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## **CHINA MENGNIU DAIRY COMPANY LIMITED**

**中國蒙牛乳業有限公司\***

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

**(Stock Code: 2319)**

### **ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021**

#### **HIGHLIGHTS**

- In the first half of 2021, the Group grasped the consumption upgrade trend under the backdrop of increasing national nutrition and health awareness post-epidemic, and actively implemented the strategy of “Creating a new Mengniu (再創一個新蒙牛)”, further promoted product innovation and upgrade and expanded online and offline channels for omni-channel development. The revenue of the Group amounted to RMB45,905.2 million for the six months ended 30 June 2021 (2020: RMB37,533.5 million), representing a year-on-year increase of 22.3%. Due to the increase in revenue and increase in operating efficiency, profit attributable to owners of the Company increased by 143.2% year-on-year to RMB2,946.5 million (2020: RMB1,211.5 million).
- In the first half of 2021, as the Group continued to drive the product innovation, brand upgrade and channel expansion for room temperature liquid milk, chilled yogurt and probiotic drinks, and the fresh milk business, the revenue from the liquid milk business increased by 21.1% from the same period last year to RMB39,448.1 million (2020: RMB32,565.3 million).

\* For identification purposes only

- During the period, the ice cream business segment continued to focus on its brands, such as *Suibian*, *Deluxe* and *Mood for Green*, to further improve innovation, branding and channel sales. In order to accelerate the business expansion in the Southeast Asian market, the Group acquired *Aice*, a leading ice-cream brand in Southeast Asia, at the end of March. Revenue for this segment for the period increased by 34.8% from the same period last year to RMB3,003.9 million (2020: RMB2,229.2 million).
- Yashili, the domestic milk formula platform of the Group, focused on its brands such as *Reeborne*, a brand of infant formula products, and Yourui, a brand of adult milk powder, whilst *Bellamy's* adhered to its brand positioning of “True Organic”. Through market segmentation and expansion of sales channels, the revenue from the milk formula business increased by 11.6% from the same period last year to RMB2,547.3 million (2020: RMB2,281.9 million).
- With the increasing demand from consumers for healthy, nutritional, and high-end nutritional dairy products, and the Group’s proactive development of product innovation and digital marketing, the cheese business grew rapidly in the retail and food service sectors. In July 2021, the Group became a substantial shareholder of Milkground, a leading cheese enterprise in China. In the future, through cooperating with Milkground, both the Group and Milkground will be able to gain advantages through sharing resources and together expand into the domestic and global cheese market with enormous potential.
- In active response to the national goal of “carbon neutrality”, Mengniu has promised to take lead in achieving carbon neutrality in the industry, and will disclose its carbon emission reduction targets and roadmap in 2022. As of the first half of the year, 17 factories of Mengniu were recognized as “National Green Factory” and Mengniu obtained Green Finance Certificate from the Hong Kong Quality Assurance Agency.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2021, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Notes	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
<b>Revenue</b>	4	<b>45,905,209</b>	37,533,459
Cost of sales		<b>(28,352,576)</b>	(22,881,073)
<b>Gross profit</b>		<b>17,552,633</b>	14,652,386
Other income and gains		<b>414,935</b>	296,410
Selling and distribution expenses		<b>(12,888,117)</b>	(11,499,647)
Administrative expenses		<b>(1,634,341)</b>	(1,438,981)
Impairment losses on financial and contract assets, net		<b>(76,625)</b>	(101,731)
Loss on derecognition of financial assets measured at amortised cost		<b>(12,655)</b>	(8,253)
Other expenses	5	<b>(462,685)</b>	(943,795)
Interest income		<b>476,512</b>	564,490
Finance costs		<b>(304,958)</b>	(324,449)
Share of profits and losses of:			
Joint ventures		<b>(34,905)</b>	(14,853)
Associates		<b>367,253</b>	220,759
<b>Profit before tax</b>	6	<b>3,397,047</b>	1,402,336
Income tax expense	7	<b>(429,699)</b>	(267,538)
<b>Profit for the period</b>		<b>2,967,348</b>	1,134,798
Attributable to:			
Owners of the Company		<b>2,946,537</b>	1,211,526
Non-controlling interests		<b>20,811</b>	(76,728)
		<b>2,967,348</b>	1,134,798
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	9		
Basic		<b>0.748</b>	0.309
Diluted		<b>0.744</b>	0.308

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

*For the six months ended 30 June 2021*

	<b>2021</b> <b>(Unaudited)</b> <b>RMB'000</b>	2020 (Unaudited) RMB'000
<b>Profit for the period</b>	<b>2,967,348</b>	1,134,798
<b>Other comprehensive income/(loss)</b>		
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	<b>(274,910)</b>	(197,358)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	<b>(28,225)</b>	8,721
Reclassification adjustments for gains included in the consolidated statement of profit or loss	<u>—</u>	<u>(10,814)</u>
	<b>(28,225)</b>	(2,093)
Share of other comprehensive income/(loss) of associates	<b><u>1,030</u></b>	<u>(3,632)</u>
<b>Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods</b>	<b>(302,105)</b>	(203,083)
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences:		
Exchange differences on translation of foreign operations	<b>41,882</b>	—
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<b><u>(27,038)</u></b>	<u>27,854</u>
<b>Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>	<b>14,844</b>	27,854
<b>Other comprehensive loss, net of tax</b>	<b><u>(287,261)</u></b>	<u>(175,229)</u>
<b>Total comprehensive income for the period</b>	<b><u><u>2,680,087</u></u></b>	<u><u>959,569</u></u>
Attributable to:		
Owners of the Company	<b>2,689,738</b>	1,054,554
Non-controlling interests	<b><u>(9,651)</u></b>	<u>(94,985)</u>
	<b><u><u>2,680,087</u></u></b>	<u><u>959,569</u></u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION**

30 June 2021

		<b>30 June 2021</b>	31 December 2020
		<b>(Unaudited)</b>	<b>(Audited)</b>
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>13,077,242</b>	12,546,604
Construction in progress		<b>3,646,860</b>	2,729,469
Investment properties		<b>63,106</b>	63,924
Right-of-use assets		<b>1,984,609</b>	1,847,675
Goodwill		<b>5,258,383</b>	4,883,291
Other intangible assets		<b>8,420,201</b>	7,717,340
Investment in joint ventures		<b>2,000</b>	103,427
Investments in associates		<b>9,241,189</b>	9,020,464
Deferred tax assets		<b>1,698,388</b>	1,276,625
Other financial assets		<b>11,454,836</b>	7,690,082
Long term prepayments		<b>860,383</b>	760,762
Total non-current assets		<b>55,707,197</b>	48,639,663
<b>CURRENT ASSETS</b>			
Other financial assets		<b>6,391,921</b>	7,752,088
Derivative financial instruments		<b>8,766</b>	2,175
Inventories		<b>5,165,525</b>	5,512,450
Trade and bills receivables	<i>10</i>	<b>3,887,854</b>	2,988,362
Prepayments, other receivables and other assets		<b>5,819,069</b>	3,604,858
Pledged deposits		<b>258,406</b>	249,521
Cash and bank balances		<b>8,086,329</b>	11,397,123
Assets of a disposal group classified as held for sale		<b>944,893</b>	—
Total current assets		<b>30,562,763</b>	31,506,577
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>11</i>	<b>8,265,865</b>	7,969,321
Other payables and accruals		<b>9,977,707</b>	11,465,916
Interest-bearing bank and other borrowings		<b>7,122,225</b>	4,924,393
Derivative financial instruments		<b>6,958</b>	3,653
Income tax payable		<b>622,143</b>	181,013
Other financial liabilities		<b>1,601,200</b>	1,600,200
Total current liabilities		<b>27,596,098</b>	26,144,496
<b>NET CURRENT ASSETS</b>		<b>2,966,665</b>	5,362,081
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>58,673,862</b>	54,001,744

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION** *(continued)*

30 June 2021

	<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>16,240,139</b>	14,019,832
Long term payables	<b>17,825</b>	—
Deferred income	<b>479,927</b>	420,006
Deferred tax liabilities	<b>2,188,682</b>	2,279,605
Derivative financial instruments	<b>70,063</b>	34,742
Other financial liabilities	<b>131,780</b>	—
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Total non-current liabilities	<b>19,128,416</b>	16,754,185
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<b>NET ASSETS</b>	<b>39,545,446</b>	37,247,559
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<b>EQUITY</b>		
Equity attributable to owners of the Company		
Share capital	<b>359,384</b>	359,359
Treasury shares held under share award scheme	<b>(29,244)</b>	(56,916)
Other reserves	<b>11,695,470</b>	12,953,689
Retained earnings	<b>22,673,047</b>	19,726,510
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	<b>34,698,657</b>	32,982,642
Non-controlling interests	<b>4,846,789</b>	4,264,917
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<b>TOTAL EQUITY</b>	<b>39,545,446</b>	37,247,559
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## NOTES:

### 1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

- (b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. For the six months ended 30 June 2021, no reduction in the lease payments arising from the rent concessions (six months ended 30 June 2020: RMB1,339,000) has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period.



### 3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

**Six months ended 30 June 2021**

	<b>Liquid milk products RMB'000 (unaudited)</b>	<b>Ice cream products RMB'000 (unaudited)</b>	<b>Milk powder products RMB'000 (unaudited)</b>	<b>Others RMB'000 (unaudited)</b>	<b>Total RMB'000 (unaudited)</b>
<b>Segment revenue (note 4):</b>					
Sales to external customers	39,448,116	3,003,898	2,547,324	905,871	45,905,209
Intersegment sales	<u>298,221</u>	<u>21,231</u>	<u>6,976</u>	<u>494,324</u>	<u>820,752</u>
	39,746,337	3,025,129	2,554,300	1,400,195	46,725,961
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(820,752)</u>
Revenue					<u>45,905,209</u>
<b>Segment results</b>	<b>2,415,206</b>	<b>528,089</b>	<b>(130,057)</b>	<b>(72,351)</b>	<b>2,740,887</b>
<i>Reconciliation:</i>					
Interest income					476,512
Finance costs (other than interest on lease liabilities)					(293,046)
Share of loss of joint ventures					(34,905)
Share of profits of associates					367,253
Corporate and other unallocated income					<u>140,346</u>
Profit before tax					3,397,047
Income tax expense					<u>(429,699)</u>
Profit for the period					<u><u>2,967,348</u></u>
<b>At 30 June 2021</b>					
<b>Segment assets</b>	<b>52,362,320</b>	<b>4,689,462</b>	<b>19,041,085</b>	<b>1,077,365</b>	<b>77,170,232</b>
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(29,436,039)
Corporate and other unallocated assets					28,347,685
Investment in joint ventures					2,000
Investments in associates					9,241,189
Assets of a disposal group classified as held for sale					<u>944,893</u>
Total assets					<u>86,269,960</u>
<b>Segment liabilities</b>	<b>23,702,581</b>	<b>3,267,240</b>	<b>11,248,119</b>	<b>1,699,139</b>	<b>39,917,079</b>
<i>Reconciliation:</i>					
Elimination of intersegment payables					(29,436,039)
Corporate and other unallocated liabilities					<u>36,243,474</u>
Total liabilities					<u><u>46,724,514</u></u>

Six months ended 30 June 2020

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

#### 4. REVENUE

An analysis of the revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Sale of goods	45,905,209	37,525,584
Consigned processing services	—	7,875
	<u>45,905,209</u>	<u>37,533,459</u>

#### 5. OTHER EXPENSES

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Write-down of inventories to net realisable value	84,178	54,992
Write-down of assets of a disposal group classified as held for sale	—	71,628
Impairment of prepayments, other receivables and other assets	—	67,234
Donations	14,904	445,858
Educational surcharges, city construction tax, and other taxes	250,787	211,938
Net fair value loss on forward currency contracts	10,635	10,112
Loss on partial disposal of equity interests in associates	10,584	—
Net fair value loss on exchangeable bonds	—	29,672
Net fair value loss on convertible promissory notes	1,326	1,200
Net fair value loss on warrants	—	11,817
Foreign exchange losses, net	—	5,824
Loss on re-measurement of an equity interest in a joint venture upon a business acquisition	38,092	—
Others	52,179	33,520
	<u>462,685</u>	<u>943,795</u>

## 6. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six months ended	
		30 June	
		2021	2020
		<b>RMB'000</b>	<b>RMB'000</b>
		(Unaudited)	(Unaudited)
Cost of inventories sold		<b>28,352,576</b>	22,876,292
Cost of consigned processing services		<u>—</u>	<u>4,781</u>
Cost of sales		<b>28,352,576</b>	22,881,073
Impairment of financial and contract assets, net:			
Impairment of trade receivables, net		<b>76,625</b>	100,757
Impairment of financial assets included in prepayments, other receivables and other assets, net		<u>—</u>	<u>974</u>
		<b>76,625</b>	101,731
Depreciation of property, plant and equipment		<b>915,524</b>	845,372
Depreciation of right-of-use assets		<b>165,253</b>	136,400
Depreciation of investment properties		<b>1,903</b>	1,765
Amortisation of other intangible assets		<b>36,034</b>	49,027
Outsourcing expenses	(a)	<b>155,764</b>	197,242
Other rental expenses		<b>145,015</b>	140,719
Display space fees		<b>1,573,968</b>	1,840,301
Employee benefit expense (including directors' and senior executive's emoluments)		<b>3,525,431</b>	2,949,141

*Note:*

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

## 7. INCOME TAX EXPENSE

Under the Law of the People’s Republic of China on Corporate Income Tax (“PRC CIT Law”), except for certain preferential tax treatment available to certain subsidiaries of the Group, the entities within the Group are subject to PRC corporate income tax (“CIT”) at a rate of 25% (2020: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	For the six months ended	
	30 June	
	2021	2020
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
<b>Current income tax</b>		
Current income tax charge	871,562	460,381
<b>Deferred income tax</b>		
Relating to origination and reversal of tax losses and temporary differences	<u>(441,863)</u>	<u>(192,843)</u>
	<u><b>429,699</b></u>	<u><b>267,538</b></u>

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

## 8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

During the six months ended 30 June 2021 and 2020, the Company declared and paid a final dividend of RMB0.268 and RMB0.181 per ordinary share as proposed for the year ended 31 December 2020 and 2019, respectively, to the shareholders of the Company.

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

### (a) Basic earnings per share

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

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

	<b>For the six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>Number of shares</b>	Number of shares
	<b>(in thousand)</b>	(in thousand)
	<b>(Unaudited)</b>	(Unaudited)
Issued ordinary shares at 1 January	<b>3,948,108</b>	3,935,015
Effect of share options exercised	<b>116</b>	1,013
Effect of shares purchased under share award scheme	<b>(8,163)</b>	(14,185)
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<b><u>3,940,061</u></b>	<b><u>3,921,843</u></b>

**(b) Diluted earnings per share**

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

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

	<b>For the six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>Number of shares</b>	Number of shares
	<b>(in thousand)</b>	(in thousand)
	<b>(Unaudited)</b>	(Unaudited)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<b>3,940,061</b>	3,921,843
Effect of dilution —		
Weighted average number of ordinary shares:		
Share options	<b>14,160</b>	5,734
Share awards	<b>6,049</b>	5,025
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<b><u>3,960,270</u></b>	<b><u>3,932,602</u></b>

## 10. TRADE AND BILLS RECEIVABLES

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

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

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Within 3 months	3,172,222	2,484,058
4 to 6 months	460,213	380,879
7 to 12 months	158,849	73,089
Over 1 year	96,570	50,336
	<u>3,887,854</u>	<u>2,988,362</u>

## 11. TRADE AND BILLS PAYABLES

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

	<b>30 June 2021 RMB'000 (Unaudited)</b>	31 December 2020 RMB'000 (Audited)
Within 3 months	7,355,458	7,183,665
4 to 6 months	778,556	725,645
7 to 12 months	89,244	40,720
Over 1 year	42,607	19,291
	<u>8,265,865</u>	<u>7,969,321</u>



## 12. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2021, the Group acquired an aggregate of 1,045,985,065 ordinary shares of China Shengmu Organic Milk Limited (“China Shengmu”, an existing associate of the Group). Upon the completion of the transaction, the Group held in aggregate 2,513,178,555 ordinary shares of China Shengmu, representing approximately 29.99% of the total number of shares issued by China Shengmu.

On 9 July 2021, the Group completed an acquisition of an aggregate of 100,976,102 ordinary shares of Shanghai Milkground Food Tech Co.,Ltd (“MilkGround”, an existing associate of the Group) through private placement at cash consideration of approximately RMB3,000,000,000 (RMB29.71 per share). After the private placement, the Group held 146,954,255 shares of MilkGround, representing approximately 28.46% of the issued share capital of Milkground.

Together with the private placement, Inner Mongolia Mengniu Dairy (Group) Co., Ltd (“Inner Mongolia Mengniu”) and Ms. Chai Xiu, the then controlling shareholder of MilkGround, entered into a cooperation agreement, which also took effect on 9 July 2021. Please refer to the Company’s announcement dated 15 December 2020 for details of the terms and conditions of the cooperation agreement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Business Division Performance

##### *Liquid Milk Business*

The dairy industry was temporarily affected by the outbreak of COVID-19 epidemic in early 2020. However, the formation and development of greater national health awareness accelerated with the promotion from the Chinese government and authoritative organizations. Consumption of dairy products, in particular liquid milk, increased as consumers began to realize the importance of consuming high-quality milk protein to supplement nutrition and enhance immunity, which became a driving factor for the strong recovery and transformation of the dairy industry.

Following the containment of the epidemic, consumers continued to maintain great awareness of nutrition and health. During the first half of 2021, consumption of dairy products in China sustained a healthy growth on top of the strong recovery in the post-epidemic period in 2020. According to industry data, the sales of liquid milk in China grew by 9.5% in the first half of the year. The sales volume of liquid milk products, in particular room temperature pure milk and fresh milk, demonstrated rapid growth. The growth rate of mid- to high-end products was higher than the industry average. Products including active probiotic chilled yogurt and chilled probiotic drinks which support intestinal well-being also showed recovery.

Due to the above factors, the growth of dairy consumption demand, in particular pure milk resulted in an increase in demand of raw milk. From a supply perspective, the price of corn, wheat and soybean meal in China has recorded year-on-year growth in the first half of the year whilst the feed cost of dairy cattle remained elevated. In the face of rising cost of raw milk, the Group continued to restructure its milk sources in order to fulfill the demand of high-quality fresh milk of Mengniu. In addition, following the trend of product premiumisation in the market, we have continued improving our product portfolio. The sales of high-end products, including *Milk Deluxe* and *Shiny Meadow*, grew rapidly in the first half of the year.

With respect to sales channels, all offline sales channels demonstrated growth in the first half of the year, driven by the growth of room temperature liquid milk. In particular, sales in convenience stores and grocery stores recorded double-digit growth. For online sales channel, room temperature and chilled liquid milk both demonstrated good performance. As in-home consumption has been surging, online to offline (“O2O”) home delivery sales channel grew rapidly.

The Chinese government released the Decision on Optimizing the Fertility Policy and Promoting the Long-term Balanced Development of the Population (關於優化生育政策促進人口長期均衡發展的決定) on 31 May 2021 to further optimize the fertility policy by allowing a couple to have three children and rolling out support measures for parents. It is expected that the implementation of three-child policy will create opportunities for development of the dairy industry. The Group will pay close attention to any changes in market structure resulting from the implementation of the policy and put efforts in fulfilling customers' needs in order to achieve sustainable and high-quality growth.

### ***Room Temperature Product Business***

In the first half of 2021, our room temperature business demonstrated industry leading performance with market share increasing by 0.7 percentage point to 28.8%. All of our room temperature business segments demonstrated growth. In particular, with our product portfolio shifting towards mid- to high-end products underpinned by the trend of consumption upgrade, the growth of *Milk Deluxe* and *Mengniu* pure milk products were significantly higher than that of the industry.

During the first half of the year, the product portfolio of *Milk Deluxe* was further optimized through product innovation and brand upgrade, including the introduction of “better organic” desert pure milk which is sourced from Ulan Buh Desert oasis and contains 3.8g of protein per 100 ml, and CBP high-calcium pure milk which contains 135mg of high-quality milk source calcium per 100 ml and abundant of vitamin D for better calcium absorption. *Mengniu* pure milk also introduced the Nutritious and Mellow Enjoyment pure milk series and other new products. In the first half of the year, the *Just Yoghurt* brand introduced a new protein-rich and low-sugar product, yellow peach quinoa drink, providing consumers with healthier and delicious pure yogurt. The brand also introduced light buttermilk, its first light meal replacement yogurt, allowing consumers to enjoy delicious food while controlling calorie intake scientifically. *Fruit Milk Drink*, *Suan Suan Ru* (酸酸乳) and other milk beverage brands introduced a variety of new products in the first half of the year, such as red grapefruit Sijichun (紅柚四季春), Ruciqizhi (乳此汽質), a zero-sugar milk beverage sparkling water, and Suan Suan Ru lemon tea (酸酸乳沏個檸檬), upgrading the brand image to attract young consumers and lead the innovation and trend of the industry.

With respect to brand strategy, *Milk Deluxe* organized a series of themed marketing campaigns, such as “Better 2021 (更好二零二一)”, “Better Youth (更好青春)” and “Better Childhood (更好的童年)” during Chinese New Year, May 4th Youth day and June 1st Children’s Day, respectively, emphasising the “Better” series brand proposition. Adhering to brand proposition of “Nurture Your Greatness (營養你的要強)”, the *Mengniu* branded series products continue to communicate taglines like “pure nutrition with aerospace quality (濃純營養，航天品質)” to our consumers.

As for sales management, our room temperature product business continued to increase the coverage of offline stores, achieving both growth in number of POS and sales volume. In addition, we pushed for development of the new retail model, accelerated the development of the e-commerce O2O platform business and promoted the integration of online and offline business. Through in-depth cooperation with O2O platforms, such as JD Daojia, Ele.me, Meituan, Taoxianda (淘鮮達) and Duodian (多點), our home delivery business achieved a three-digit year-on-year growth in the first half of the year. During the 618 Shopping Festival, Mengniu ranked first in the sales of liquid milk on JD.com and Tmall platforms. On 18 June, the total online sales exceeded RMB100 million. The total number of online members of Mengniu exceeded 26 million, with the number of active members leading the industry. Regarding the channel penetration in towns and villages, Mengniu continued to expand and develop the markets in towns and villages through its “Penetration into Towns and Villages” initiative. Through the establishment of a digital management platform, systematic and visualized management of personnel and outlets are realized, the penetration of products and services has been accelerated, and the market share of Mengniu’s room temperature milk in the rural market has been further increased. As of 30 June 2021, the number of outlets in towns and villages directly controlled under the “Penetration into Towns and Villages” initiative exceeded 600,000, achieving growth in both number of outlets and sales volume.

### ***Chilled Product Business***

During the period, Mengniu has grasped the changes in consumption trends, sales channels and consumption habits, and continued to drive the value marketing, product innovation and Route-to-Market (“RTM”) channels establishment for chilled yogurt and chilled probiotic drinks. Our chilled products have ranked first in the industry for the 17th consecutive year in terms of market share and sales of chilled products continue to be industry leading.

To support the “Three Reductions & Three Kinds of Health (三減三健)” campaigns launched by the Chinese government and fulfill the increasing demand of lower sugar intake of consumers, *Champion* introduced zero sucrose and concise formula products in the first half of the year. In order to satisfy the fast-growing demand of mid- to high-end yogurt of households, we launched 1-liter packaged silky concise yogurt. *Yoyi C* focused on the development of small-bottle LC-37 product and launched low-sugar, zero-fat and calcium-rich LC-37 products which contain 50 billion active probiotics per bottle.

In the first half of the year, *Yoyi C* focused on the marketing in key cities. Through placing advertisements in outdoor media, we promoted *Yoyi C* products to more than 3 million households. Targeting at key consumers of *Yoyi C*, we promoted our products to 2.8 billion consumers with 72% of ad reach rate, far exceeding the industry average. *Yoyi C* cooperated with Xiaohongshu (小紅書) and organized a marketing campaign with a theme of “Everything is digestible with good luck in the Year of Ox (牛運到家，萬物皆可消化)”. The co-branded promotion was more effective than expected.

As for sales management, our chilled product business unit continued to deepen its RTM strategy and put great efforts in developing e-commerce platforms and new retail channels. In the first half of the year, we ranked first in terms of comprehensive market share on O2O home delivery services and community fresh food shopping platforms. In addition, leveraging big data, smart internet and other emerging technologies and platforms, we were able to achieve refined and visualization of the management of offline channels, allowing us to further expand our network coverage and our ability to manage end consumers.

Furthermore, our chilled product business unit collaborated for the first time with Sam's Club (山姆會員店) during the first half of the year to provide new customized yogurt products, developing our business model of exclusive supply for direct sales. In addition, we launched a series of dairy products tailored for students which was exclusively supplied through campus sales channels. In order to expand our business to lower-tier cities, the Group introduced *Mengniu Ahmoule Flavor Yogurt*, a customized product with a nutritious, healthy and delicious product positioning. Ahmoule rapidly penetrated and captured markets in tier 3 and 4 cities, attracting an increasing number of consumers pursuing trendy and convenient lifestyle.

### ***Fresh Milk Business***

In the first half of 2021, the fresh milk industry maintained rapid growth, Mengniu's fresh milk business was under strong development momentum, through strategies including launching innovative products, enhancing brand marketing, strengthening supply chain development and expanding channels, we doubled its revenue and increased its market share significantly.

Through our insight of market demands, *Shiny Meadow* introduced Youhu A2 fresh milk product featuring "first fresh milk for babies (寶寶的第一口鮮奶)" in the first half of 2021. *Shiny Meadow* also introduced a new fresh milk product which is rich in original high-quality milk protein (4.0g/100ml) and original calcium (130mg/100ml). *Shiny Meadow* also introduced co-branded mini packaged milk tea to explore fresh milk+ category opportunities and to strengthen its leading position in high-end fresh milk market.

Our fresh milk business unit rapidly expanded its coverage to key and potential regions, underpinned by its strategic supply chain arrangement, which combines three core central factories and satellite factories. In addition, through establishing innovative digital supply chain, we were able to continue to integrate our cold chain business and improve our distribution system.

According to data from JD.com, Mengniu's fresh milk products ranked first among all chilled dairy products in JD Live during the 618 Shopping Festival in terms of sales volume and accounted for 70% of sales volume of fresh milk products sold in JD.com. Mengniu's fresh milk products ranked top among all fresh milk products sold in Sam's Club and Yonghui Superstores in terms of sales volume and far surpassed other brands. In addition, driven by the trend of in-home consumption, the home delivery business achieved impressive results with three-digit year-on-year growth.

### ***Milk formula business***

On 18 March 2021, National Health Commission of the PRC Promulgated three standards, namely Food Safety National Standard for Infant Formula (《食品安全國家標準嬰兒配方食品》) (GB10765-2021), Food Safety National Standard for Older Infant Formula (《食品安全國家標準較大嬰兒配方食品》) (GB10766-2021) and Food Safety National Standard for Young Children Formula (《食品安全國家標準幼兒配方食品》) (GB10767-2021), which imposed stricter requirements on raw material purchase, supply chain, production processes, research and development and production stability, whereby promoting the industry upgrade and improvement in product quality.

The Politburo of Central Committee of the Communist Party of China released the Decision on Optimizing the Fertility Policy and Promoting the Long-term Balanced Development of the Population (關於優化生育政策促進人口長期均衡發展的決定) on 31 May 2021, to further optimize the fertility policy by allowing a couple to have three children and rolling out support measures for parents. It is expected that the implementation of three-child policy will further boost the sales of infant milk formula and the industry structure will be optimized continuously.

With respect to milk formula products for adults, the trend of aging population in China continues to intensify, as indicated by the latest census data. With the population in China improving their living standards and having greater awareness of health issues, milk formula products for middle-aged and elderly people have huge market potential. The adult formula market will trend towards strategically upgrading from simple nutritional supplements to formula and functional products.

### ***Milk formula business of Yashili***

The milk formula business of Yashili International Holdings Ltd (“Yashili”, stock code: 1230.HK), in which Mengniu holds 51% equity interest, recorded steady increase in sales, mainly due to (i) the increasing penetration of adult milk powder and nutritional products, driven by development of new functional products shifting focus to high-end products while developing new market segments; (ii) optimization of product portfolio of infant formula products, and the satisfactory business growth after rebranding; and (iii) enhanced brand exposure and credibility through a variety of product and brand marketing efforts, which promoted online and offline sales volume growth.

In the first half of 2021, Yashili comprehensively upgraded the formulas of existing product lines and introduced various high-end functional adult milk formulas, capitalizing on the aging population trend, the rising living standards, and growing health awareness of consumers. Infant milk formula business focused on *Reeborne* with seven products covering mainstream milk formula, organic milk formula and goat milk formula. The Yourui series adult milk formula, which tailored five high-end products for the middle-aged and the elderly to address their physical characteristics and nutritional supplement needs, achieved strong growth through market segmentation and expansion of sales channels during the period. In addition, Yashili also developed products specifically targeting particular consumer groups, including M8 children’s growth milk formula.

During the period, Yashili continued to focus on the mother-and-baby channels for infant milk formula and supermarket channels for nutritional products. Yashili also accelerated the development of e-commerce channels as well as the development of new channels and new products. Home delivery service has become part of the regular services after the outbreak of the epidemic. Yashili also strengthened its cooperation with Alibaba, JD.com and other e-commerce platforms and further developed new retail channels, such as community group purchase and social e-commerce, to boost the steady development of its business.

### ***Bellamy’s Business***

*Bellamy’s*, an Australian organic infant milk formula and baby food provider, was acquired by the Group at the end of 2019. During the period, *Bellamy’s* launched the new brand positioning of “True Organic” and corresponding advertisements, to continuously increase exposure and popularity of the brand and create momentum.

With its key product, cross-border platinum organic A2, *Bellamy's* was able to increase its market share in cross-border e-commerce channels.

We further expanded the offline sales network of Chinese-labelled *Bellamy's* organic Equi-pure infant milk formula series. In addition to rapid distribution, we also focused on the co-creation with channels. We have launched “*Bellamy's* Organic Kitchen (貝拉米有機廚房)”, “*Bellamy's* Mother Yoga (貝拉米美媽瑜伽)”, *Bellamy's* Organic Festival Roadshow and other themed IP consumer activities co-created with various channels and capitalized on community, live broadcast and other emerging digital marketing tools to encourage continuous innovation.

### ***Ice Cream Business***

In the first half of 2021, the ice cream business division continued to focus on its brands, such as *Suibian*, *Deluxe* and *Mood for Green*, to further improve innovation, branding and product capabilities. During the period, in order to bring brand-new experience to our customers, *Suibian* introduced caramel pearl and rum flowing core products, which successfully attracted young consumers. Adhering to its concept of “A Bite of Nature (一口大自然)”, *Mood for Green* introduced the herbal “Zhiqing (植輕)” ice cream series, offering more healthy product choices to our consumers. As a new generation brand of high-end ice cream, in line with its brand concept of “Less is More”, *Deluxe* introduced the “Qingchong (傾寵)” milk ice cream series. During the period, it also co-branded with *Xiao Guan Cha* (小罐茶) to launch the Chinese tea cup product series, leading the industry to launch ice cream products with new Chinese trend.

In respect of channels, the ice cream business division furthered RTM strategy by establishing “Qingxin (傾心)” ice cream flagship stores on various e-commerce platforms, so as to accelerate the deployment of modern and new retail channels. During the period, through measures such as further expanding its convenience store channels and accelerating the coverage of sales points, the ice cream business segment had effectively improved its product turnover rate and supply chain efficiency. In addition, benefiting from the rapid growth of home and online consumption after the epidemic, e-commerce and new retail channels of ice cream underwent diverse development with full coverage of home delivery business platforms, effectively achieving synergies in online and offline integration.

### ***Cheese Business***

In the first half of 2021, with the increasing demand from consumers for healthy and nutritional high-end dairy products, and Mengniu's proactive development of product innovation and digital marketing, the cheese business grew rapidly in the retail and food service sectors with continuous improvement in branding, channels and product quality.



During the period, with deep consumer insight, the cheese business introduced the additive-free children's cheese sticks with no preservative, artificial flavors and color additives, leading to changes and innovation of children's cheese products. The first organic cheese stick in China was also introduced. Three kinds of certified organic cheese, imported from Denmark and the European Union and sourced in China, were selected to offer higher standards of nutrition and health, and were popular among mothers and children. Moreover, Mengniu's 愛氏晨曦 also introduced a series of new room temperature leisure cheese products, creating a new area of tasty, healthy and light room temperature cheese.

Cheese food service segment provides professional users with professional dairy products and solutions and strategically positions itself as a professional and digital brand. The cheese food service segment aims to promote its brand through organizing professional exhibitions and launching co-branding campaigns. In the first half of 2021, our cheese food service segment launched co-branding campaigns with Freshhema, Daselea and other brands. As for new products, in view of the popular trend of thick milk beverage, our cheese food service segment introduced Danish full-cream milk base with the concept of "Healthy and Pure, Rich and Thick (健康加純、濃郁加厚)". As for key products, targeting the bakery market, we focused on the promotion of 愛氏晨曦 refrigerated whipping cream and 愛氏晨曦 cream cheese, so as to expand our business into bakery market with our concept of providing natural and healthy products.

On 9 July 2021, Mengniu became a substantial shareholder of Shanghai Milkground Food Tech Co., Ltd. (600882.SH), which is a leading cheese company in China and has the most excellent research and development team and largest production capacity in China. At present, its cheese products and children's cheese stick rank top in terms of market share in China. Through cooperating with Milkground, both the Group and Milkground will be able to gain advantages through sharing resources. The Group aims to expand its business into the domestic and global cheese market with enormous potential together with Milkground through business cooperation in multiple aspects and dimensions, including co-establishing sales channel, co-sharing marketing resources, and improving production capacity.

## **Quality Management**

In the first half of 2021, adhering to the core values of “consumers are at the heart of all our decisions”, we upgraded our Quality Management System 3.0 with a focus on our culture of quality and design to provide high-quality products. Through organizing activities with a theme of culture of quality, including setting up benchmark and models, skill competitions and 100-day quality competitions, we aimed to develop our culture of quality. Our quality design management systems has now covered all products. In addition, we strive to continue improving consumer experience through conducting testing of excellence, ABC zone product management and store inspection.

The Group continues to improve and upgrade its management system based on eight advanced international standards and continued to apply for ISO9001, FSSC22000, GMP, HACCP and other management system certifications. The Group applied for, and successfully obtained, BRC certifications for the first time in 2021.

As for certifications for products, the Group applied for certificates for milk products for students and 14 organic products and obtained all certificates with a passing rate of 100%. Mengniu’s cheese business obtained its first Chinese organic product certification.

During the period, the Group’s milk source bases and products passed all random inspections by relevant government departments.

## **Milk Source Management**

In the face of the strongly recovering demand for dairy products after the epidemic and the shortage of upstream milk source supply, Mengniu is committed to the establishment of quality milk source bases mainly in areas where it has competitive edges in accordance with the requirements of national dairy industry revitalization and restructuring of milk source layout. Moreover, Mengniu actively promoted the strategic cooperation project of China dairy industrial park with the principal deployment of industry cluster along the Yellow River basin, Nen River basin and Xiliao River basin. In the next five years, the project aims to establish quality milk source bases that feature “one million dairy cattle, one million acres of pasture, one million tons of milk (百萬頭奶牛、百萬畝草場、百萬噸牛奶)” so as to alleviate the problem of insufficient growth in raw milk to meet consumption demand and promote the quality of the dairy industry.

Following the rapid development of ranches in China, the quality management system of these ranches had to be upgraded for better standardization, intensive management, advanced development and higher quality milk production. The milk source business division promoted raw milk quality management, SOP and digitalized platforms while taking continuous improvement measures for various aspects such as ranch establishment, cattle feeding, milk production, storage and transportation and procurement management. These measures enabled further enhancement in ranch output and efficiency, allowing quality indicators such as milk somatic cells and microorganisms to reach the level of developed countries. Mengniu achieved 100% passing rate in random inspections conducted by governmental departments on the Group's milk source bases.

With the support of the governments of China and Denmark, Zhongdan Center (中丹中心), an international dairy cooperation and exchange platform jointly established by Mengniu and Arla Foods, launched the “Zhongdan Center Golden Key of Milk Cow Technical Demonstrations (中丹中心金鑰匙技術示範專場)” in 10 ranches in various regions such as central China, western China and Inner Mongolia regions in the first half of the year. Over 40 dairy industry experts participated in the field visits and evaluations of the ranches regarding ranch operation, nutrition, breeding, milking, herd health management and feeding management. A total of 498 ranch employees and technicians participated in the demonstrations which have been proven beneficial.

In order to help cooperative ranchers to reduce cost pressure, the milk source business division has proposed a number of measures to “reduce technology costs, capital costs, and procurement costs”. The milk source business division launched the “Milk Source Technology Cost Reduction Campaign (奶源技術降本系列行動)”, in which dairy cattle scientists were invited to guide the ranchers on cost reduction for technologies in respect of “formulation and physical examination, feed replacement, cattle replacement, and perinatal improvement”. Adjustment plans were made for ranchers to improve the health of dairy cattle and increase the economic effectiveness of the ranches.

Adhering to the principle of “reduction and no antibiotics” in the use of veterinary drugs, we issued the “Mengniu Antimicrobial Drug Use Commitment for Veterinary Drugs (《蒙牛獸用抗微生物藥物使用承諾》)” for the first time in June 2021, pursuant to which comprehensive monitoring shall be carried out in the use of veterinary drugs in order to ensure that no antibiotics are used in the raw milk for production. In the first half of the year, the milk source business division tightened the disease prevention and control and the management of use of drugs (particularly the use of antibiotics). In line with the requirements of the Chinese government, the division gave guidance to the ranches on the “reduction, optimization and regulation of the use of drugs”. Over 50 special training programs on veterinary drugs for more than 1,200 participants were organized to promote the knowledge of scientific use of veterinary drugs and further reduce the use of veterinary drugs. As for disease prevention and control, comprehensive prevention and control measures for immunization and quarantine have been implemented while the dairy cattle welfare system was incorporated with a focus on daily disease prevention, vaccination, high-risk disease prevention and control and emergency response mechanism.

To achieve the strategic vision of digitalized Mengniu, the milk source business division set up an information management platform for digital milk source of smart ranches with an aim to improve industrial chain management and revitalize the dairy industry of China. Effective efforts were made to carry out the initiatives of Mengniu for the protection of the upstream dairy industry on the basis of “safeguarding acquisitions, supply, capacity, capital and operations”. Through the application of six major technologies including cloud computing, Internet of Things, big data and artificial intelligence, Mengniu boosted its data value and integrated the intelligence of industry experts to form a set of ranch operation and management solutions which assists cooperative farms in achieving stable operation and sustainable growth.

### **Corporate Digital Strategy**

As the core strategy of corporations, digitalization has become a new driving force of corporate development. In 2021, Mengniu has speeded up its digitalization efforts, through various digitalization and innovation planning, completed the overall planning of products, services and platform. Based on our digitalization strategy, we implemented strategies in four aspects, namely “Consumers Going Online, Channels Going Online, Supply Chain Going Online and Management Going Online”, so as to further facilitate the digitalization of our business.

In respect of “Consumers Going Online”, we analyzed and studied online and offline consumer data to provide data support for precision marketing, whereby effectively improving consumer operating efficiency, promoting member repurchase, realizing precision marketing and ensuring precise advertisement placement in digital media. In addition, we conducted real-time monitoring of business scenarios and other information under pre-set conditions to ensure normal operation of all business systems, early detection and elimination of potential risks and effective and timely decision making.

With regard to “Channels Going Online”, we have set up an integrated model of online and offline channels which laid a solid foundation for channel expansion. On 1 March 2021, we launched “Smart Network 2.0” which allowed us to realize digital management, digital marketing and digital connection of terminal stores. As image recognition technology has become mature, Mengniu has also introduced image recognition to enhance its channel management.

“Supply Chain Going Online” covers five major business segments, namely milk source, procurement, planning and production, warehousing and logistics and quality. Capitalizing on information technology, our production processes have been standardized with traceable quality control while our production and sales have been integrated and entire logistic process have been visualized. As such, our business development is now fully empowered and supported by digital technology.

“Management Going Online” covers financial management, human resources management, administration, management and collaboration and other aspects. With information systems, we were able to gain core capabilities for our internal management, including process standardization, management digitization, online collaboration and full-process visualization. In addition to supporting our ordinary financial business, we have also set up a digital platform for upstream procurement + downstream sales financing. Furthermore, capitalizing on financial AI intelligent platform, we were able to effectively improve business efficiency and reduce operating costs.

## **FINANCIAL REVIEW**

### **Revenue**

With the accelerated development of health awareness following the pandemic, the Group continued to promote product portfolio upgrades, stimulating the strong growth in the sales of mid- and high-end products, and further explored various online and offline channels. The revenue of the Group amounted to RMB45,905.2 million for the six months ended 30 June 2021 (2020: RMB37,533.5 million), representing a year-on-year increase of 22.3%. In particular, revenue from the liquid milk business, milk powder business and ice cream business increased by 21.1%, 11.6% and 34.8%, respectively, as compared with the same period last year, and the other business (in particular, cheese business) increased significantly by 98.2% as compared with the same period last year.

### **Gross Profit**

With the satisfactory growth in revenue and a notably optimized product mix, the Group’s gross profit for the period increased to RMB17,552.6 million (2020: RMB14,652.4 million). Due to the impact of the increased raw milk price, the gross profit margin decreased by 0.8 percentage point to 38.2% as compared with the same period last year (2020: 39.0%).

### **Operating Expenses**

Operating expenses of the Group for the period increased by 7.7% to RMB15,074.4 million (2020: RMB13,992.4 million), representing a decrease to 32.8% when expressed as a percentage of the Group’s revenue (2020: 37.3%). The decrease in ratio when expressed as percentage of revenue was mainly due to the measures adopted by the Group in the first quarter of 2020 that resulted in extra costs, including (i) additional expenses by the Group for epidemic prevention and control to safeguard the health and safety of workers and to resume normal work and production; (ii) additional sales and promotional expenses by the Group to reduce its channel inventories as soon as possible; and (iii) donations of cash and products to actively fulfil the Group’s social responsibilities. Related additional expenses have been limited as the epidemic was generally under control in China during the period.

During the period, selling and distribution expenses increased by 12.1% to RMB12,888.1 million (2020: RMB11,499.6 million), representing 28.1% of the Group's revenue (2020: 30.6%).

Product and brand marketing expenses during the period increased by 15.0% to RMB5,264.6 million (2020: RMB4,578.2 million), representing 11.5% of the Group's revenue (2020: 12.2%).

Administrative and other operating expenses, including impairment losses on financial and contract assets and loss on disposal of financial assets measured at amortised cost, decreased by 12.3% to RMB2,186.3 million (2020: RMB2,492.8 million), accounting for 4.8% (2020: 6.6%) of the Group's revenue. The decrease was mainly due to high comparison base as the Group proactively donated cash and dairy products during the epidemic last year.

### **Profit from Operating Activities and Net Profit**

During the period, due to the increase in the overall revenue of the Group, increase in operating efficiency and the decrease in the above mentioned additional operating expenses, the Group's earnings before interest, taxes, depreciation and amortization ("EBITDA") improved by 97.9% to RMB4,344.2 million (2020: RMB2,194.9 million) with EBITDA margin at 9.5% (2020: 5.8%).

Profit attributable to owners of the Company increased by 143.2% year-on-year to RMB2,946.5 million (2020: RMB1,211.5 million). Basic earnings per share were RMB0.748 (2020: RMB0.309), up by 142.1% year-on-year.

### **Income Tax Expenses**

For the six months ended 30 June 2021, income tax expenses of the Group totaled RMB429.7 million (2020: RMB267.5 million), representing a 60.6% increase year-on-year. Effective income tax rate was 12.6% (2020: 19.1%), down by 6.5 percentage points year-on-year, which was mainly due to increase in revenue contribution from subsidiaries that enjoy tax exemption for preliminary processing of farm products and preferential tax rate under the Western Development Policy; and loss recorded by subsidiaries in regions with high tax rates.

### **Capital Expenditure**

For the six months ended 30 June 2021, capital expenditure of the Group amounted to RMB6,694.9 million (2020: RMB2,457.5 million), representing an increase of 172.4% year-on-year. Of the total, RMB2,569.4 million was spent on building new production facilities and modifying existing ones as well as related investments, and RMB4,125.5 million was invested in equities.

## **Working Capital, Financial Resources and Capital Structure**

For the six months ended 30 June 2021, the Group recorded net cash inflow from operating activities of RMB2,704.1 million (2020: RMB2,696.8 million), representing an increase of 0.3% as compared with the corresponding period last year.

As of 30 June 2021, outstanding interest-bearing bank and other borrowings of the Group increased to RMB23,362.4 million (31 December 2020: RMB18,944.3 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB7,122.2 million (31 December 2020: RMB4,924.4 million). More than 90% of the interest-bearing bank and other borrowings were bearing interest at fixed rates.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as at 30 June 2021 were RMB15,276.1 million (31 December 2020: RMB7,547.2 million).

The Group's total equity as at 30 June 2021 amounted to RMB39,545.4 million (31 December 2020: RMB37,247.6 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 59.1% (31 December 2020: 50.9%).

Finance costs of the Group were RMB305.0 million (2020: RMB324.4 million), or approximately 0.7% when expressed as a percentage of revenue (2020: 0.9%), representing a decrease of 0.2 percentage point year-on-year.

## **PRODUCTS**

Leveraging its advantage in resources and globally advanced technologies, Mengniu focused on product differentiation and premiumization, which in turn drive further sales volume growth and industry leadership underpinned by superior products. During the period, Mengniu put forward and adopted a consumer-oriented production development concept of DTV (Design to Value). The Group's product lines had been streamlined to reveal the value of its products for the sustainable development of Mengniu. The principal businesses of the Group are liquid milk, ice cream, milk formula and cheese products with their performance during the period outlined as below:

### **Liquid milk**

Revenue amounted to RMB39,448.1 million (2020: RMB32,565.3 million), accounting for 85.9% of Mengniu's total revenue (2020: 86.8%).

## ***UHT milk***

The *Milk Deluxe* 3.0 era began following the launch of its products in upgraded “DreamCap™” packaging in 2019. In May and June 2020, upgraded organic pure milk and pure milk of “DreamCap™” packaging containing 3.8 g of natural high quality milk protein and 125 mg of natural calcium per 100 ml have been launched. In satisfying health needs of consumers, the *Milk Deluxe* organic pure milk has been awarded dual certifications for organic products from China and the European Union. Such achievements further reinforced the premium position of the *Milk Deluxe* brand. In 2021, *Milk Deluxe* launched the “Better Organic” desert organic pure milk and the CBP high-calcium pure milk. The “Better Organic” desert organic pure milk uses limited raw milk from Ulan Buh Desert oasis and contains 3.8 g of protein per 100 ml. The CBP high-calcium pure milk contains 135 mg of calcium from high-quality milk source per 100 ml and has rich Vitamin D that can promote better absorption of calcium.

Mengniu’s comprehensive UHT pure milk line includes *Mengniu* pure milk, high-calcium milk, low-fat high-calcium milk and skimmed milk. In August 2020, *Mengniu*’s Nutritious and Mellow Enjoyment pure milk series was introduced. The product contains 3.3 g of protein per 100 ml and has a very rich taste.

Key Products:

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

## ***Room Temperature Yogurt***

*Just Yoghurt*’s light flavor yogurt with fruit introduced a new yellow peach and quinoa flavored product this year. With more protein and less sugar content, consumers are provided with more healthy and delicious yogurt. The brand also launched the light buttermilk, which is the first series of light meal replacement yogurt that allow consumers to enjoy delicious meal while controlling calorie intake scientifically.

Key Products:

- *Just Yogurt* light flavor yogurt
- *Just Yogurt* light meal yogurt



### ***Room Temperature Milk Beverage***

In the first half of the year, milk beverage brands including *Fruit Milk Drink* and *Suan Suan Ru* launched a variety of new products, such as red grapefruit Sijichun (紅柚四季春), Ruciqizhi (乳此汽質) sugar-free sparkling water with lactic acid bacteria, and Suan Suan Ru lemon tea, and comprehensively upgraded the brand's rejuvenation and leading the innovation and trend in the industry.

Key Products:

- *Fruit Milk Drink*
- *Fruit Milk Drink* high-end colorful fruit pulp series
- *Suan Suan Ru* yogurt-flavored drink

### ***Chilled Yogurt***

In the first half of the year, *Champion* introduced zero sucrose yogurt series containing no cane sugar, no artificial sweeteners and no preservative. To satisfy the rapid growing demand for household consumption of mid-to-high end yogurt, we have launched a new silky concise formula yogurt product. Besides, the “Champion Yogurt Approved Health Food” series which holds the blue cap is the only yogurt certified by the Chinese government as a healthcare food in China. The product contains BB-12, a very active Bifidobacterium which can effectively regulate the bacteria population in the digestive system, from Denmark.

Ahmoule Flavor Yogurt (阿慕樂風味發酵乳), a new product series under *Mengniu* brand positioned as a mid-end yogurt was launched in February 2021. The product is produced from 100% raw milk with three types of active probiotics, and each bottle contains  $\geq 5\text{g}$  of high quality protein. Positioning as a nutritious, healthy and delicious product, it can meet consumers' demand for on-the-go convenient product.

Key Products:

- *Champion*
- *Mengniu* Nordic Cheese Flavor Yogurt
- *Mengniu* Ahmoule Flavor Yogurt

### ***Chilled Milk Beverage***

The small-bottle LC-37 series is the major series of *Yoyi C* brand. Each bottle of the product contains 50 billion active probiotics, low sugar, zero fat and high calcium. Enough number of probiotics can remain active to effectively regulate the condition of the digestive system even with the presence of gastric acid and bile and under the body temperature of 37 °C.

Key Products:

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

### ***Fresh Milk***

Mengniu's *Shiny Meadow* fresh milk was introduced as a premium brand. It is produced using low-temperature membrane concentration technology and Swedish milk fat separation technology, enabling it to retain the highest proportion of natural nutrients in quality fresh milk. In the first half of 2021, *Shiny Meadow* captured the opportunities from market demands and launched the new Youhu A2 fresh milk product featuring “first fresh milk for babies (寶寶的第一口鮮奶)”. *Shiny Meadow* also launched a fresh milk product which is rich in original high-quality milk protein (4.0g/100ml) and calcium (130mg/100ml). *Shiny Meadow* introduced mini packaged milk tea to explore fresh milk + category opportunities and to strengthen its leading position in high-end fresh milk market.

Key Products:

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

### ***Ice Cream***

Revenue from the ice cream business amounted to RMB3,003.9 million (2020: RMB2,229.2 million), accounting for 6.5% of Mengniu's total revenue (2020: 5.9%).

In the first half of the year, *Suibian* introduced caramel pearl and rum flowing core products, which successfully attracted young consumers.

Adhering to its brand proposition of “A Bite of Nature (一口大自然)”, *Mood for Green* introduced the herbal “Zhiqing (植輕)” ice cream series, offering more healthy product choices to our consumers.

As a new generation brand of high-end ice cream, in line with its brand concept of “Less is More”, *Deluxe* introduced the “Qingchong (傾寵)” milk ice cream series. During the period, it also co-branded with *Xiao Guan Cha* (小罐茶) to launch the Chinese tea cup product series, leading the industry to launch ice cream products of the new Chinese trend.

Key Products:

- *Suibian*
- *Deluxe*
- *Mood for Green*
- *Mengniu Ice+*
- *Mengniu* Russian style ice cream brick

### **Milk Formula**

Revenue from the milk formula business amounted to RMB2,547.3 million (2020: RMB2,281.9 million), accounting for 5.6% of Mengniu’s total revenue (2020: 6.1%). The revenue of Milk Formula business mainly included the revenue from *Yashili* and *Bellamy’s*.

#### ***Yashili***

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

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

Specially added with *Bifidobacterium lactis*, Probio-M8, M8 children's growth milk formula can facilitate nutrient absorption, and regulate and strengthen the condition of the digestive system. The formula is also specially enhanced with a variety of nutrients, including FOS, GOS, PS, DHA, ARA and lactoferrin. It is an effective formula that is ideal for children and supports their growth.

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

### ***Bellamy's***

In August 2020, *Bellamy's* launched the Chinese-labelled organic Equi-pure infant milk formula with the addition of nucleotide. The product contains six major nutrients, namely DHA, ARA, choline, taurine, inositol and L-carnitine. In addition, the product has new ingredients of organic GOS/FOS, a combination of prebiotics, which can enhance the protection function of the micro ecosystem of the intestines of infants.

*Bellamy's* super high-end organic A2 milk formula series is made from 1% rare organic milk source, and contains BB-12 active probiotics, algae oil DHA and lutein. The super high-end organic goat milk formula series, being awarded Australia dual organic certifications, contains 100% pure goat milk protein, D-Geni-XTM probiotics and prebiotics, and over 20 types of nutrients and a full lactose formula. *Bellamy's* also sells other supplementary foods for infants, including organic baby rice and rice cereal, organic dried fruits and organic puree.

Key Products:

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

### **Other Products**

Revenue from other products amounted to RMB905.9 million (2020: RMB457.1 million), accounting for 2.0% of Mengniu's total revenue (2020: 1.2%), among which, revenue from cheese products amounted to RMB656.1 million (2020: RMB388.9 million).

### **Cheese**

愛氏晨曦 brand covers cheese products including kid's cheese, leisure cheese, cheese to go with meals and high-end cheese. Furthermore, targeting the bakery market, we focused on the promotion of 愛氏晨曦 refrigerated whipping cream and 愛氏晨曦 cream cheese, thereby covering all consumption scenarios. Key Products:

- 愛氏晨曦 cheese for children's growth
- 愛氏晨曦 cheese dessert
- 愛氏晨曦 shredded mozzarella

### **PRODUCTION**

Mengniu deploys its production capacity according to the potential of relevant markets and its own product strategy. As at 30 June 2021, Mengniu had 41 production bases in China, two production bases in Indonesia, and one production base in Australia and New Zealand, respectively. It had a total annual production capacity of 10.89 million tons (December 2020: 9.9 million tons).

## SUSTAINABLE DEVELOPMENT

In the first half of 2021, Mengniu continued to implement its sustainable development strategies and convened meetings of the Sustainable Development Executive Committee, annual work meeting for sustainable development and other meetings. At such meetings, our Directors and the management discussed key topics on environment, social and governance (“ESG”) and follow-up actions of Mengniu, so as to further improve its ESG management. During the period, the ESG Executive Committee Secretariat formulated and refined “Administrative Measures on ESG System of Mengniu (《蒙牛ESG體系管理辦法》)” and further optimized the implementation of ESG strategies of Mengniu in accordance with strategy of “To Create a New Mengniu”.

Mengniu has been actively committed to combating climate change through promoting its decarbonization and transformation. In the Sustainability Report of Mengniu for 2020 (《二零二零年蒙牛可持續發展報告》), Mengniu undertook to achieve carbon neutrality earlier than the rest of the industry and will disclose carbon emission reduction targets and roadmap in 2022. In June 2021, we organized a carbon emission strategy communication workshop to further optimize the data calculation model which laid a solid foundation for the formulation of further carbon neutrality roadmap. In addition, we cooperated with Food and Agriculture Organization of the United Nations, Global Dairy Platform, International Dairy Federation and other international organizations to discuss on the goal and roadmap of carbon neutrality of dairy industry in China.

In order to further strengthen our environmental protection and animal welfare management, we are committed to reducing water usage per ton of dairy product production by 6% in 2025 compared to 2020 and pledge to complete the research and development of 100% sustainable packaging technology by 2025. In the first half of 2021, we launched a risk management project regarding water resources and formulated risk early warning map for water resources based on the national water scarcity and quality in China. Efforts have been put in exploring and introducing new technologies, new methods and new processes in order to continuously improve the water usage efficiency.

During the period, Mengniu explored innovative applications of green technology. *Shiny Meadow*, our fresh milk brand, innovatively launched a plastic bottle recycling project to produce asphalt paving with recycled plastic bottles. In April 2021, the first road paved with recycled plastic waste in China was built. In addition, we encouraged our supermarket channels to use recyclable plastic boxes instead of corrugated boxes. Our pilot program transported nearly 30,000 recyclable plastic boxes and the use of cartons was significantly reduced. In addition, we strategically operated with Dow to use post-consumer recycled plastics (PCR) as product packaging films. It is expected that carbon emission will reduce by nearly 300 tonnes per year after the switching is done.

In the first half of 2021, Mengniu promoted a responsible supply chain and completed the ESG risk identification for its suppliers. In order to raise the level of sustainable development in the supplier ecosystem and to reduce the ESG risk in the supply chain, we had formulated ESG conduct standards and organized ESG empowerment trainings for our suppliers. Meanwhile, Mengniu participated in the “Pilot Trial and Promotion of Low Carbon Emission Plan for Large Scale Ranches in China (中國大型牧場低碳減排方案試點與推廣)”, an international cooperation project initiated by the Consultative Group on International Agricultural Research (CGIAR), the China Agricultural University and the Chinese Academy of Agricultural Sciences. We had invited over 20 ranches to participate in systematic pilot trial and organized industry professional to perform onsite analysis. We also formulated strategies to lower carbon emissions, providing a solid foundation for low carbon emission technology development in the future. During the period, Mengniu was awarded the “Green Supply Chain (綠色供應鏈)”, an outstanding enterprise title.

During the period, Mengniu has been organizing charity activities and made contributions in respect of one of the United Nations’ Sustainable Development goals, Zero-hunger. As of June 2021, we had donated 54,581 packages of supplies with a total amount of RMB3.25 million to 48,000 students from 133 schools in 12 provinces or municipalities. Mengniu has also participated in disaster relief charity events, such as the disaster relief event for Qinghai and Yunnan together with the China Charity Federation (中華慈善總會) and the Blue Sky Rescue (藍天救援隊) in this May, and made contributions to disaster relief frontline and reconstruction by donating dairy products amounted to RMB300,000 and emergency supplies such as tents.

## **HUMAN RESOURCES MANAGEMENT**

As at 30 June 2021, the Group had a total of 43,397 employees in Mainland China, Hong Kong, Oceania and Southeast Asia, including around 2,858 employees working for Yashili. During the period, total employee costs (including salaries of directors and senior management personnel) amounted to approximately RMB3,525.4 million (2020: RMB2,949.1 million).

In the first half of 2021, Mengniu Group’s human resources management team continue to build up corporate culture by deepening and implementing different corporate culture initiatives. In order to cultivate talents for the new phase of development of the Chinese dairy industry and the “Creating a new Mengniu (再創一個新蒙牛)” development strategy of the Group, we had upgraded our human resources team by offering organizational ability trainings programs, raised the hiring standard, formulated talent cultivation systems and improved promoting mechanism for our employees.

Under the Group's digitalization strategy, in order to stimulate the vitality of the organization and our employees, we had released a new performance-based evaluation platform in the first half of the year, which helped us to achieve online human resources industrial chain management in seven major aspects, including target management, performance-based appraisal, comprehensive counseling and incentive management, and to promote the process of human resources digital transformation. During the period, we had fully upgraded our human resources management platform which greatly enhanced the efficiency of human resources management, provided a sound foundation for the next stage of intelligent upgrade for working-hour management and digital transformation of human resources management.

In view of the implementation of the five-year strategic plan of the Group, we had started the reformation of our remuneration incentive system in 2021 by optimizing remuneration structure and enhancing incentives. 4,503,205 restricted shares were granted to our employees under the share award scheme in the first half of the year. In order to motivate the team and key personnel to create higher value for the Group, and help the Group realize the goal of "Creating a new Mengniu in five years", the Company also proposes to issue up to an aggregate principal amount of the HK\$ equivalent of RMB4,000,000,000 fixed rate 5-year convertible bonds as part of a new employee incentive scheme, under which the incentives to be received by the participants are tied to the performance of the shares of the Company.

## **PROSPECTS**

Since 2020, Mengniu has flexibly adjusted its business strategy, which enabled it to seize the increased market opportunities brought by post-epidemic changes in consumers' spending habits and evolution of sales channels in China. As such, the Group grew faster and managed higher quality development relative to before the epidemic hit. In addition, Mengniu upgraded its corporate culture system and laid down a five-year plan. Guided by the goal of "Creating a new Mengniu", it will strive to become consumer's first choice, a digitalized and internationalized Mengniu and a Mengniu with strong cultural gene and responsibility by 2025. Regarding product strategies, the Group will pay close attention to the needs of health-conscious consumers and the increasing demand for dairy products. It will continue to focus on developing product categories which are in demand in the market and have high growth potential. The Group will also work hard to create high-end products that are organic and functional, and low in fat and sugar.

Mengniu will adopt a customer-centric approach to help with swift product and technological innovation and meet diversified needs of consumers. With a brand that stands for safety, quality and nutritional value, Mengniu will be well received by the consumer mass, particularly the younger generation, who accept and recognize its value proposition. Mengniu will become a well-loved brand of consumers.



On the front of management upgrade, Mengniu has set up a Digitalization Strategy Management Committee and a Digitalization Strategy Project Team to speed up the transformation and upgrade of its digitalization strategy across the Group. In the future, Mengniu intends to restructure its supply chain, industrial chain, as well as its organizational and operation model, and also business model. Such efforts will equip the Group with digital intelligence, enabling its brand, products and services to reach target consumers. They will also give the Group's industrial chain the ability to evolve and improve on its own and empower the Group to upgrade and become a platform-based ecological enterprise that affords high-quality development.

As for channel strategies, in addition to the vigorous development of online sales channels including traditional e-commerce, O2O home delivery and community group marketing, Mengniu will continue to push forward with strategies including targeting lower-tier markets and its "Penetration into Towns and Villages" initiative, and encourage its different businesses to further use the "Smart Network" system.

In addition, the Group targets to become an international brand. On top of global sourcing deployment, Mengniu also aspires to claim its share in the international market. With an aim to become an influential and international enterprise, Mengniu will strengthen its business in Southeast Asia and Oceania, groom a pool of high-caliber talent with international perspective and develop an internationalized dairy industry business model namely the "Mengniu model". It is the hope of Mengniu that it can replicate its success in branding, product offerings and business operational mode in other countries and regions, to truly become a brand with global impact.

Mengniu has started enhancing its corporate culture, taking on the new mission of "Every drop of nutrition makes every life thrive" and the new vision of "From the grasslands across the world, Mengniu products nourish and are loved by over 2 billion consumers around the world". Guided by its core values of "consumers are at the heart of all our decisions", "creative solution wins the future", "empower and inspire talents to succeed" and "our integrity and honesty support our continued success" and upholding the "born to excel, constantly strive for self-improving" spirit, the Group is advancing towards achieving the goals of its 2025 Strategy. Mengniu will promote its mission, vision and core values to all departments and branches around the world, instilling them into the heart and mind of every employee, that it may become an enterprise with a strong corporate culture, which will transform into impetuses for it to develop and grow.

Moving forward, Mengniu will continue to walk the quality development path in steadfast strides, at its best effort to ensure product and service quality, working by the management philosophy of no compromise on product quality, value and execution. It is committed to providing world-class products and services to consumers around the world. The Group will continue to develop a responsible supply chain and produce dairy products in an environmentally-friendly manner. The Group will make contribution to revitalize the dairy industry in China and facilitate the industry's quality development.

## **CORPORATE GOVERNANCE CODE**

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

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2021, except that the Group has deviated from the Code Provision A.5.1 with the reasons explained below.

Code Provision A.5.1 of the CG Code provides that an issuer should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors. The Company deviates from this provision as less than half of the members of the Nomination Committee are independent non-executive Directors during the six months ended 30 June 2021. The Directors are of the view that Mr. Simon Dominic Stevens is able to carry out his responsibilities as a member of the Nomination Committee in the best interest of the Shareholders notwithstanding that he is not an independent non-executive director as required under Code Provision A.5.1.

## **SECURITIES TRANSACTIONS OF DIRECTORS**

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2021.

## **AUDIT COMMITTEE**

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

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2021.

#### **SCOPE OF WORK OF ERNST & YOUNG**

The unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies for the six months ended 30 June 2021 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2021 Interim Report to the shareholders.

#### **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

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

#### **BOARD OF DIRECTORS**

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

#### **APPRECIATION**

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

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

Hong Kong, 25 August 2021