible and reliable consumer communication. We help consumers exercise their right to know and right to choose sustainable and continually improve consumer satisfaction.



Organic Business Department Well Direct to Consumers

In 2020, Mengniu's Organic Business Department launched a pioneering direct-to-consumer (DTC) campaign to communicate with consumers directly online via Mengniu's WeChat official account and offline in physical malls, thus forming a closed-loop communication and feedback mechanism and improving the service experience for consumers.

In addition, the Organic Business Department conducted visits to households to understand the needs of the target consumers of Shengmu's organic dairy products.



Household visits and survey



Mengniu Engaged consumers on green and circular practices

In June 2020, Mengniu held the first Yogurt Culture Festival where it introduced to consumers how packaging waste is recycled and reused, prompting consumers to think about their relationship with the environment and encouraging them to embrace a sustainable lifestyle.



Responsible marketing

The Company strictly abides by the Advertising Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Electronic Commerce Law of the People's Republic of China, the Interim Provisions on Food Advertising and other laws and regulations, and has established management systems such as the Advertising Slogan and Trademark Review System and the Product Claims Management System. We require all business units to conduct strict reviews of advertising slogans and product uses to avoid causing consumers' false association or misidentification due to packaging styles, trade names, advertising slogans, etc., regulate the conduct of promotional campaigns and ensure responsible product marketing. In 2020, Mengniu published the Mengniu Group Business Principles for Responsible Marketing, which requires the accurate presentation and description of products and clearly establish specific principles for children's communication and communication about healthcare food products and regulations relating to marketing on e-commerce platforms.

In addition, Mengniu organises major brand campaigns from time to time to communicate with consumers face-to-face. Before organising such events, the Company will draw up a standard programme and campaign details and subject them to an approval process and third-party notarisation. After confirming the campaign programme and details, we conduct responsible marketing awareness and related training for relevant staff to ensure the compliance of the promotional activities.



Bellamy's Strictly Complies The Responsible Marketing Principle When Marketing Breast milkSubstitute Products

Bellamy adheres to responsible marketing when promoting breast milk substitutes and has signed the MAIF Agreement² which sets out the requirements for the appropriate marketing and distribution of breast milk substitutes based on strict adherence to the relevant World Health Organisation (WHO) guidelines. The relevant quality/nutrition teams will review marketing materials before they are released to ensure that they meet World Health Organisation and local market requirements.

In addition, Bellamy's marketers in each country where it operates are trained on WHO guidelines and specific regulatory requirements to ensure that their marketing practices are in line with responsible marketing principles.

²MAIF Agreement means "Marketing in Australia of Infant Formulas: Manufacturers and Importers Agreement."



Social Responsibility

Mengniu continues to carry out long-term public welfare in many fields such as rural revitalization, precise poverty alleviation, fighting against epidemics, nutrition public welfare and environmental protection. By practising social welfare and promoting the power of role models, Mengniu aims to nourish every life with healthy product and make the world a better place.

Targeted Poverty Alleviation

Mengniu has given full play to our industrial resources and developed a rural revitalisation model with unique characteristics. The Mengniu spirit of "Born for greatness" led our industry's battle against poverty and advanced our progress towards rural revitalisation.



Case Mengniu Won Acclaim for Integrated "Planting, Rearing and Processing" Rural Industrial Development

In November 2020, the Global Rural Industrial Ecology Conference was held in Jiaying, Zhejiang Province, where Mengniu was awarded the title of "Enterprise of Excellence in Leading Rural Industry Development" in affirmation and recognition of Mengniu's long-standing work in rural revitalisation and industrial development.

In recent years, Mengniu has completed an ecological layout of "planting, rearing and processing" in the Yangtze River Delta and surrounding areas through investment, acquisition and self-construction, including mega ranches, modern factories and a series of related industries.



Through years of exploration and practice, Mengniu has established a targeted poverty alleviation model of "industrial poverty alleviation + nutritional poverty alleviation + paired-up assistance + diversified assistance," which has given greater play to the potential of dairy enterprises in poverty alleviation and laid the foundation for helping rural revitalization.



In 2020, in recognition of our outstanding contribution in the battle against poverty, Mengniu's two poverty alleviation cases were selected by the Poverty Alleviation Department of the State Council Poverty Alleviation Office in the lists of "50 Best Cases of Corporate Comprehensive Targeted Poverty Alleviation" and "50 Best Cases of Corporate Special Targeted Poverty Alleviation," becoming a poverty alleviation and corporate social responsibility benchmark in the dairy industry.

Industry poverty alleviation

Mengniu gives full play to its resource advantages, and increases the participation and benefit of poor households in the industry to provide them with a sustainable source of income and lay the foundation of the revitalisation of the rural economy through a variety of ways such as expanding planting and gearing capacities.

By joining forces with China Modern Dairy, Shengmu High-tech Farming, Fuyuan International and partners, Mengniu has directly and indirectly helped 1.5 million farmers and herdsman shake off poverty across the country. We promoted the development of over 2.2 million tonnes of silage, alfalfa, oats and other forage industries in Inner Mongolia each year, bringing nearly RMB900 million in income increase for farmers and herdsman.

In 2020, the municipal governments of Hohhot, Tongliao and Bayannur in the Inner Mongolia Autonomous Region signed a strategic cooperation agreement with Mengniu on the China Dairy Industry Park. Mengniu has signed more than 20 strategic industry park cooperation agreements with Bank of China, China Construction Bank, China Agricultural Bank and dairy ecosystem partners such as silage, pasture and milk providers and created a cooperation value of nearly RMB5 billion with nearly 80 industry chain partners.

Nutritional poverty alleviation

In 2020, Mengniu continued to implement the Inclusive Nutrition Plan by donating nearly RMB10 million worth of school milk to 498 schools in 115 districts and counties in 50 cities across 20 provinces nationwide with a focus on providing nutritional support for young people in areas seriously affected by the Covid-19 epidemic, which covered nearly 690,000 students. In addition, Mengniu set up the Mengniu Inclusive Nutrition Fund with the China Youth Development Foundation to carry out charity activities in fields such as food education, environmental education and online training for young teachers, with a view to supporting the healthy growth of children and young people in rural areas.



In 2020,
Driven by the development of the China Dairy industrial park,
6 modern ranches have been put into operation, the total investment reached near RMB **1.1** billion.
When they reach full capacity, they will provide nearly **500** jobs.
At present, they have provided jobs to **225** farmers,
herdsmen and impoverished persons.



In 2020, Mengniu continued to implement the Inclusive Nutrition Plan by donating nearly RMB **15** million worth of school milk to 498 schools in 115 districts and counties in 50 cities across 20 provinces nationwide with a focus on providing nutritional support for young people in areas seriously affected by the Covid-19 epidemic,
which covered nearly **690,000** students.

Case

In 2020, Mengniu partnered with the United Nations World Food Programme (WFP) on a nutrition improvement project for pre-school children. By the end of 2020, Mengniu had provided free milk to nearly 5,000 pre-school children in 51 schools in Xiangxi in Hunan and Jingxi in Guangxi through this project.

Guangxi Preschool Children's Nutrition Improvement Project

The pilot nutrition improvement project for pre-school children in Jingxi is the second nutrition improvement programme for pre-school children in China carried out by the WFP and Mengniu. The project focuses on improving nutritious meals for children, training on nutrition for pre-school children, health education promotion and renovating kitchen facilities in kindergartens. Mengniu will provide student milk to a total of about 2,000 children in 22 kindergartens in Ludong Town, Wuping Town and Xinjia Township in Jingxi City for three years.



Mengniu Partnered with COFCO Coca-Cola to Launch Poverty Alleviation Action

On 10 October 2020, a donation ceremony was held for COFCO's poverty alleviation project in Xiaoguxi Village, Mabian Yi Autonomous County, Sichuan.

Mabian Yi Autonomous County was formerly a national-level poverty-stricken ethnic minority county, and Xiaoguxi Village is the poorest village in the county, where students' nutritional health levels are below those of children of the same age. Under the unified leadership of COFCO's poverty alleviation workforce, Mengniu joined hands with COFCO Coca-Cola's poverty alleviation initiative to donate goods and funds to the students in Xiaoguxi Village, continuing its CSR commitment to the health and education of children in poor areas.



Besides providing nutritional support based on dairy products, Mengniu's Inclusive Nutrition Plan has developed a charity model that integrates student milk donation, food education and environmental education to further narrow the education gap between urban and rural areas.

We believe better teaching force is the key to elevate local education quality. In 2020, Mengniu's Inclusive Nutrition Plan and the Youth Teacher Empowerment Education Plan continued to advance their cooperation to provide year-round online training for about 100 young rural teachers in each of the 20 districts and counties covered by the cooperation across China, helping to improve education in poor areas. So far we have helped 1,251 teachers to advance their professional skills.



Launching ceremony of the "Special-Post Teacher Programme"

Training of special-post teachers

On 16 November, Mengniu donated 1,000 gift boxes to children at Hope Primary School in Huichang County in Jiangxi province, each box containing colourful paint brushes and painting tools. Through this donation, Mengniu hoped to enrich the life of children in poor areas and contribute to the development of rural education.



Paired-up Assistance in Poverty Alleviation

In Helin County in Hohhot City in Inner Mongolia, Long'an County in Nanning in Guangxi, and Lhozhag County in Shannan in Tibet, to which Mengniu provides paired-up assistance, Mengniu carefully investigated local resource endowments and made targeted investments to build cattle and sheep breeding bases, and planting and rearing circular agriculture and other projects, all of which have achieved good results and become local specialty industries, giving a strong boost to rural agricultural development.



Mengniu Provided Technical Support for Pure Land Dairy

In September 2018, Tibet Pure Land Dairy which received paired-up assistance from Mengniu was officially put into operation in Lhasa, marking the first local branded modern dairy processing plant in Tibet, to which Mengniu provided technical support. In 2020, Mengniu trained 197 technicians for Pure Land Dairy.

Diversified Assistance – Assistance by Party Organizations

Based on the teaming up of Mengniu's grassroots Party branches and local Party branches to which ranches are affiliated, we made silage purchases and provided jobs for some local people in the ranches to enable collective income increase for villagers. Based on teaming up of Mengniu's grassroots Party branches, Party branches of local banks, and Party branches of ranches, we facilitated access to financing for ranches and supported stable ranch operations.

Diversified Assistance – Technical Assistance

Mengniu continued to provide technical support for ranches, build a win-win dairy ecosystem, and help farmer co-operatives to reduce costs and improve quality through talent training as well as technical assistance, ensuring normal ranch operations. In addition to technical training for farmers and herdsmen through the Dairy Cattle Research Institute and the "Aiyangniu" platform, Mengniu also provided various other forms of technical assistance. In 2020, Mengniu's 24 service guidance operation teams were present on 377 ranches throughout the year, where conducted evaluations and improvements on the production aspects of the ranches and produced service reports which identified 1,125 improvement points.



Improvement of Output Per Dairy Cow" Project

The "Improvement of Output per Dairy Cow" Project was held five sessions in 2020, which saw Mengniu's technical team together with experts from China Agricultural University, the National Dairy Industry and Technology System, and ten industry systems pair up with ranch technicians to work out a combination of measures to increase the output per dairy cow.

Diversified Assistance – Purchase

During the Mid-Autumn Festival, by way of poverty alleviation, we purchased 7,253 parcels of rice worth RMB181,325 from Binsui County in Heilongjiang Province and launched a "Buy to Help" initiative to sell bamboo shoot sauce products worth RMB15,840 to our staff. We took practical action to help people in the areas for paired-up assistance in poverty alleviation increase their income and shake off poverty.

Fighting the Covid-19 Pandemic

In early 2020, Covid-19 broke out, Mengniu actively participated in the fight against the pandemic and fulfilled the responsibility of the national dairy team. We resumed work and production, stabilized the upstream, guaranteed supply, carried out employee safety prevention and control, and organized charity donation actions to unite and fight the pandemic bravely.

Donations

After the outbreak of the pandemic, Mengniu immediately joined hands with the China Charity Federation to set up the "Mengniu Special Fund to Combat the Pandemic" to provide timely allowances, awards and relief support for pandemic prevention personnel. Mengniu mobilised our staff to deliver milk to more than 10,000 medical units in more than 350 prefectures and 1,800 districts and counties across 31 provinces and municipalities and together with four companies – Yashili International, China Modern Dairy, Fuyuan International and Shengmu High-tech Dairy – cumulatively donated cash and dairy products valued at RMB 740 million in money and supplies.



▲ Visits to families with members helping out in pandemic fight in Hubei

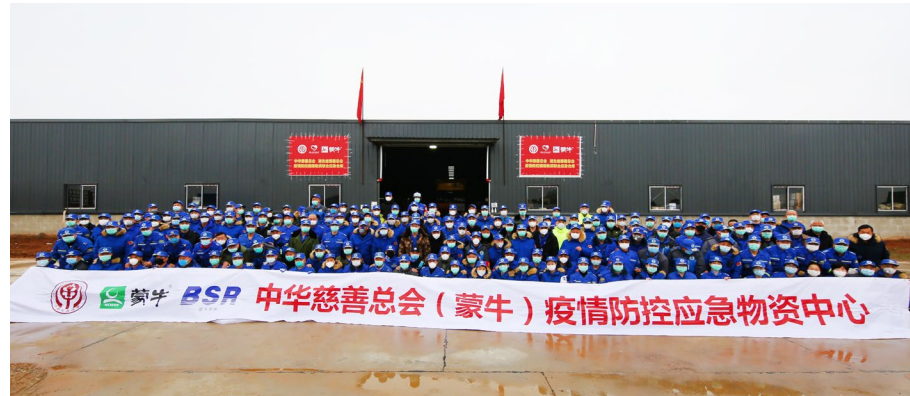
▲ Donation of milk products for medical workers

▲ Donation of customised Milk Deluxe annual cards to medical workers from across China helping fight the pandemic in Hubei



Mengniu Wuhan Emergency Supplies Warehouse Distributed 40.12 million Pieces of Epidemic Supplies

On 25 March 2020, the China Charity Federation (Mengniu) COVID-19 Prevention and Control Emergency Materials Centre was officially closed as the pandemic situation improved. The centre received and forwarded a total of 40,120,000 pieces of donated materials for pandemic prevention and control and played an important role in the transfer, distribution and dispatch of materials to fight the pandemic in Wuhan.



Mengniu Participated in the Heroes Legacy Program in Support of the Growth of Pandemic-fighting Heroes' Children

In 2020, Mengniu supported in the Heroes Legacy Program and donated RMB 6.7 million to provide financial support for the children of the frontline workers who lost their lives in the fight against the pandemic.



Mengniu will support the children of 160 pandemic-fighting heroes with up to 22 years of Milk Deluxe and provide all the educational funds and growth expenses for the children of 15 heroes from families in particularly difficult circumstances for 22 years.

Purchase and Supply Guarantee

During the pandemic, the dairy industry chain took a serious hit. In the face of the emergency situation, Mengniu acted proactively to stabilise confidence and guard the upstream, working to safeguard the safety of the dairy industry chain and dairy consumption and stabilise the supply of production capacity. To minimise the negative impact of the pandemic on the development of the dairy industry, Mengniu issued a pledge to partner farms that "will not reject every single drop of qualified raw milk" and introduced five major safeguards to "ensuring purchase, supply, transportation, funding and operation," which stabilised ranch operations and helped the development of the dairy industry.



Mengniu purchased fresh raw milk from the ranches in accordance with the contracts signed with them and effectively protected the interests of the dairy farmers.



We worked with our supply chain partners to ensure normal production and operation of our partner ranches, negotiated with suppliers to maintain purchasing prices of upstream materials, and supplied thousands of partner ranches with urgently needed products.



We worked with the government, dairy associations and logistics partners to ensure sufficient capacity and smooth logistics.



On the basis of reduced interest rates on support funds and delayed deduction of fees, with the cooperation of the third parties, we corporated with third party to provide RMB 3 billions of special funds for partner ranches to help solve their cash flow problems and relieve the pressure of operation to the maximum extent; at the same time, we have joined hands with other financial institutions to grant RMB10 billion of credit to help ranches stabilise their operation.



We engaged national-level experts to give online technical lectures and formulate the Covid-19 Prevention and Control Manual for Ranches, providing them with technical support to reduce costs and increase efficiency.

During the pandemic, Mengniu resumed work as soon as possible to guarantee supply and issued a pledge to participate in the "Three Guarantees" initiative to safeguard market stability by guaranteeing quality, prices and supply. During the pandemic, Mengniu further strengthened the national logistics and distribution system, to ensure timely delivery and stable prices.



Mengniu Leveraged Community Group Buying to Support the Fight Against the Pandemic

On 1 March 2020, in response to the government's call to ensure the supply of prioritised items including dairy products, Mengniu together with partner stores listed our products on emerging community group buying platforms and provided them with efficient training, which greatly facilitated the supply of dairy products for consumers in Hubei and particularly in Wuhan during the pandemic-induced lockdown.



Employee Protection during the Pandemic

To protect the health and safety of employees during the resumption of production amid the pandemic, Mengniu quickly activated the first-level emergency response mechanism, set up the Group's leading group for pandemic prevention and control, and made thorough arrangements for the prevention and control of the pandemic. We developed an pandemic prevention working and reporting mechanism and issued an pandemic prevention manual to our staff to standardise information notification in order to raise risk awareness and to help them forge a strong psychological defence.

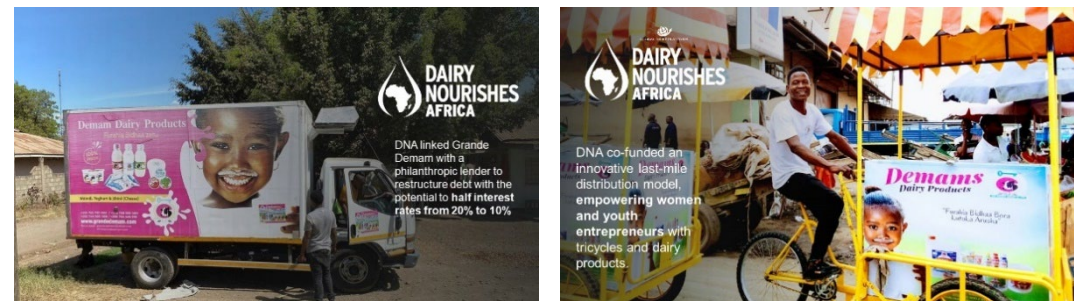
In order to provide a safe working environment for our employees, we implemented daily health monitoring, including the reporting of health status by all staff, the setup of temperature checking points on entrances and exits, the prohibition of gathering, and regular disinfection and ventilation of all areas such as office areas, production workshops and dining halls. We provided all employees with masks, gloves and other anti-pandemic supplies as well as medicines, and provided employees coming back to work with milk, yogurt and fruit. To protect employee health and safety, we encouraged administrative staff to work from home with their salaries and benefits unchanged. We also distributed care packages to employees working on the production and sales frontline and took out Covid-19 insurance policy for them besides comprehensively strengthened work safety protection.

Overseas Corporate Citizenship

Under the concept of "Global Dairy Community," Mengniu has been committed to fulfilling our corporate social responsibility in overseas regions where it operates and advancing the sustainable development of the global dairy industry based on collaborative governance, sharing and win-win cooperation. As a member of the Global Dairy Platform (GDP), Mengniu participated in the "Dairy Nourishes Africa (DNA)" project initiated by GDP, under which it together with relevant dairy companies and stakeholders carried out a pilot in Tanzania to improve the nutritional health of children and the delivery of dairy development in Africa, responding to the United Nations 2030 Sustainable Development Goals (SDGs).

In 2020, the DNA project carried out improvement work for two Tanzanian dairy processing plants to help them stabilise their business and production and improve product quality. The project provided training for commissioners from the Tanzania Dairy Board and the Tanzania Milk Processors Association and trained six agricultural extension workers and over 130 dairy farmers with good results.

In the future, Mengniu will continue to help promote the DNA Tanzania pilot and bring in more partners from the industry chain to join the project in contribution to global nutrition and health.



In Australia, Bellamy's has a long history of building partnerships with local communities, providing donations such as funding and resources to charities, research institutes and community groups. In 2020, Bellamy's not only made donations to Clown DoctorsTM and Cancer Council Tasmania, but also provided baby food support for Foodbank Australia and St Kilda Mums.

Volunteer Service

As a leading dairy company in China, Mengniu has been actively involved in social charitable activities and volunteer services.



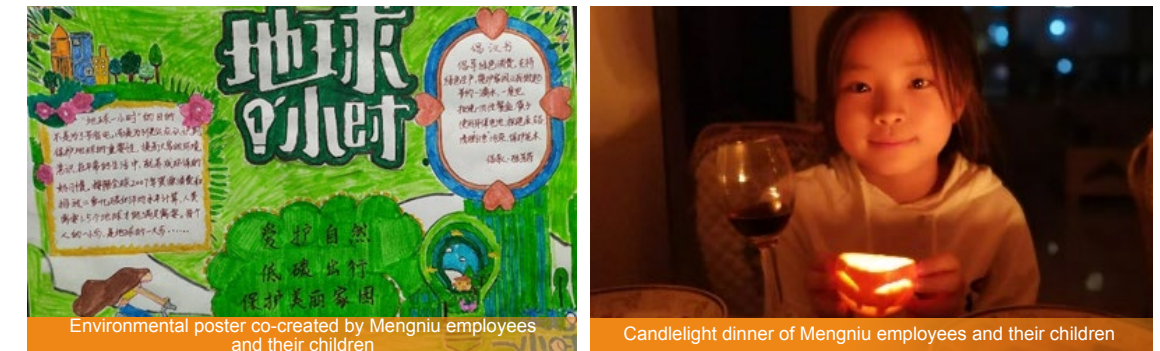
Case

Mengniu Participated in Earth Hour

At 8 p.m. on 20 March 2020, 56 Mengniu factories nationwide turned off the lights for one hour, which saved a total of 21,527.674 kWh of electricity. Tens of thousands of Mengniu people started night runs and parent-child night talks at home, using energy-saving actions to discover a "different night sky" together, integrating environmental awareness into production and life.



Mengniu factory after lights off



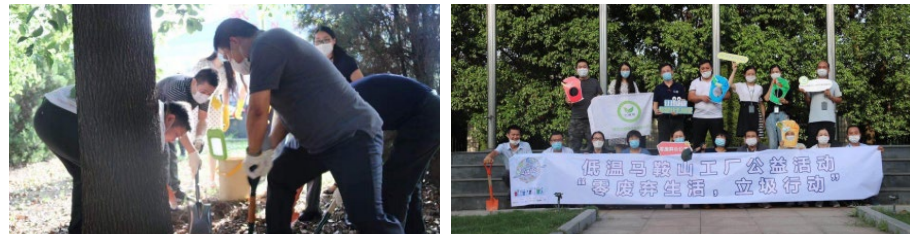
Environmental poster co-created by Mengniu employees and their children

Candlelight dinner of Mengniu employees and their children

Case

Mengniu Staff Participated in “Zero Waste” Environmental Campaign

In August 2020, Mengniu factories organised staff and stakeholders to participate in the third Zero Waste Day in China, which was initiated by the China Zero Waste Alliance and others, to contribute to environmental protection in different ways.



Employees add solid waste compost to the soil under balsam fir trees, which both fertilises the soil and reduces landfill waste



Employees collect their used dental appliances and transfer them via a charity to an environmental company for waste-to-resource treatment

Mengniu Employees Volunteer for Biodiversity



Mengniu's frontline employees participated in “Friends of Nature” and “Blue Map” environmental volunteering activities to promote a better understanding of wetland ecology and carry out urban biodiversity observations.

Mengniu Volunteers Participated in Beach Clean-ups



Mengniu's employee volunteers and external volunteers recruited by Mengniu actively participated in a large national clean-up campaign held by Rendu Ocean and the China Ecological Volunteer Network to clean up the surrounding rivers and beaches of rubbish and reduce the uncontrollable rubbish entering the sea, in order to further enhance the public awareness on the seriousness of the problem of marine rubbish and scattered solid waste.

Case

Mengniu Online Tree Planting Campaign

In 2020, Mengniu organised a tree planting campaign for its employees through the DingTalk platform linked to the Ant Forest app, which saw a total of 5,535 participants plant 92 trees capable of reducing CO₂ emissions by 161.3 tonnes.



The daughter of an employee in Jiaozuo participated in the monthly tree planting activities and drew a hand-painted love

Mengniu Green Initiative Publicity Film

Mengniu produced the “To Dream” publicity film featuring 21 Mengniu volunteers to promote sustainability and green development among its employees. The film, which focuses on the theme of delivering the promise of a healthier world, introduces Mengniu's green actions in four parts, including the international energy conservation and emission reduction situation, the national commitment to energy conservation and emission reduction, Mengniu's energy conservation and emission reduction achievements, and Mengniu employees in action. The film was played in staff canteens and on other relevant screens at Mengniu's 57 plants nationwide to further deepen employees' green awareness.

Mengniu “Clean Plate” Campaign

Mengniu has carried out a series of internal initiatives to promote the conservation awareness, and employees have responded to the “Clean Plate” campaign by recording their clean plates for meals via the “Clean Plate Punching Mini-Program”, with a total of 15,396 recordings in 2020. In December 2020, Mengniu participated in a forum on “Reducing Food Loss and Waste” organised by the China International Chamber of Commerce and the Danish Embassy in China to share experience and achievements with other companies and organisations, and to promote food waste reduction to the community.



Employee Wellbeing

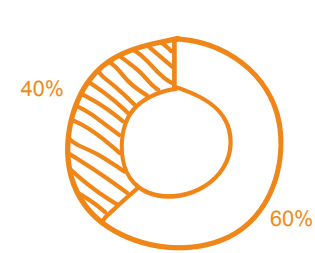
We uphold the principle of employee empowerment, walk hand in hand with our staff, and protect their rights and interests. We are committed to ongoing training for talented individuals and top performers, creating a fair, open, harmonious and inclusive working environment, and building a bright future together. In 2020, Mengniu's empowerment and care earned us National Top 100 Employer and GHRC Best Employer awards.

Protection of Employee Rights

The Company strictly abides by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other relevant laws and regulations, and has established internal employment rules and regulations such as the Recruitment Management Measures, the Reward and Punishment Management Measures and the Re-employment Rules of Resigned Employees. The Company follows all internationally recognised human rights policies as set out in the United Nations Universal Declaration of Human Rights and the International Bill of Human Rights and the core conventions of the International Labour Organisation, treats employees of different nationalities, ethnicities, races, genders, religious beliefs and cultural backgrounds equally and equally, firmly prohibits the employment and use of child labour, and respects and safeguards the legitimate rights and interests of all employees. At Mengniu, female employees have the same rights as male employees.

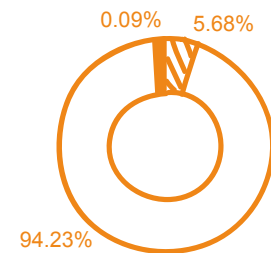
In 2020, the Group had a total of 40,626 employees³, including 24,463 male employees and 16,163 female employees. The Group's local employment rate reached 98.74%.

Employee gender structure



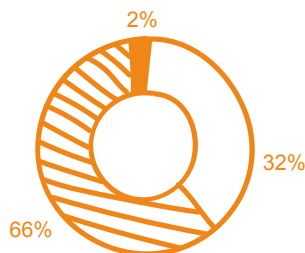
Female employees
Male employees

Employee rank structure



Senior management
Middle management
Ordinary employees

Employee age structure



Over 50 years old (excluding 50 years old)
30-50 years old (including 30, 50 years old)
Under 30 years of age (excluding 30 years old)



³The number refers to the total employees employed by the Group in the Chinese mainland, Hong Kong, Oceania, Europe, the United States, and Southeast Asia.

Employee Safety and Health

Safety in production is the greatest responsibility of an enterprise. Mengniu always treats safety as a top priority, implements comprehensive safety training in accordance with the highest safety standards, and continuously improves systematic safety management. We implement the Production Safety Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Occupational Diseases and other relevant laws and regulations, and have put in place a full range of related internal management systems, including the Safety Management Standards of the Shift System Headed by Leaders and the Related-party Management System in accordance with national laws and regulations and COFCO's documents, and established an internal safety production management system and production safety standards, always taking the standardisation of production safety management as the core of our safety management system. In 2020, Mengniu invested a total of RMB66 million in safety measures to ensure the safety of its employees during production and operations.

Mengniu has put in place a "Group – Business Division – Factory" three-level organisational structure of work safety management, promoted the construction of a dual prevention mechanism to control safety risks, and carried out safety risk control and hazard investigation and management for the whole process of the industrial chain. In 2020, we organised a total of 23 units to complete the self-assessment for level-1 enterprise of standardised production safety to further strengthen the areas of weakness and improve the system; a total of 25 units completed the replication and promotion of the dual prevention mechanism with an overall coverage rate of 80%, which further strengthened and improved the safety management system and enhanced the safety risk prevention and control capability. In addition, we have adopted a variety of approaches to further strengthen safety risk control by regularly issuing early warning and prevention and control information, conducting safety spot checks and holding special safety meetings.

Mengniu has set up a safety appraisal system to examine the safety compliance of each department and factory. In organisational performance, Mengniu has established guiding documents for safety work, such as the requirement of signing a safety and environmental responsibility statement, EHS target indicators and a working programme for evaluation and recognition; in job performance, Mengniu has included safety in the performance contracts of the head of each division, the head of each business unit in charge of safety and the head of each division's safety and environmental office.

In 2020, Mengniu had no work-related death. Moreover, the Group carried out occupational health and safety management, conducted routine medical examinations for employees and annual screening and prevention of occupational diseases in positions where occupational hazards exist, and established employee health records. The staff medical examination rate for the year was 100%.

In 2020, the Group further strengthened staff safety education and carried out a series of safety culture building and training activities.



Highlights

- Fostering a safety culture through a series of EHS promotion, empowerment and drill activities, such as developing a safety brand and launching the "Family Safety Activity Day" event;
- Getting five units (Tongliao, Tai'an, Danyang, Hengshui and Shenyang) to pass the national safety culture demonstration and four units (Ulanhot, Baotou, Bengbu and Bayannur) to pass the provincial safety culture demonstration;
- Organizing 26 "online + offline" and "internal + external" training sessions on the occupational health, safety and environmental management system and other subjects, with a total of 16,746 participants, which effectively enhanced employees' safety skills and safety awareness.

Democratic Management

We implement democratic management, respect and protect employees' rights to information, participation, supervision and expression, and safeguard the legitimate rights and interests of employees in all aspects. In accordance with the Constitution of the All-China Federation of Trade Unions and the Trade Union Law, we have been committed to strengthening the Staff and Workers' Representative Congress management system and establishing a communication channel for equal consultation, so as to build harmonious labour relations and promote the construction of democratic management. We have various channels such as collective negotiation, the staff and workers' representative congress, and the labour dispute coordination committee to facilitate communication and solve disputes. In addition, Mengniu regularly carries out activities such as patrols by employee representatives, employee survey, and "Meet the CEO" Day to listen to employees and learn about and proactively solve their difficulties.



Mengniu holds the first "Meet the CEO" Day

On 30 June 2020, the Group organised the first "Meet the CEO" Day. A total of 24 staff representatives from various divisions and functional departments attended the meeting, where staff representatives communicated with the CEO face-to-face and had their questions answered, and 16 high-quality motions were collected, which would be presented to the staff and workers' representative congress.



"Meet the CEO" meeting

Mengniu attaches great importance to democratic management by holding the annual staff and workers' representative congress with the participation of the management team, thereby strengthening democratic management. In 2020, Mengniu organised the fourth general assembly of the sixth staff and workers' representative congress, which was attended by 390 staff and workers' representatives. The assembly listened to the report on the work of the CEO in 2020, the report on the work of the labour union, the report on the collective contract performance and the report on the review of labour union funds. During the assembly, 454 motions were collected from the representatives and 63 motions were adopted. In addition, the trade union organises regular surveys on employees. In 2020, the trade union solved nearly 600 practical problems in employees' life and work and made an effective use of the communication mechanism between the enterprise and the employees. Mengniu attaches importance to promoting workforce diversity. We have developed a minority communication management system and established an internal online communication channel to enhance communication between all parties. We respect local customs, protect the religious freedom of employees, accommodate the practice of local customs by employees, and are regularly informed about ethnic dynamics to ensure ethnic unity.

Career Development

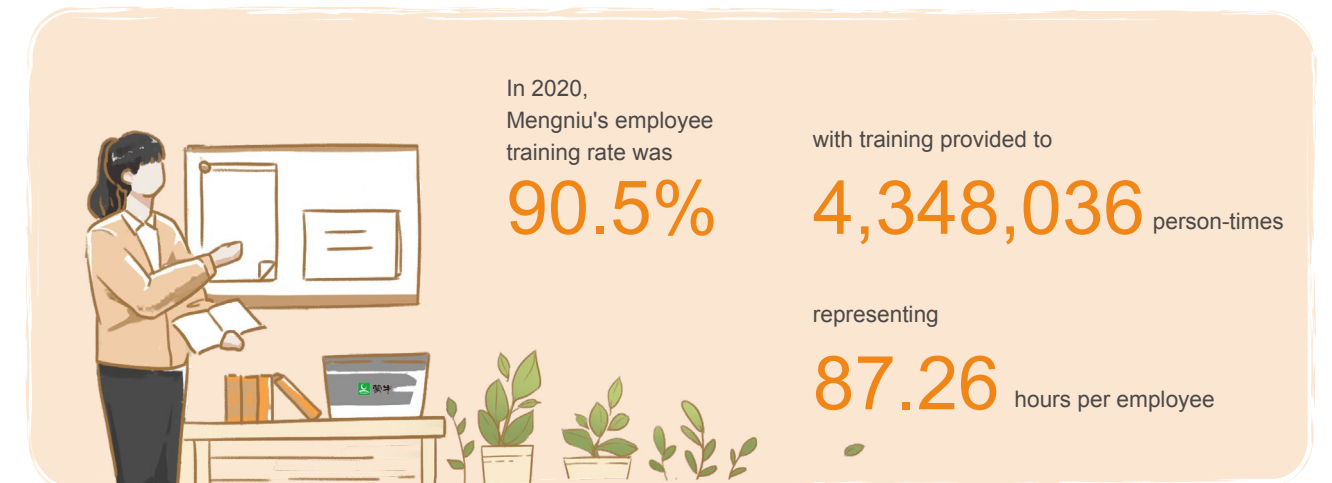
In accordance with its Training Manual, Mengniu is committed to fostering a multi-layer, comprehensive and cross-domain workforce, improving its talent development system, enhancing its promotion system, and providing clear career paths for employees.

We continuously optimise our remuneration and incentive system to provide competitive compensation for our employees. Mengniu has implemented a strong performance-based incentive policy and piloted an agile incentive model for partners to drive value co-creation.

We have optimised our talent development system in all aspects to provide new employees with training on induction, general capabilities, professional capabilities and leadership development, so that each employee can receive systematic and more targeted training.



Mengniu Learning and Development Program



Leadership training

In 2020, Mengniu pushed ahead with its leadership training programme with the focus on competence assurance and backup, striving to build a group of leading management talents who will lead business growth, organisational innovation and team development. The Blue Ocean Programme adopts a hybrid approach to training to build a leadership echelon of excellence. The programme consists of a number of plans targeting different trainees, including Captain Plan, Navigation Plan, Voyage Plan, and Sail Plan, covering 240 middle and senior management members in key positions across Mengniu Group. The programme offers leadership courses tailored to the Company's competence requirements for different managers and has covered more than 210,000 person-times with classroom and online courses.

Training in Professional Competencies

In 2020, Mengniu established the Huqitu Academy with the goal of developing Mengniu's unique marketer training system. The academy offers programs including sales and marketing and is committed to speeding up the construction of a comprehensive training system that covers all employees for all processes. During the year, the academy provided integrated professional training on comprehensive sales techniques for 400 persons, averaging eight class-hours per person; and provided in-depth internal trainer training for 2,096 persons, in addition to developing more than 2,190 classroom and online courses.

General capabilities training

Mengniu organises general capabilities training for employees to improve their overall quality in communication, expression and thinking. In 2020, more than 2,000 employees were taught face-to-face, and training coverage expanded through online learning.

"WorthIt" online training platform

Mengniu has established an internal learning and development system, under which it has set up "WorthIt" and other online training platforms for. In 2020, the "WorthIt" online learning platform was awarded the BOOAO Award – "Top 10 Digital Learning Platform for Chinese Enterprises" at the China E-Learning Forum & Exhibition. The "Worth It" platform uses live streaming to provide group training and effectively enhance live training skills of internal trainers, with a total of 53 trainers being certified. In 2020, the "WorthIt" platform hosted 208 live broadcasts with an overall activity rate of 78% and 28 hours of classes completed per person. The "WorthIt" online learning platform has introduced artificial intelligence technology capable of recommending courses based on job competency models. The Group and its various business divisions have set up a total of 404 project-based learning modules, which have covered 126,535 person-times.



Mengniu builds MNWCO2.0 to empower employees

Based on Mengniu's management needs, and combined with the TRACC system and world-class manufacturing models, we built the MNWCO2.0 platform to fully empower our employees. The platform, which embeds core capabilities on relevant dimensions including expert capabilities, continuous improvement of green certification and internal trainer selection, provides collective learning and training for employees.

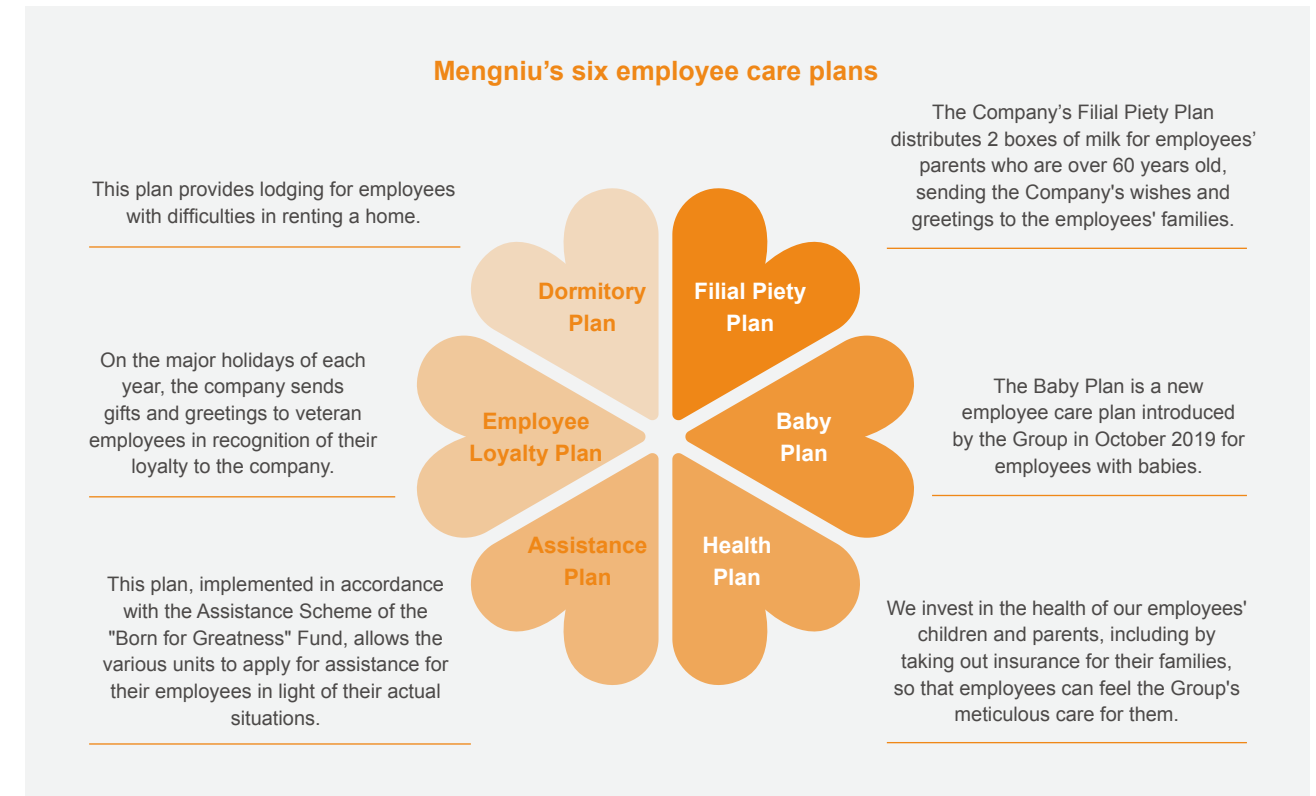
Mengniu further refined the MNWCO2.0 management model and explored advanced digital and intelligent applications to empower lean operations, with two senior experts brought in, 27 top performers selected, and 24 employees obtaining their Green Belt certifications, and 195 internal trainers developed.



Six Sigma Green Belt certification

Staff Care

Mengniu encourages work-life balance, ensures full communication with employees, cares for their living conditions and physical and mental health, and provides timely assistance to employees in difficult circumstances and enhances their sense of belonging. We have established six employee well-being programmes to care for our employees in all aspects of their work and life. In 2020, the Filial Piety Plan was implemented four times with a total of 62,540 cartons of milk and 21,544 cans of high-quality protein powder distributed and the Baby Plan was implemented 12 times with 9,327 cans of milk powder distributed, with the employee care plans having cumulatively invested a total of nearly RMB4.66 million and provided over RMB600,000 in assistance to 314 employees in difficult circumstances.

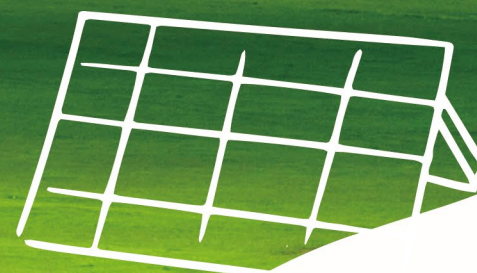


We take care of our staff's work and life and continue to promote the "356+ Care Project" for our staff. We have continued to implement our three care plans for female employees, young employees and elderly employees.

In 2020, in order to provide even better services to employees, Mengniu established a three-pillar model with Human Resource Business Partners (HRBP) as the core, the construction of the Human Resource Shared Service Center (HRSSC) as the focal point of efforts, and the decision-making of the Centre of Excellence (COE) as the guide, and its services cover all business modules and all employees of the Group and are geared to enhancing the satisfaction of our staff services. In addition, we have preliminarily put in place an employee relations management system and issued an employee relations red book covering more than 20 benefits, including:

- Take out integrated insurance for employees and their children and employer's liability insurance for employees, extend the coverage, and provide online claims services;
- Provide high-end medical check-ups for all staff;
- Provide holiday benefits and a variety of benefits on special occasions such as birthday and wedding for employees.





ENVIRONMENT: A MORE SUSTAINABLE EARTH

Mengniu upholds the philosophy of "Promising a Healthier World" with the belief that a cleaner natural environment will produce a better quality of dairy. So we are committed to the development of ecological ranches, green manufacturing and a circular economy. We take the development of ecological pastures, practice green manufacturing, and help the circular economy as our guide, and commit to take the lead in the industry to achieve carbon neutrality, continuously promote technological upgrading and increase the use of renewable energy, and jointly guard the harmonious coexistence of enterprises and the environment.

Mengniu's Performance on Key Environmental Indicators in 2020

Index	Indicator Unit	2019 Data	2020 Data	
Exhaust gas	Total exhaust emissions	Cubic metres	2,583,107,214.86	1,700,946,666.78
	SO ₂ emissions	Tonne	123.20	35.90 ⁴
	NO _x emissions	Tonne	230.22	141.95
	Soot emissions	Tonne	121.91	25.96
Wastewater	Wastewater discharge	10,000 tonnes	2,647.97	2,863.80
	COD discharge	Tonne	1,284.63	1,063.87
	BOD discharge	Tonne	—	222.48
	Ammonia nitrogen	Tonne	185.16	154.40
Carbon dioxide emissions	Tonne	1,169,600	922,700	
- Scope 1 emissions	Tonne	260,100	149,000	
- Scope 2 emissions	Tonne	909,500	775,400	
Carbon dioxide emission per tonne of production	Kg/tonne	123.11	93.20	
Total hazardous waste	Tonne	247.92	242.23	
Total general waste	Tonne	5,386.00	28,912.44	
Grid electricity consumption across regions	kWh	799,627,013.44	848,749,516.09	
Coal consumption	Tonne	29,534.84	7502.82 ⁵	
Petroleum consumption ⁶	Litre	13,855.00	15,101.86	
Diesel consumption ⁶	Litre	25,332.00	14,894.51	
Purchased steam	Tonne	779,065.81	880,833.12	
Natural gas consumption	10,000 standard cubic meters	5,546.14	6,811.11	
Generation of solar power	10,000 kWh	483.16	466.05	
Steam production from biomass energy	Tonne	320,200.00	309,541.33	

⁴In 2020 the Shanxi factory from Yashili phased out the coal power boiler, hence the significant reduction in SO₂.

⁵The coal-to-natural gas transformation of the Yashili factory in 2020 significantly reduced the use of coal.

⁶The 2019 and 2020 figures of petrol consumption, diesel consumption and usage of other packaging materials include only Yashili data. The 2019 figure of total general waste 2019 includes data for Yashili only.

Index	Indicator Unit	2019 Data	2020 Data	
Combined energy consumption	Tons of standard coal	293,368.07	316,061.06	
Total water consumption	Tonne	28,375,521.00	29,093,882.70	
Reduction of COD discharge	Tonne	49,575.42	29,255.12	
Water saved	10,000 tonnes	137.4 (including 357,000 tonnes of social water savings)	201.10 (including 468,000 tonnes of social water savings)	
Reclaimed water rate	(%)	7.99	7.63	
Packaging material usage	Inner packaging materials	100 million packs	213	255
	External packaging materials	100 million packs	39	23
	Others ⁶	Tonne	17,663.35	14,029.66

Note:

Mengniu acquired Bellamy's in December 2019, whose environmental data are not included for the time being in view of their insignificant impact on Mengniu. The 2020 figures are all inclusive of Yashili data with the exception of the following: total emissions, BOD discharge, total general waste, coal consumption, generation of solar power, steam production from biomass energy, reduction of COD discharge, reclaimed water rate, and internal and external packaging materials. Greenhouse gases emissions include carbon dioxide, methane, and nitrous oxide.

Note on calculation methodology:

1. For the conversion of air pollutants, reference is made to the calculation formula for sulphur dioxide emissions in the Emission Coefficients and Material Calculation Methods for Industries Not Included in the Emission Permit Management (for Trial Implementation) issued by the Ministry of Environmental Protection of the PRC.

$$PSO_2 = Q \times \eta \times 0.85 \times 2 \times 10$$

The formula for calculation of NO_x emissions:

$$PNO_x = Q \times \mu$$

Where: PSO₂ is sulphur dioxide emissions (kg); Q is fuel consumption (ton); η is sulphur content of fuel (%).

PNO_x is NO_x emissions (kg); Q is fuel consumption (ton); μ is pollutant discharge coefficient.

2. Combined energy consumption is calculated according to the General Principles for Calculation of Combined Energy Consumption (GB-T25892008) based on the consumption of energy sources including gasoline, diesel, natural gas, electricity and externally purchased thermal power.

3. GHG emissions are calculated according to the Guidelines for Greenhouse Gas Emission Accounting and Reporting for Food, Tobacco and Wine (For Trial Implementation) issued by the National Development and Reform Commission, where Category I emissions include emissions from fossil fuels consumed by the Group, including gasoline, diesel, and natural gas and Category II emissions include those attributable to externally purchased electricity and thermal power.

Environmental Friendly Ranches

Good ranch management is fundamental to a dairy enterprise's sustainable development. We manage industrial waste – gas, water and residue – in accordance with the Law of the People's Republic of China on Prevention and Control of Soil Contamination, the Water and Soil Conservation Law of the People's Republic of China and other laws and regulations. To maintain harmony with nature, we strictly control ranch operations, uphold animal welfare and protect the ecology of our environments. In 2020, we standardised environmental requirements for our ranches. These included minimising pollution of groundwater and surrounding soil. The requirements were also applied to partner ranches.

Environmental Protection

Mengniu has integrated environmental protection into its management system for its partner regions and ranches and clearly defined environmental requirements in such aspects as ranch certification, selection, auditing, performance management and feed selection to ensure environmental compliance. We have formulated the Detailed Rules for Selection Review of Milk Suppliers in accordance with the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Impact Assessment and the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste, setting forth the minimum standards that ranches must abide by. The rules mainly cover infrastructure, disease prevention, milking, ranch construction, dairy cattle raising, internal management and breeding management, and apply to ranch construction and operations. We strictly enforce the criteria for supplier selection based on on-site evaluation and assist those ranches in rectifying on issues identified during on-site evaluation.

In assisting the improvement process, we provide financial or technical support based on the needs of partner ranches in the furtherance of the green development of upstream ranches.

Resource Management and Utilisation

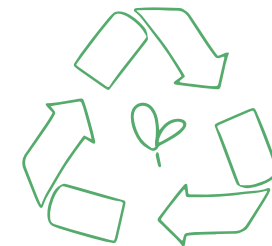
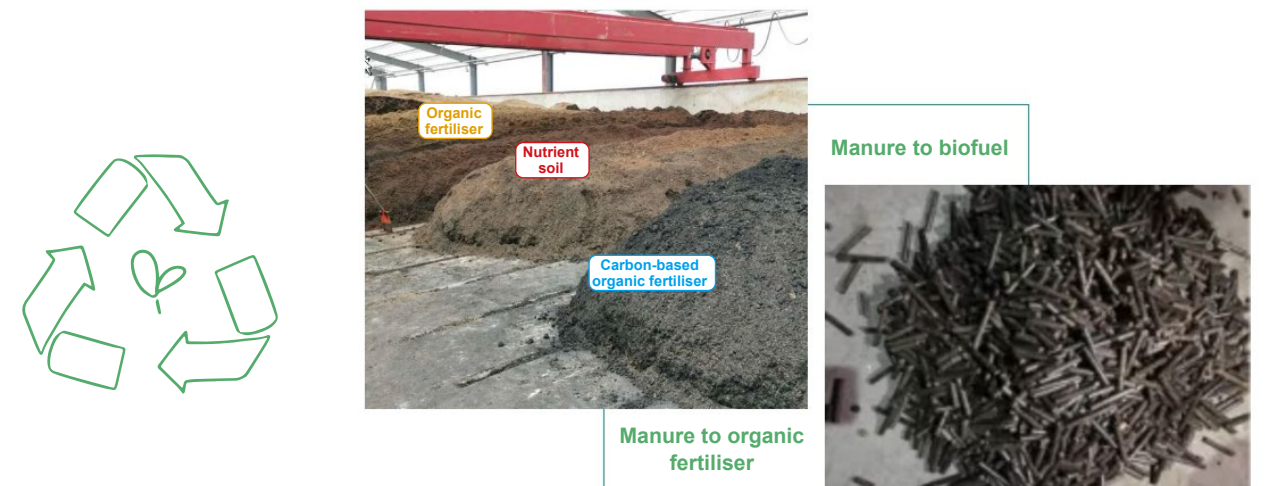
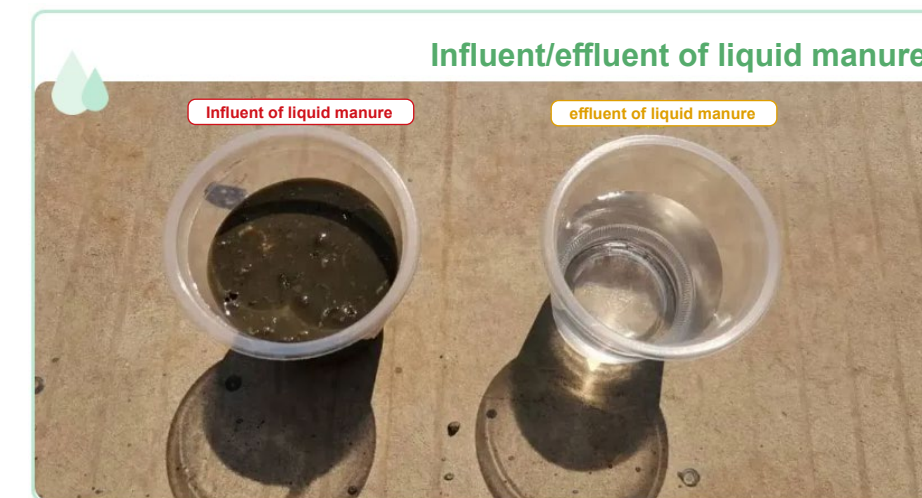
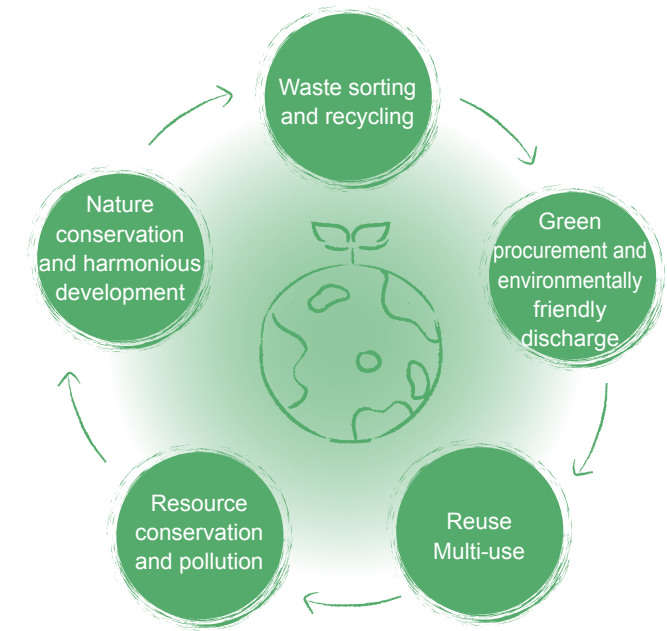
Mengniu has made rigorous efforts to promote the sophisticated water and manure management on ranches to improve resource efficiency and minimise the environmental impact. The Company guided the ranches in the circular use of water resources by promoting relevant practices. Those practices can help a ranch with 10,000 cattle save about 10 tonnes of water per day, thus not only reducing the use of water resources but also reducing the impact on the environment.



Demonstrative ecological ranch of Fuyuan International

According to statistics, the total amount of livestock and poultry manure produced in China is nearly 4 billion tonnes per year, which is 1.29 times more than industrial solid waste. Mengniu's partner Fuyuan International has developed an advanced manure treatment process powered by the first use of the "compliant manure water treatment and manure biomass carbonization" technology in China, which has achieved circular use and resourcification of manure water. The project was successfully put into operation in 2020, boasting 118mg/L of COD, 27mg/L of ammonia nitrogen, and no detectable content of colibacillus and Ascaris eggs for treated water; and over 3,500 calories of calorific value of carbon of biomass fuel. It is expected to have an annual treatment capacity of 60,000 tonnes of manure and 200,000 tonnes of manure water, delivering significant manure to resource and energy transformations. As of the end of 2020, Fuyuan International had invested a total of RMB300 million in promoting ecological and environmental sustainability to fully embrace the circular economy model of "manure water treatment, organic fertiliser production and pasture cultivation", which has promoted the development of a green ecological chain in the dairy industry.

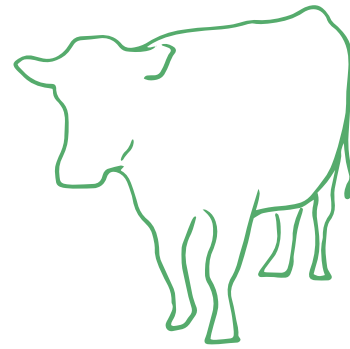
Mengniu has also been exploring the implementation of manure recycling technology in its partner farms. Its "planting, rearing and processing" project, which fosters a dairy industrial cluster by integrating feed planting, dairy farming and milk processing, aims at a closed loop of production, emissions and utilisation and the ecological sustainability of ranches.



Animal Welfare

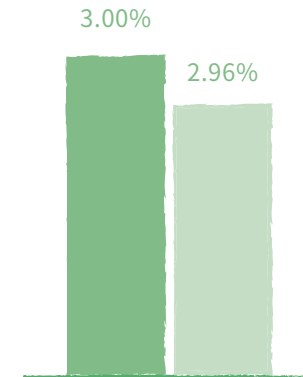
Keeping cattle healthy is fundamental to quality milk and products. To enhance and regulate the healthy and sustainable development of dairy farming, we developed the Dairy Cattle Welfare Promotion Implementation System. This manual draws on advanced international experience and the authoritative Business Benchmark on *Farm Animal Welfare*.

In 2020, Mengniu – with the National Dairy Industry and Technology System, *Boehringer Ingelheim, China Modern Dairy* and the *China-Denmark Milk Technology Cooperation Centre* – published a final version of the manual, filling a gap in China's dairy cattle welfare system. The manual focuses on all links of dairy farming, explaining key points and practical specifications for welfare. It provides detailed descriptions and assessment recommendations for the psychological and physiological welfare, behaviour, environmental welfare and hygiene of dairy cattle, in line with guidance from the National Dairy Industry and Technology System.

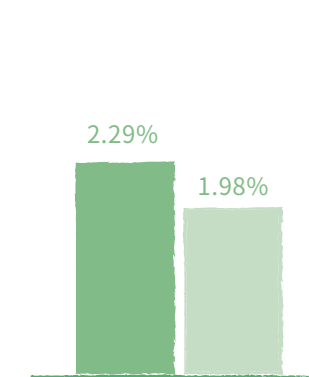


Psychological welfare	The freedom to live without fear and sadness	<ul style="list-style-type: none"> • Grouping management • Milking management • Breeding programme • Farrowing process • Calf feeding procedure
Behavioural welfare	Freedom to express nature	
Environmental welfare	The freedom to live comfortably	<ul style="list-style-type: none"> • Faeces/urine clean-up • Bedding maintenance • Comfort management
Hygienic welfare	Freedom from pain, injury, and disease	<ul style="list-style-type: none"> • Newborn cattle care • Health and care
Physiological welfare	Freedom from hunger and thirst	<ul style="list-style-type: none"> • Source and storage of fresh water and forage • Drinking water management • Total mixed ration (TMR) production • TMR feeding • Trough management

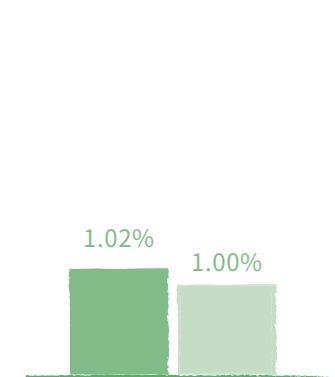
Incidence of mastitis



Incidence of postpartum paralysis



Incidence of cow hoof disease



2019 2020



Raising of Healthy Dairy Cattle

In 2020, 70% of Mengniu's partner ranches adopted practiced raising practices, which covered extensive aspects including the quality silage project and prevention and control of cold and heat stress. The '3366018' standard quality silage project has engaged experts to standardise the nutrient content of the feed to ensure digestive health of dairy cattle. Mengniu has developed heat stress prevention and control standards in three the areas of physical inspection and rectification of facilities, process management, and operational monitoring, ensuring humane regulation of cow temperatures and effective air circulation.



In 2020, Mengniu participated in the preparation of the China Dairy Cattle Welfare Group Standard, which was initiated by the China Association for the Promotion of International Agricultural Cooperation. The standard is scheduled to be completed by the end of 2021.

The issue of animal protection during the importation of overseas cattle has received widespread international attention in recent years. Currently, none of Mengniu's strategic milk suppliers, including Shengmu and China Modern Dairy, import dairy cattle. As at the end of 2020, the Group was not subject to animal protection requirements in relation to the importation of cattle.



Ecological Protection

A good natural environment is the starting point for healthy dairy farming and quality dairy products. Mengniu understands that a stable ecosystem is essential for dairy farming and production and has been committed to promoting the integration of business development and ecological governance to achieve sustainable development based on ecological economisation and economic ecologisation.



Shengmu High-tech Farming Develops the Organic Circular Desert Pasture industry

Since 2009, Mengniu's subsidiary Shengmu High-tech has invested over RMB7.5 billion in the Ulan Buh Desert in Inner Mongolia to carry out large-scale ecological treatment of the desert and construction of the sand industry based on the "low-coverage sand treatment theory." At present, 90 million trees of various types have been planted and greened more than 200 square kilometres of the desert. To further enhance the efficiency of water use, Shengmu has built 11 water storage reservoirs with an average area of 60,000 square metres, thus effectively retaining water and regulating the microclimate.

Shengmu uses the organic cow manure-based fertiliser produced by its organic ranches to enhance soil fertility and crop drought resistance, which has strengthened the closed loop of the organic industry chain. These efforts have effectively improved the local environment and protected biodiversity.



Shengmu Dairy Farming Base

Green Production

Our manufacturing follows the principles of "green design, green products, green production and restoration of natural greenery." We are committed to integrating sustainable development into every aspect of our operations by optimising our environmental management, implementing energy conservation, water conservation and wastewater treatment measures, and conducting carbon audits and setting carbon reduction targets. In 2020, we received 0 ecological or environmental complaint, achieved 100% compliance for supervisory monitoring.

Environmental Management

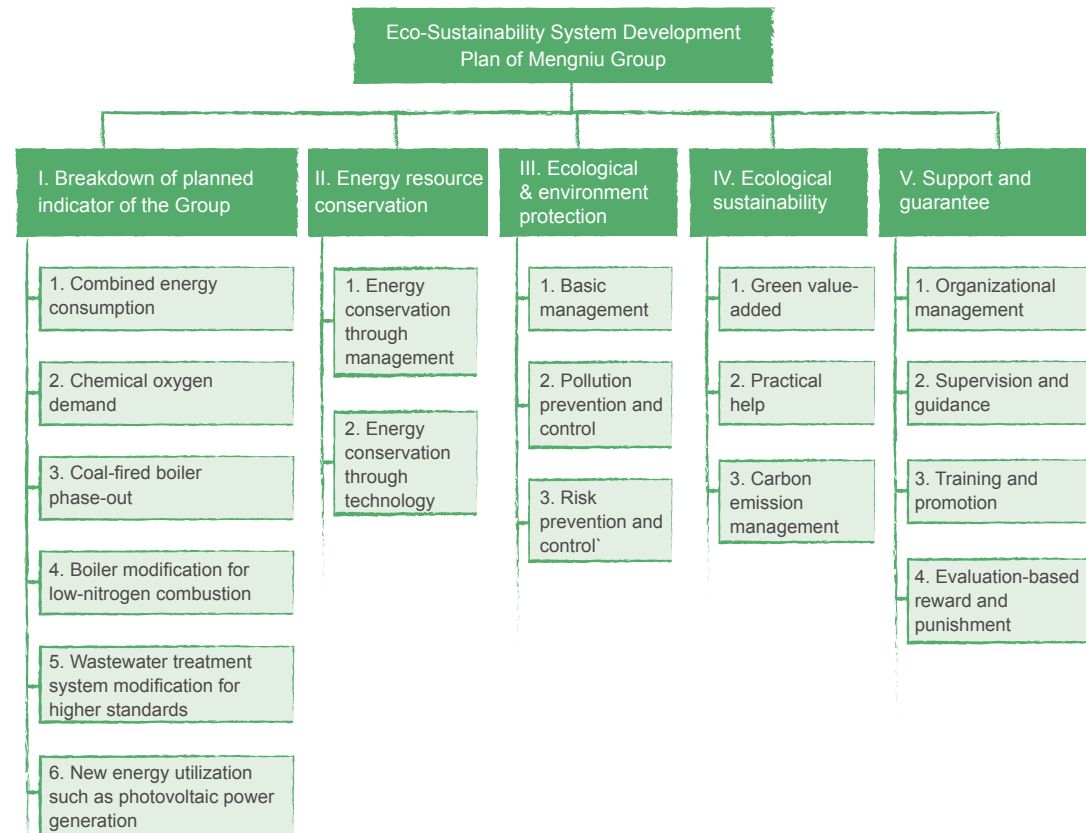
We strictly abide by the Environmental Protection Law of the People's Republic of China. Our environmental protection systems – including the Mengniu Manual on Environmental Protection, Procedures for Environmental Risk Assessment and Control Planning, Administrative System for Environmental Accident Reporting and Handling, and Administrative System for Environmental Management of Construction Projects – align with 163 national comprehensive and special environmental protection laws and regulations in 22 categories, to ensure compliance in manufacturing. In 2020, no environmental violations occurred, the total amount of exhaust gas and wastewater discharges did not exceed the standards, and all discharge indicators were 100% in compliance.

From June to September 2020, Mengniu completed the third-party supervision and certification audits of ISO14000 and ISO45001 management systems, ensuring the continued validity of the certificates of all legal entities. In order to ensure the transparency and the effectiveness of our internal policy, we have introduced a number of independent auditors and implemented a three-year rotation of auditors.



Planning for Sustainability

In 2019, we formulated a three-year action plan, based on the three pillars of energy conservation, environmental protection and ecological sustainability. In 2020, all targets for the year were completed.



In 2020, the Company formulated the Mengniu Dairy Solid Waste Environmental Management System and related inspection standards in line with the newly revised Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste and organised special actions of solid waste management to further enhance the compliance of solid waste control. The Company further enhanced its pollution prevention and control capabilities by carrying out 18 equipment renovations for waste gas, wastewater, solid waste and other pollutants. During the year, the Company organised and guided factories to carry out discharge permit filing with a 100% certification rate and established electronic discharge permit files to continuously track and record the compliance of pollutant discharges.

Mengniu continuously promotes environmental control overseas and strictly abides by local laws and regulations, striving to protect the local environment. Bellamy's has formulated sound environmental risk management plans and programmes through the implementation of a detailed senior management responsibility system for sustainability risk identification. Bellamy's places a high priority on working with local regulatory bodies, such as the Australian Government Department of Agriculture and Water Resources and state and territory health departments, completing relevant actions required by them in high quality, and continuously improving its environmental management framework.

Water Resource Management

The dairy industry is highly water-intensive, so effective water management is vital. We formed the Energy Conservation and Emission Reduction Committee and Mr. Lu Minfang, President of the Group, is the Chairman of the Committee. Mr. Yang Zhigang as the Vice President of the Group and Head of Safety and Quality Department, is responsible for the strategy and performance management of water and energy. We actively develop conservation and utilisation measures according to the specific conditions of local communities. We commit to reducing water usage per ton of dairy product production by 6% in 2025 compared to 2020.

We promote the holistic management of water resources. Plant and ranch controls reduce the pressure on local water resources and we raise upstream and downstream partners' awareness of conservation. We continue to improve our water use management and reduce our footprint through farm control, recycling, wastewater treatment, implementation of the 3U⁷ Water Conservation Strategy, and participation in the development of the national industry standards Norm of Water Intake for Dairy Products.

In 2020, we continued to strengthen the environmental management of ranches:

01

Minimising pollution of groundwater and surrounding soil by strictly requiring all partner ranches to comply with discharge guidelines.

02

Maximising water recycling through the implementation of the three-step wastewater treatment⁸ approach;

03

Minimising wastage by encouraging all partner ranches to install intelligent water controls.

⁷3U strategy is a principle that follows Save Use, Recycle Use and Common Use promote water conservation by Mengniu.

⁸Three-step treatment: wet and dry separation, sedimentation and filtration, and disinfection of reclaimed water

The 3U Water Conservation Strategy:

Meanwhile, we continued to promote our 3U water conservation strategy. As of the end of 2020, we had implemented 64 measures, covering all aspects of the process, including pretreatment, filling, cleaning, refrigeration and water treatment.



Water Conservation Management Practices at Yashili Factories

By improving equipment and facilities, Yashili reduced its water consumption per tonne of output by 12% in 2020 on the same budget.

Helin factory

By recycling the water used for cleaning and optimising and upgrading the water facilities, the factory has effectively reduced its daily water consumption. Wastewater discharge was reduced by 10,629 tonnes from June to December 2020.

Shanxi factory

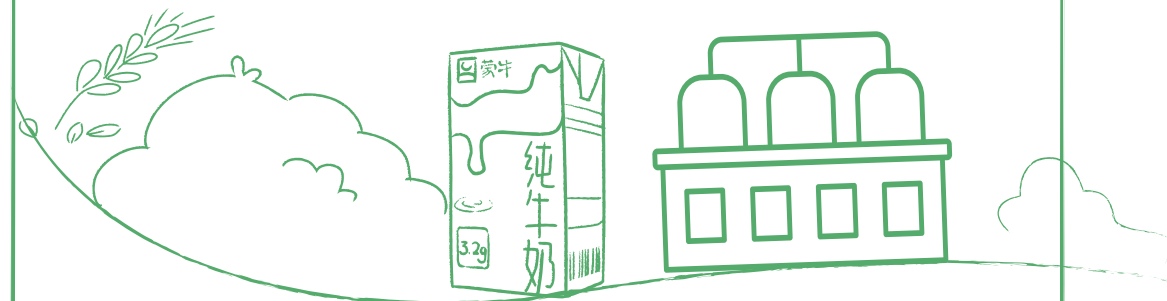
The factory has increased condensate recovery by implementing a drying tower steam condensate recovery project. The project was launched in January 2020 and conserved 74,375 tonnes of steam discharge from January to December.

Chaozhou factory

Through condensate conservation transformation of its cooling tower, the Chaozhou factory has significantly reduced its cooling tower water consumption by 99.5%, with a total of 2,388 tonnes of water conserved in 2020.

Shanghai factory

Through a water balance project, the factory's water use was fine-tuned using accurate statistics. At the end of 2020, the factory was named a model (benchmark) water conservation enterprise by the Shanghai Pudong New Area Water Bureau and the Pudong New Area Science, Technology and Economy Commission. In 2020, the factory saved RMB 15,000 worth of water consumption.



Each year, we set targets for freshwater consumption, sign responsibility contracts with each business division, and – through daily supervision and monthly control – link targets to the performance of the head of safety and environment of each division. We aim for a year-on-year reduction in the intensity of our water use.

In 2020, our factories' water consumption per tonne of output was down

5.25%

Water saved was(including 468,000 tonnes in social water savings)

2,011,000 tonne

Our reclaimed water rate was

7.63%

Water conservation goal of 2025:

per tonne of production reduce 6% compared to 2020.

Reclaimed Water Utilisation

We actively explore reclaimed water options. For example, our Bayannur factory is located near a power plant in a water-scarce area. In 2020, the factory used treated effluent as circulating cooling water for equipment. This reduced both water wastage and wastewater discharge, and contributed to the local low-carbon economy.

Wastewater treatment

Mengniu has continued to improve the online wastewater monitoring system by developing its online environmental monitoring platform with real-time wastewater monitoring wastewater indicators of more than 30 wastewater treatment facilities, including key water pollutant indicators such as pH, COD, ammonia nitrogen, total phosphorus and total nitrogen as well as wastewater treatment volume indicators, ensuring that the terminal effluent meets national and local standards for pollutant discharge concentration and total volume. In 2020, Mengniu invested more than RMB100 million to ensure the stable daily operation of its subsidiary wastewater treatment plants, while promoting the renovation of water pollution prevention equipment and facilities.



Wastewater Treatment Management Empowerment at Indonesia Factory

In 2020, Mengniu's Indonesia factory prepared the *Wastewater Treatment Process and Operation Management* document, which provides a comprehensive explanation of the water quality of dairy wastewater during operation and processing, wastewater treatment process, and operation, maintenance and management of the wastewater treatment facility, and provided a series of online wastewater treatment skills training courses in April to provide staff with a better understanding of wastewater treatment knowledge.



Upgrading and Expansion of Sludge Treatment Facilities at Yashili's Chaozhou, Shanxi and Shanghai factories

The Chaozhou factory's wastewater treatment facility was expanded and had its combined capacity increased from 110m³/day to 210m³/day;

The Shanxi factory was optimised for reduced sludge generation and treated a total of 584,000 tonnes of wastewater and generated 375.62 tonnes of sludge in 2020, with a sludge generation index of 0.64kg/tonne, down 21.95% compared to 2019.



The Concept Wastewater Treatment Plant at Mengniu's New Factory in Wuhan

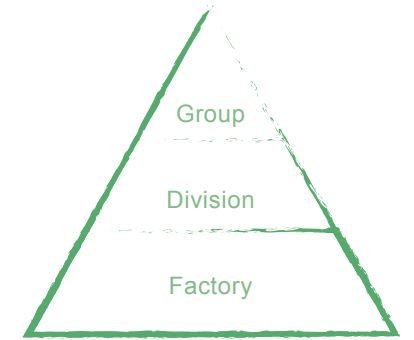
Mengniu's new factory in Wuhan, which started construction in 2020 and was completed in 2021, has a state-of-the-art wastewater treatment facility that represents the highest level in the industry in terms of energy conservation, discharge reduction, environmental friendliness, low carbon, and intelligent operations by incorporating the concept of ecologically harmonious architecture into its operations, thus advancing the integration of industrial sustainability and community sustainability.



Construction design of the wastewater treatment facility at Mengniu's Wuhan factory

Energy and Climate Change Response

Climate change is a ubiquitous challenge. Mengniu actively responds to the national goal of "China achieves carbon neutrality by 2060" and commits to take the lead in the industry to achieve carbon neutrality by formulating effective emission reduction strategies, building a three-tier management structure of "Group - Business Unit - Factory", conducting carbon inventories, reducing energy consumption, increasing the proportion of renewable energy and effectively reducing greenhouse gas emissions. We will reduce energy consumption, increase the proportion of renewable energy, and effectively reduce greenhouse gas emissions to support the 1.5°C temperature control target of the Paris Climate Agreement.



Safeguarding the Upstream Ecological Environment

Forests are a stabilising force for the climate. Mengniu supports the conservation of forest land and actively explores different ways to avoid the impact of raw materials and pasture construction on forest and biodiversity.

Deforestation Risk and Biodiversity

- We are committed to prioritizing the sourcing and supporting the production of sustainable palm oil. Together with our suppliers and stakeholders, Mengniu is committed to being environmentally responsible upstream. In 2020, 100% of the Group's palm oil suppliers are RSPO certified.
- All Mengniu partner farms comply with the Forest Law of the People's Republic of China and the forest protection provisions in the relevant local policies. The land for construction has been formally transferred and strictly approved by the local government, so there is no risk of deforestation.
- Mengniu has partnered with the world's leading manufacturers of sterile packaging materials, pioneering the use of sterile recyclable packaging materials certified by the FSC or the Sustainable Forestry Initiative (SFI). So far, 100% of our packaging materials papers are certified under the FSC forest system.



Energy Conservation and Consumption Reduction

Based on sophisticated energy management and a catalogue of opportunities, we undertook 145 targeted energy conservation measures. We also organising 3 exchanges with the National Energy Conservation Centre's technology promotion base, covering 6 technologies for electricity and steam conservation.

Case

Yashili's Energy Conservation Measures

The Mengniu subsidiaries participating in series of energy conservation pilot programmes. In 2020, the Group issued a standard document entitled Energy Conservation Design Control Procedures for New, Renovation and Expansion Projects formulated in accordance with the requirements of national laws and regulations, requiring all factories and related companies to take energy consumption as one of the important elements to be considered in new, renovation and expansion projects and to have their energy conservation feasibility reports assessed by qualified third-party agencies.

Case

Energy and Carbon Emission Improvement Project

Against the backdrop of digital and intelligent operations, the Group continued to transform its manufacturing activities with the focus on lean management, digital operations, flexible production, efficient equipment and green energy in 2020. In energy conservation realm, measures were taken to refine the energy consumption and corresponding to the three-tier data to enable coordinated management of the areas. The comprehensive improvement and autonomous management and intelligent manufacturing automation of MNWCO2.0⁹ significantly strengthened the dynamics of internal energy management. Targeted measures were taken to improve energy conservation based on management blind spots identified by the energy map, and a carbon map was established for each factory on the basis of this. In 2020, the Chilled Temperature Business Division reduced energy consumption per unit of products by 3.4% year-on-year.

Case

Energy Conservation and Emission Reduction Pilot Project

In 2020, as a green pilot demonstration, Mengniu's Tai'an factory passed the national green factory audit, obtained the ISO50001 system certification, improved process supervision through the expansion and renovation of its wastewater treatment facility, and further audited its environmental supervision platform, achieving reduced energy and water consumption, with all emission data meeting the standards.

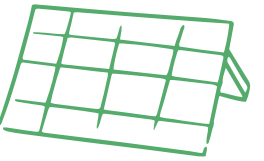
⁹WCO2.0, or Mengniu World Class Operation 2.0, is Mengniu's employee empowerment platform that consists of a dozen of modules dedicated to leadership and management transformation, autonomous operations, asset maintenance, reduction of lead time, and quality and environmental sustainability to improve Mengniu's management system and advance its vision of becoming a world-class manufacturing enterprise.

Renewable Energy use

The Group has continued to promote renewable energy. In 2020, it generated 309,000 tonnes of steam from renewable resources (biomass) and 4,660 MWh of electricity from solar photovoltaic power. We constructed 1 new photovoltaic power station with an installed capacity of 4.7 MW and a total installed capacity of 13.4 MW.

In 2020

12.78% of our energy consumption were from renewable resources such as photovoltaic power and biomass energy.



Green Operations

We helped formulate the industry standard Evaluation Standard for Green Factory in Dairy Industry. In 2020, eight legal entities under Mengniu were approved as national green factories, earning us the greatest number in the fifth round of certifications. By the end of 2020, we had 17 legally approved national green factories, 2 factories – in Tianjin and Qingyuan – certified as municipal water-saving enterprises, and several factories awarded the Beneficial Enterprise Partnership Award by the China Zero Waste Alliance.

Case

GOAL - Green Operations and Life

Integrating sustainable development into our operations and daily life is Mengniu's response to international initiatives and national planning visions. This also reflects how we value the union of knowledge and action. Our five-step journey towards world-class management saw our operations management system upgraded to WCO2.0 in 2017. In 2019, we added an Environmental Sustainability module. This is now the core module of our Green Operations and Life system, addressing sustainability issues related to operations and daily life.



GHG Estimation

We follow national and international trends in climate change response and carbon emissions management, and have made the latter a priority. In 2020, we gathered data about the emissions of our leading subsidiaries via onsite inspections, online interview and regular communication. This data is the basis for our carbon emissions accounting model.

Our leading subsidiaries will undertake detailed carbon emissions data accounting. They will determine targets and formulate reduction plans, benchmarked against advanced enterprises at home and abroad. These actions will respond to public concerns about emissions while promoting the disclosure of emissions data.



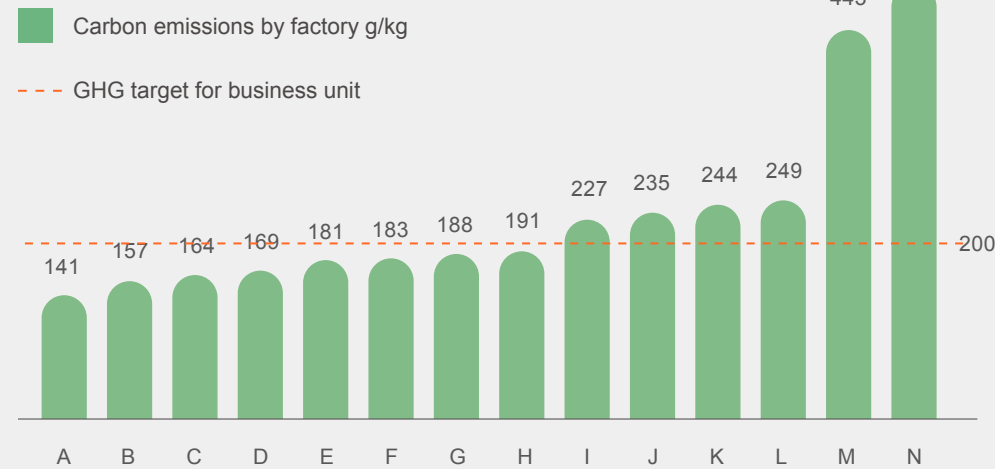
Assessing Our Carbon Footprint

In a pilot initiative, we assessed the carbon footprint of our Chilled Temperature division, through data inventory and emissions management. The results influence carbon management planning at group-level.

Data Analysis

In 2020, we examined carbon-emitting sources to determine internal accounting boundaries and models, based on the Guidelines on GHG Emissions Accounting Methods and Reporting for Food, Tobacco, Wine, Beverage and Refined Tea Enterprises (for Trial Implementation), issued by the National Development and Reform Commission.

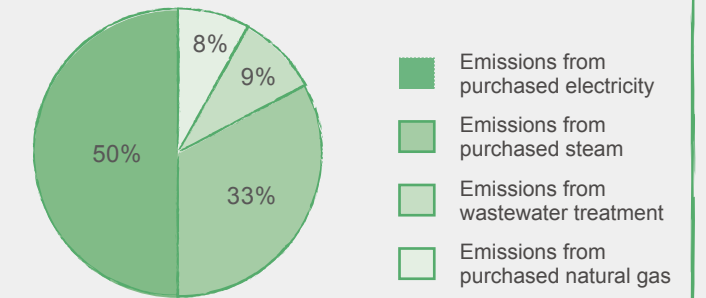
Carbon emissions data of the Chilled Temperature Business Division in 2020



Carbon reduction efforts of upstream ranches

In 2020, the Group actively participated in the "Pilot and Promotion of Low Carbon Emission Reduction Solutions for Large Ranches in China" collaborative project of the CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS), which covered 20 ranches of the Group. In the next step, the Group will work with China Agricultural University to analyse the data of the pilot ranches and invite experts to conduct field assessments to develop technical measures and standards of carbon reduction.

The Scope 1-2 carbon emissions data of the various production factories of the Chilled Temperature Business Division are 1/3 represented by purchased steam, 1/2 by purchased electricity, and the rest by carbon-emitting sources including natural gas boilers, organic matter treatment at wastewater treatment facilities, refrigerants, fire extinguishers, etc.



Carbon emissions management

Based on the above data, the Chilled Temperature division issued our first group-wide carbon emissions control plan. The plan explained the concept of carbon emissions, the scope of emissions and the accounting boundaries and methodology. It included 2019 emissions data for the division and proposed measures to reduce emissions in production and daily life.

Our carbon management plan

Mengniu had formulated a carbon inventory plan on both factories and products:



in 2021, we will complete the benchmarking and optimisation of the division's carbon emissions accounting and verify data for 2020. We will map the emissions and identify all the factories' emission sources, drawing on our experience with water and energy maps. We will also introduce scope 3 carbon emissions to clarify the accounting boundaries for upstream and downstream emissions.



all relevant departments will assist the construction of a data accounting model for product carbon neutrality, with data measurements to contribute to reduction targets.

Pollutant Discharge Management

We are committed to strengthening our online environmental monitoring and enhancing our wastewater monitoring, to ensure that terminal effluent meets national and local standards for pollutant concentration and volume, and to ensure that the discharge is lawful and compliant.

In 2020, the Group participated in the formulation of a number of national, industry and local standards, including the Technical Specification for Application and Issuance of Pollutant Permit – Livestock and Poultry Breeding (HJ1029-2019), Technical Specification for Application and Issuance of Pollutant Permit – Food Manufacturing Industry – Dairy Product Manufacturing Industry (HJ1030.1-2019), Implementation Plan of the Second National Pollution Source Census – Industrial Pollution Sources – Production and Emission Accounting for Food Manufacturing and Other Six Projects, and Food Processing Manufacturing Water Pollution Emission Standards, providing effective data reference for emission indicators and helping to enhance the soundness of the indicators and the implementation of control schemes.



Real-time wastewater monitor for Qingyuan factory



Biogas Utilisation at Indonesia Factory

The Group's Indonesia factory has introduced an "anaerobic + aerobic" treatment process which, through the use of ascending anaerobic sludge beds (UASB) and biological selection and aeration tanks, converts pollutants in the effluent into renewable biogas, thus providing a clean energy supply for the factory while degrading solid waste and sludge.

Circular Economy

We integrate green concepts into our manufacturing, warehousing, logistics and packaging. And we have radically reduced unnecessary emissions and waste by using intelligent IT platforms.

Green Storage

We plan our warehousing with reducing energy consumption in mind. Our full-lifecycle management tool for freezer storage – the Niuzhanggui platform – identifies production, storage and operational risk points. It also stabilises temperature monitoring system during storage and transportation to ensure food freshness. The platform covers 700,000 points of sale for Mengniu products. It is expected to achieve GPS-based monitoring of all warehouse freezers in 2021, to ensure whole-process freshness for our products.



"Smart Network Warehouse Management System" platform



New direct distribution project

The traditional logistics process requires a lot of manpower and storage capacity, resulting in high storage costs and low efficiency, which can easily affect the freshness and availability of products. Mengniu has launched a direct distribution project in pilot retailers such as Walmart and Yonghui to deliver goods directly to the retailers, eliminating the intermediate loading, unloading and sorting processes and adding real-time communication with the retailers, which has helped reduce the overall number of loading and unloading operations and product breakage rates, increase inventory turnover, and improve distribution efficiency and product freshness.

Green Logistics

Mengniu continuously explores the possibilities of green logistics and is committed to reducing the carbon footprint of raw materials on the upstream and product distribution on the downstream. The Group organised its factories to apply for certification for the Green Logistics Standardisation Programme jointly initiated by the Ministry of Commerce and various national ministries and commissions. In efforts to reduce greenhouse gas emissions in the distribution process, some divisions have leveraged logistics information service platforms and smart supply chain data platforms to effectively predict demand and production while advancing the "localized production" strategy to reduce unnecessary energy consumption resulting from transportation.



Inspection-free warehouse entry project for the retail system

Due to Covid-19 in early 2020, all imported products were subject to nucleic acid testing in the process of transportation. To minimise the impact caused by the process to the freshness of products, the Group, in conjunction with Walmart, launched a pilot project by implementing an on-arrival testing procedure for products with a short shelf life, such as liquid milk and yoghurt beverages, which greatly reduced unnecessary delays while ensuring testing for all products. The project reduced the distribution cycle by 2-3 days and increased product freshness by 5 days, in addition to reducing the use of large amounts of paper in the process.

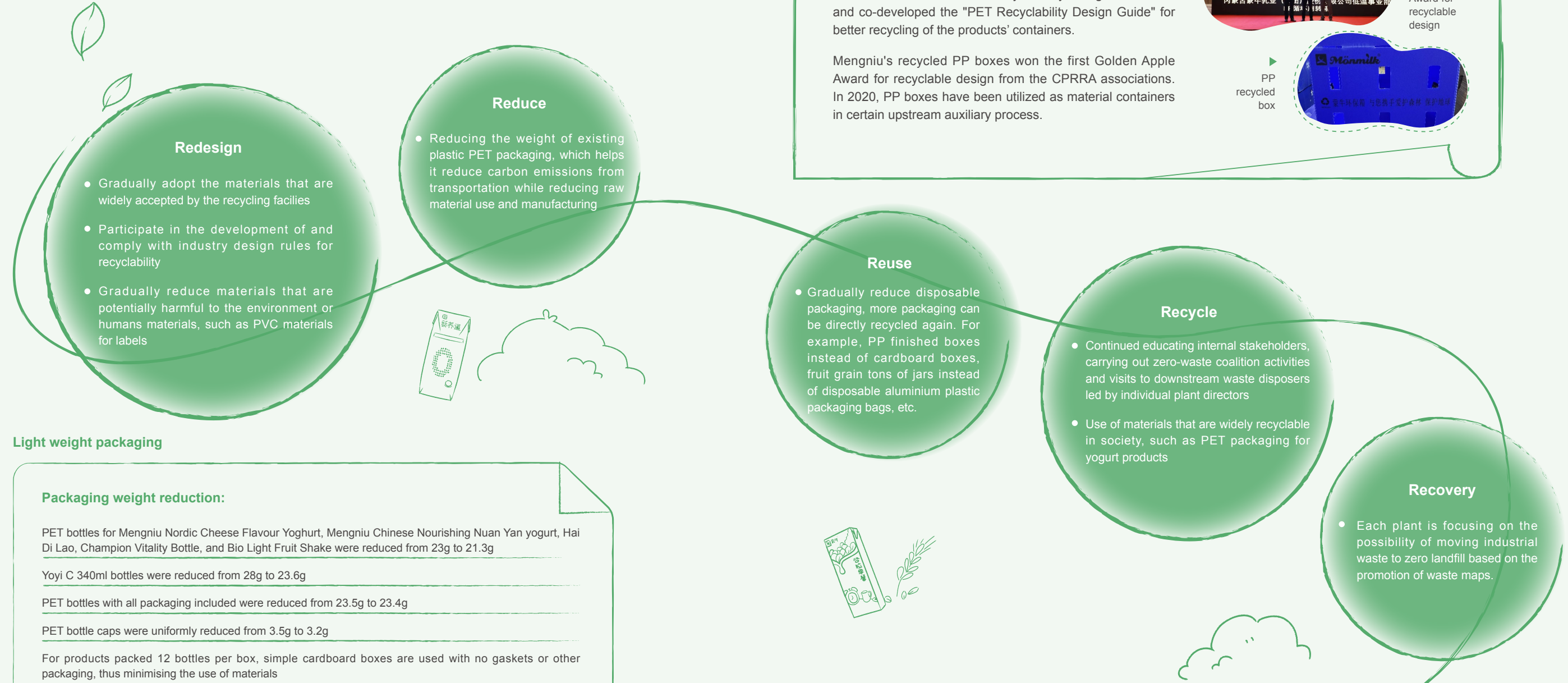


Warehouse Delivery e-Receipt Project

A large amount of receipts is generated in the process of delivering products to the warehouse, which result in high transport cost and high paper consumption, not to mention the fact that paper receipts are easy to be lost. Mengniu's new retail business department, as a pilot department, pushed the implementation of electronic receipts before the Group would promote the practice to its nationwide retail system. A total of nine boxes of A4 paper were saved in the course of the pilot project with greatly improved efficiency and substantially reduced tracking errors, which also helped reduce potential waste of goods.

Green Packaging

We promote recyclable packaging and, to minimise landfill, steadily reduce packaging waste through research and innovation. We follow the "5R" principles¹⁰ and steadily reduce packaging waste through research and innovation to minimise landfill waste. Mengniu has pledged to achieve 100% sustainable packaging technology by 2025.



Light weight packaging

Packaging weight reduction:

PET bottles for Mengniu Nordic Cheese Flavour Yoghurt, Mengniu Chinese Nourishing Nuan Yan yogurt, Hai Di Lao, Champion Vitality Bottle, and Bio Light Fruit Shake were reduced from 23g to 21.3g

Yoyi C 340ml bottles were reduced from 28g to 23.6g

PET bottles with all packaging included were reduced from 23.5g to 23.4g

PET bottle caps were uniformly reduced from 3.5g to 3.2g

For products packed 12 bottles per box, simple cardboard boxes are used with no gaskets or other packaging, thus minimising the use of materials

Just Yoghurt PET bottles were optimised with redistributed wall thickness, reducing the weight from 21g to 19g. Lightweight packaging can achieve annual savings of more than RMB5 million while reducing the heating temperature required for preform. This helps conserve energy and reduce emissions.

Diversification of packaging materials:

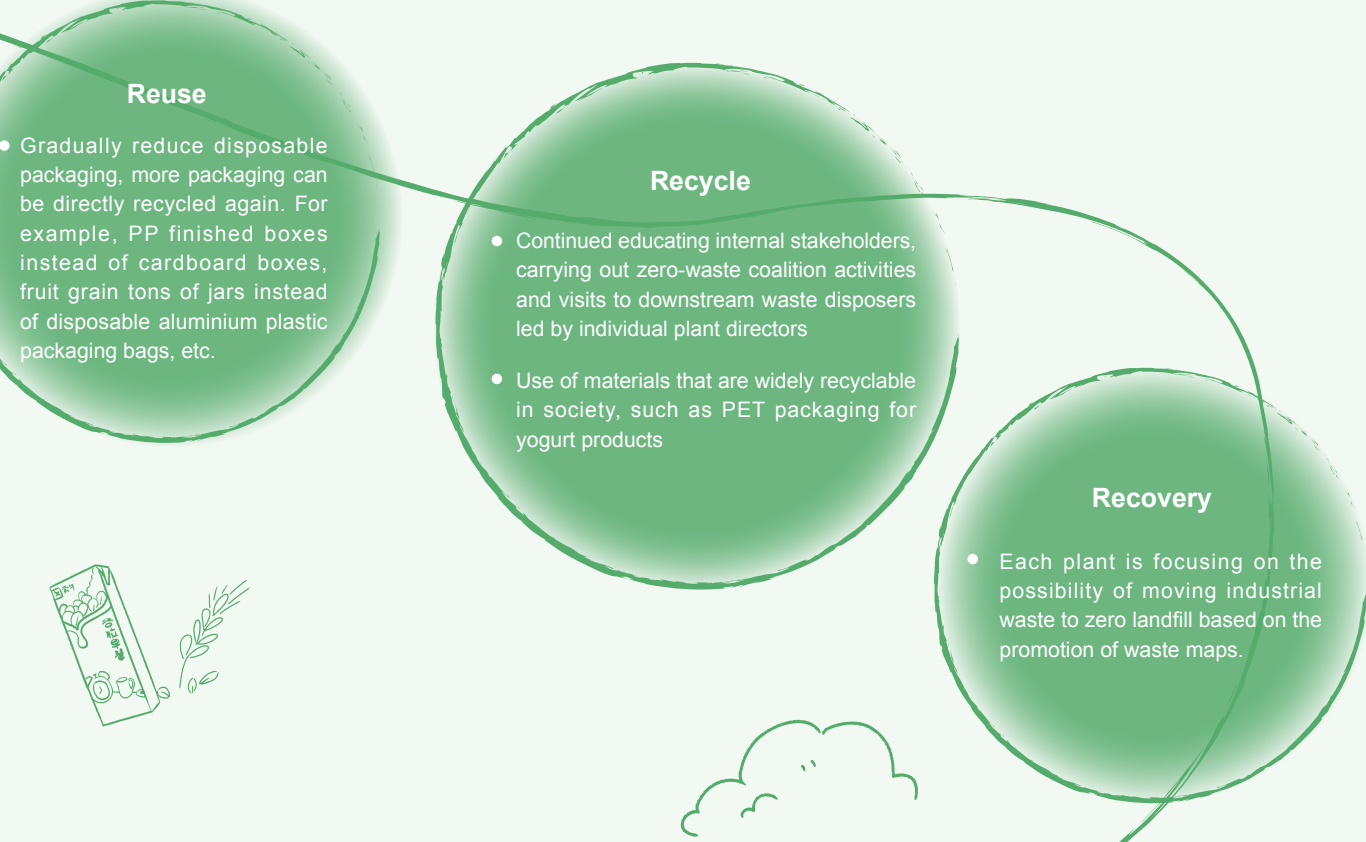
For products packed in 12 bottles per box, simple cardboard boxes are used with no gaskets or other packaging, thus minimising the use of packaging materials

Launching metal packaging for dairy products and actively exploring environmentally friendly alternatives to common plastic packaging

Case

For the plastic waste innovation, Mengniu participated in CPRRA (China Plastics Reuse and Recycling Association) on discussion of the PET recyclability design standards and co-developed the "PET Recyclability Design Guide" for better recycling of the products' containers.

Mengniu's recycled PP boxes won the first Golden Apple Award for recyclable design from the CPRRA associations. In 2020, PP boxes have been utilized as material containers in certain upstream auxiliary process.



Categorised disposal in the factory



Disposal weighing notification board in the dining area

¹⁰The "5R" principles refer to Redesign, Reduce, Reuse, Recycle, and Recovery.



Waste Reduction

There are three generally quantifiable environmental footprints of food losses and waste: carbon footprint, pressure on land resources and pressure on water resources. According to the UN Food and Agriculture Organisation, 30 per cent of food produced for humans globally is lost or wasted along the supply chain. By promoting sustainable consumption and production, analysing maps of milk loss during production, developing ways to reduce contamination in packaging and exploring natural methods of extending shelf lives, we can reduce waste.

Mengniu has taken active measures to make improvements on food loss points in the process of operations. It launched the digitalisation-based empowerment project to reduce finished product losses based on forecasting of food replenishment. In 2020, its replenishment due to quality issues was down 62% increased the material inventory turnover by 8%, and reduced material scrappage by 50%, with a significantly improved food loss management awareness.

In addition to optimising process systems, the Group has further avoided unnecessary food losses through process and packaging improvements to its products.



The "One Gram of Milk" Initiative

Mengniu's Chilled Temperature Business Division began looking for key loss links along the supply chain in 2019 and has established a "milk loss map" mechanism. On the supply side, the division takes targeted measures to reduce losses based on the identification of the loss links; on the production side, it carries out precise production scheduling, clearing optimisation and process control measures; on the sales side, it donates nearly-expired products or sells them at big discounts to communities, which also helps reduce cold-chain consumption.

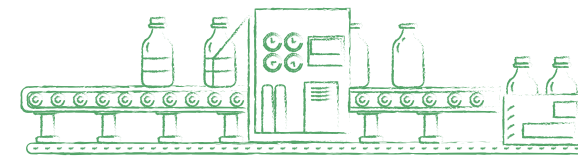
In 2020, we carried out benchmarking analysis and related R&D on improvement measures to reduce food losses. During the year, our factory milk loss rate was reduced from 2.99% to 2.44%; in December 2020, the Group's milk loss map project participated in the 4th "SINOROBOT" Cup Benchmark Lean Competition and won the second prize.



Mengniu Reduces Milk Losses Through Technical Improvements

The Group's Room Temperature Business Division has effectively reduced milk losses through the introduction of innovative technologies in its production lines. The technologies have been applied in 15 factories.

The Fresh Milk Business Division introduced new processes such as equivalent sterilisation after rigorous testing and validation in its Tianjin Fresh Milk Factory and other factories, with the shelf life of its shelf life of the DB series of products extended from 10 days to 15 days.



Reducing Food Waste Through Lightweight Packaging

To better suit consumer preferences and reduce food waste, we offer small-pack options of products such as Mengniu Nordic Cheese Flavour Yoghurt, Mengniu Chinese Nourishing Nuan Yan yogurt, Hai Di Lao, Champion Vitality Bottle, Bio Light Fruit Shake, and Yoyi C Passion Fruit.



Sustainability Performance Data

Economic Performance

Indicator	2015	2016	2017	2018	2019	2020
Operating revenue (RMB100 million)	490.27	537.79	601.56	689.77	790.3	760.35
Total assets (RMB 100 million)	506.53	491.24	581.38	664.57	785.37	801.46
Profit (RMB 100 million)	25.20	8.13	20.3	32.03	42.95	35.02
Production capacity (10,000 tons)	868	921	922	975	950	990
Performance ratio of economic contracts (%)	100	100	100	100	100	100
Signing ratio of Anti-Commercial Bribery Contract (%)	100	100	100	100	100	100
Traceability of nonconforming products (%)	100	100	100	100	100	100
Pass rate of ex-factory product quality inspection (%)	100	100	100	100	100	100
Ex-factory batches of products subject to quality and safety monitoring (%)	100	100	100	100	100	100
Percentage of products recycled due to safety and health factors during product transportation and sales (%)	0	0	0	0	0	0
TMP and silage coverage (%)	100	100	100	100	100	100
Mechanized milking ratio (%)	100	100	100	100	100	100
Raw milk random sampling pass rate (%)	100	100	100	100	100	100
Ratio of large-scale intensive ranch milk sources (%)	100	100	100	100	100	100

Social Performance

Indicator	2015	2016	2017	2018	2019	2020
Labor contract signing rate (%)	100	100	100	100	100	100
Social insurance coverage (%)	100	100	100	100	100	100
Medical examination and health record coverage (%)	100	100	100	100	100	100
Response rate to employee requests (%)	100	100	100	100	100	100
Total number of employees	39,683	41,600	41,141	41,031	37,894	40,626
Training time per employee per year (hours)	36.5	36.7	36.92	41.97	66.3	87.62
Performance rate of procurement contracts (%)	100	100	100	100	100	100
Response rate to consumer complaints and recommendations (%)	100	100	100	100	100	100
Total expenditure on CSR programs (RMB100 million)	510	1,050	1,969.9	2,500	4,000	76,000
Total tax paid (RMB 100 million)	29.5	29.2	36.66	41.11	45.22	36.91

Environmental Performance

Indicator	2015	2016	2017	2018	2019	2020
Water saved (10,000 tons)	122.29	51.60	49.84	96.00	137.4	201.1
Reclaimed water rate (%)	10.55	11.38	9.85	7.18	7.99	7.63
COD reduction (tons)	29,088.26	30,701.89	34,102.95	47,095.70	49,575.42	29,255.12
Compliant treatment rate of solid waste (%)	100	100	100	100	100	100

Content Index of HKEX ESG Reporting Guide

Scope	Disclosure Indicator	Pages	
Environment	A1: Emissions		
	General Disclosure		
	A1.1	The types of emissions and respective emissions data.	P75-76
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P75
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P75
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	P75
	A1.5	Description of measures to mitigate emissions and results achieved.	P76
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	P76
	A2: Use of Resources		
	General Disclosure		
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	P75
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	P76
	A2.3	Description of energy use efficiency initiatives and results achieved.	P76
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	P76
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	P89-90
	A3: The Environment and Natural Resources		
	General Disclosure		
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	P89-93	

Scope	Disclosure Indicator	Pages	
Social	Employment and Labour Practices		
	B1: Employment		
	General Disclosure		
	B1.1	Total workforce by gender, employment type, age group and geographical region.	P67
	B1.2	Employee turnover rate by gender, age group and geographical region.	P67
	B2: Health and safety		
	General Disclosure		
	B2.1	Number and rate of work-related fatalities.	P68
	B2.2	Lost days due to work injury.	P68
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	P68-72
	B3: Development and Training		
	General Disclosure		
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	P70
	B3.2	The average training hours completed per employee by gender and employee category.	P70
	B4: Labour Standards		
	General Disclosure		
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	P67-70
B4.2	Description of steps taken to eliminate such practices when discovered.	P67-70	

Scope	Disclosure Indicator	Pages	
Social	Operating Practices		
	B5: Supply chain management		
	General Disclosure		
	B5.1	Number of suppliers by geographical region.	P26
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	P44-45
	B6: Product Responsibility		
	General Disclosure		P29-30
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	P32
	B6.2	Number of products and service related complaints received and how they are dealt with.	P32
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	P39
	B6.4	Description of quality assurance process and recall procedures.	P29-34
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	P52
	B7: Anti-corruption		
	General Disclosure		P23
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	P23
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	P23-26
	Community		
	B8: Community Investment		
	General Disclosure		P55-66
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	P55-66
B8.2	Resources contributed (e.g. money or time) to the focus area.	P56&P64	

GRI Content Index

Contents	Disclosure Indicator	
About the Report	102-50, 102-53	
The CEO's Statement	102-14, 102-16	
About Mengniu	102-1, 102-2, 102-6	
Sustainability Strategy	Sustainability Management	102-20, 102-29, 102-32
	Stakeholder Communication	101, 102-21, 102-40, 102-44, 103-3
	Determination of Significant Issues	101, 102-47
Our Commitment: Building a Better Commercial Society	Corporate Governance	102-17
	Risk Management	102-30, 419-1
	Business Ethics	205-2, 205-3, 206-1
Our Commitment: Providing Health and Wellbeing for All People	Lifecycle Management	102-9, 308-1
Our Commitment: Driving Global Industrial Chain Win-Win	Employee Wellbeing	102-8, 401-2, 403-2, 403-3, 404-1, 404-2, 405-1, 406-1, 416-1, 416-2
	Win-win cooperation with industrial partners	203-2
Our Commitment: Contributing to a More Sustainable Earth	Ecological Ranches	301-1, 301-2, 301-3, 302-1, 302-3, 302-4, 302-5, 303-3, 304-2, 305-1, 305-7, 306-2
	Green Factories	304-1, 304-2, 307-1



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