# 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 2014

**HIGHLIGHTS**

| For the six months ended 30 June (Unaudited) | **2014** *RMB'000* | 2013 *RMB'000* Restated* | Change % |
|---|---|---|---|
| Revenue | **25,835,834** | 20,667,898 | 25.0% |
| Gross profit | **8,381,818** | 5,518,775 | 51.9% |
| Profit attributable to owners of the Company | **1,048,609** | 749,494 | 39.9% |
| Earnings per share (RMB) | | | |
| – Basic | **0.540** | 0.419 | 28.9% |
| – Diluted | **0.534** | 0.419 | 27.4% |

* *Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2013 but reflect the adjustments made as described in Note 9.*

* *For identification purposes only*

- Mengniu has achieved stable growth through continuous innovations in terms of marketing, business model and products, expansion of sales channels and streamlining the product portfolio

- Mengniu has made efforts in integrating the businesses with its strategic partners and refining its business coverage by focusing on the development of UHT, chilled and infant milk formula businesses, with a view to becoming an innovation-led food company offering nutrition and health

- With an aim of establishing a win-win ecosystem, Mengniu has strengthened its efforts to build milk sources. Milk sources provided by ranches and scaled farms reached 94%, maintaining the top spot in the industry

- With clear brand value and product positioning, Mengniu has built its brand image through the branding campaign "A Drop of Goodness" and increased spending in digital media. Star brands and opportunity brands performed notably well

- Data from Nielsen reveals that Mengniu's liquid milk, UHT dairy products and chilled dairy products retained their leading position in terms of market share

- The dairy industry posted steady growth. In particular, liquid milk (including UHT milk, milk beverages and yogurt) maintained growth momentum with a clear trend of graviating towards the high-end segment

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 2014, 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.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | **Unaudited For the six months ended 30 June** | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | | Restated* |
| **Continuing Operations** | | | |
| **Revenue** | *4* | **25,835,834** | 20,667,898 |
| Cost of sales | | **(17,454,016)** | (15,149,123) |
| **Gross profit** | | **8,381,818** | 5,518,775 |
| Other income and gains | *4* | **250,872** | 119,387 |
| Gain arising from changes in fair value less cost to sell of dairy cows | | **3,345** | – |
| Selling and distribution costs | | **(5,897,135)** | (3,806,892) |
| Administrative expenses | | **(962,047)** | (801,400) |
| Other operating expenses | *5* | **(556,196)** | (135,865) |
| **Profit from operating activities** | | **1,220,657** | 894,005 |
| Interest income | | **253,868** | 132,353 |
| Finance costs | *7* | **(176,248)** | (33,714) |
| Share of profits of associates | | **183,180** | 29,605 |
| **Profit before tax from continuing operations** | *6* | **1,481,457** | 1,022,249 |
| Income tax expense | *8* | **(252,501)** | (185,684) |
| **Profit for the period from continuing operations** | | **1,228,956** | 836,565 |
| **Discontinued operations** | | | |
| Profit for the period from discontinued operations | *9* | **(22)** | 13,815 |
| Profit for the period | | **1,228,934** | 850,380 |

| | Notes | Unaudited For the six months ended 30 June **2014** ***RMB'000*** | 2013 *RMB'000* Restated* |
|---|---|---|---|
| Attributable to: | | | |
| Owners of the Company | | **1,048,609** | 749,494 |
| Non-controlling interests | | **180,325** | 100,886 |
| | | **1,228,934** | 850,380 |
| Earnings per share attributable to ordinary equity holders of the company (expressed in RMB per share) | *10* | | |
| Basic | | | |
| – For profit for the period | | **0.540** | 0.419 |
| – For profit from continuing operations | | **0.540** | 0.412 |
| Diluted | | | |
| – For profit for the period | | **0.534** | 0.419 |
| – For profit from continuing operations | | **0.534** | 0.411 |

Details of the dividends payable and proposed for the period are disclosed in Note 11 to the interim condensed consolidated financial statements.

* Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as of 30 June 2013 but reflect the adjustments made as described in Note 9.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Unaudited 30 June 2014 RMB'000 | Audited 31 December 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **9,185,300** | 9,246,109 |
| Construction in progress | | **1,776,303** | 1,275,875 |
| Investment properties | | **112,487** | 115,816 |
| Land use rights | | **1,094,971** | 1,048,813 |
| Goodwill | | **5,694,938** | 5,694,938 |
| Other intangible assets | | **1,605,918** | 1,612,293 |
| Investments in associates | | **3,769,492** | 2,843,155 |
| Deferred tax assets | | **590,367** | 155,739 |
| Biological assets | | **75,814** | 36,707 |
| Non-current financial assets | | **2,438,839** | 1,699,666 |
| Long term prepayments | | **223,529** | 289,145 |
| | | **26,567,958** | 24,018,256 |
| **CURRENT ASSETS** | | | |
| Other current financial assets | | **3,327,211** | 1,744,747 |
| Inventories | | **4,459,826** | 2,577,078 |
| Trade and bills receivables | *12* | **1,262,206** | 754,265 |
| Prepayments, deposits and other receivables | | **1,833,493** | 2,485,297 |
| Pledged deposits | | **124,624** | 561,709 |
| Cash and bank balances | | **8,676,791** | 7,101,580 |
| | | **19,684,151** | 15,224,676 |
| **Assets of disposal groups classified as held for sale** | *9* | **8,481** | 1,096,464 |
| | | **19,692,632** | 16,321,140 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payable | *13* | **5,120,798** | 4,761,298 |
| Other payables and accruals | | **5,156,378** | 4,354,840 |
| Interest-bearing bank and other borrowings | | **5,168,703** | 8,461,506 |
| Other loans | | **127,565** | 92,565 |
| Other current financial liabilities | | **6,100** | – |
| Deferred income | | **19,553** | 19,389 |
| Income tax payable | | **578,128** | 170,483 |

| | Notes | **Unaudited 30 June 2014 RMB'000** | Audited 31 December 2013 RMB'000 |
|---|---|---|---|
| | | **16,177,225** | 17,860,081 |
| **Liabilities directly associated with the assets classified as held for sale** | *9* | **606** | 203,250 |
| | | **16,177,831** | 18,063,331 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **3,514,801** | (1,742,191) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **30,082,759** | 22,276,065 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | | **4,815,940** | 3,235,535 |
| Long term payables | | **67,269** | 100,678 |
| Deferred income | | **242,386** | 200,326 |
| Deferred tax liabilities | | **51,929** | 64,429 |
| Other non-current financial liabilities | | **1,674,775** | 663,959 |
| | | **6,852,299** | 4,264,927 |
| **NET ASSETS** | | **23,230,460** | 18,011,138 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | | **196,225** | 186,476 |
| Shares held under Restricted Share Award Scheme | | **(280,564)** | (394,121) |
| Other reserves | | **14,366,845** | 10,628,142 |
| Retained earnings | | **5,991,234** | 4,940,421 |
| | | **20,273,740** | 15,360,918 |
| Non-controlling interests | | **2,956,720** | 2,650,220 |
| **TOTAL EQUITY** | | **23,230,460** | 18,011,138 |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

**Basis of preparation**

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

**New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the following new or revised standards and interpretations as of 1 January 2014.

The Group has applied, for the first time, the following new standards and amendments in 2014. However, except for further explained below regarding IFRS 9, they do not have any impact on the annual consolidated financial statements or the current interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

*Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

*Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

*Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meet certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

*Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

*Levies – IFRIC 21*

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. This interpretation has no impact to the Group during the current or prior periods.

*Early adoption of 2009 version of IFRS 9*

The Group has elected to early adopt IFRS 9 (2009) since 1 January 2014 under the transitional provisions of IFRS 9. The adoption of this version of IFRS 9 mainly affects the classification and measurement of the Group's financial assets.

At the date of initial application, the Group designates its equity investments in China Shengmu Organic Milk Limited and YuanShengTai Dairy Farm Limited (which were previously classified as available-for-sale financial assets under IAS 39 and not held for trading) as at fair value through other comprehensive income.

The adoption of IFRS 9 (2009) on the accounting for these equity investments does not have an effect on the comparatives presented given that there was no impairment or disposal of these investments in the prior year. Other than the dividend income, the subsequent changes in the fair values of these investments shall be recognised in other comprehensive income and cannot be subsequently recycled to profit or loss.

At the date of initial application, all other equity investments which were previously by classified as available-for-sale financial assets under IAS 39 and not held for trading are reclassified as at fair value through profit and loss. The adoption of IFRS 9 (2009) on these financial assets has had no material financial impact on the financial position of the Group given that the costs of these investments approximate their fair values.

At the date of initial application, the Group's unit trust investments (which were previously classified as available-for-sale investments under IAS 39) and short term investment deposits (which were previously classified as loans and receivables under IAS 39) have been reclassified as financial assets at fair value through profit or loss. The adoption of IFRS 9 (2009) on these financial assets has had no material financial impact on the financial position or performance of the Group given that the terms of the investments are relatively short.

Other financial assets continue to be measured at either amortised cost or fair value through profit or loss upon the initial application of IFRS 9 (2009).

As a result of the early application of IFRS 9 (2009), the Group has changed the accounting policy with respect to the classification and measurement of financial assets. Instead of classifying financial assets into four categories, the Group has classified financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Except for IFRS 9 (2009), the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 3. SEGMENT INFORMATION

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

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk ("UHT milk"), milk beverages and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream;
- Milk powder segment – manufacture and distribution of milk powder; and
- Other dairy products segment – principally the Group's cheese 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 or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, share of profits and losses of associates, dividend income, as well as head office and corporate expenses are excluded from such measurement.

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

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

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

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

**For the six months ended 30 June 2014 (Unaudited)**

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Other dairy products *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **21,764,843** | **1,988,376** | **1,933,841** | **148,774** | **25,835,834** |
| Intersegment sales | **525,241** | **62,344** | **231,533** | **7,699** | **826,817** |
| | **22,290,084** | **2,050,720** | **2,165,374** | **156,473** | **26,662,651** |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | | | | | **(826,817)** |
| Revenue from continuing operations | | | | | **25,835,834** |
| **Segment results** | **1,303,907** | **137,889** | **255,716** | **(7,627)** | **1,689,885** |
| Interest income | | | | | **253,868** |
| Finance costs | | | | | **(176,248)** |
| Gain arising from changes in fair value less cost to sell of dairy cows | | | | | **3,345** |
| Share of profits of associates | | | | | **183,180** |
| Unallocated corporate expenses | | | | | **(472,573)** |
| Profit before tax from continuing operations | | | | | **1,481,457** |
| Income tax expense | | | | | **(252,501)** |
| Profit for the period from continuing operations | | | | | **1,228,956** |
| **At 30 June 2014 (Unaudited)** | | | | | |
| **Assets and liabilities** | | | | | |
| Segment assets | **21,081,592** | **2,775,461** | **12,233,659** | **1,429,523** | **37,520,235** |
| Elimination of intersegment receivables | | | | | **(6,760,808)** |
| Unallocated corporate assets | | | | | **15,492,682** |
| Assets related to discontinued operations | | | | | **8,481** |
| Total assets | | | | | **46,260,590** |
| Segment liabilities | **15,551,258** | **1,909,567** | **2,173,455** | **659,384** | **20,293,664** |
| Elimination of intersegment payables | | | | | **(6,760,808)** |
| Unallocated corporate liabilities | | | | | **9,496,668** |
| Liabilities related to discontinued operations | | | | | **606** |
| Total liabilities | | | | | **23,030,130** |

For the six months ended 30 June 2013 (Unaudited and restated)

| | Liquid milk products *RMB'000* | Ice cream products *RMB'000* | Milk powder products *RMB'000* | Other dairy products *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | 18,262,453 | 1,954,407 | 394,121 | 56,917 | 20,667,898 |
| Intersegment sales | 131,536 | 19,465 | 229,614 | 53,859 | 434,474 |
| | 18,393,989 | 1,973,872 | 623,735 | 110,776 | 21,102,372 |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | | | | | (434,474) |
| Revenue from continuing operations | | | | | 20,667,898 |
| **Segment results** | 1,073,415 | 40,584 | (18,412) | (28,477) | 1,067,110 |
| Interest income | | | | | 132,353 |
| Finance costs | | | | | (33,714) |
| Share of profits of associates | | | | | 29,605 |
| Unallocated corporate expenses | | | | | (173,105) |
| Profit before tax from continuing operations | | | | | 1,022,249 |
| Income tax expense | | | | | (185,684) |
| Profit for the period from continuing operations | | | | | 836,565 |
| At 31 December 2013 (Audited) | | | | | |
| **Assets and liabilities** | | | | | |
| Segment assets | 19,362,089 | 1,536,988 | 11,861,065 | 474,480 | 33,234,622 |
| Elimination of intersegment receivables | | | | | (8,618,415) |
| Unallocated corporate assets | | | | | 14,626,725 |
| Assets related to discontinued operations | | | | | 1,096,464 |
| Total assets | | | | | 40,339,396 |
| Segment liabilities | 15,102,984 | 1,251,766 | 2,051,448 | 482,434 | 18,888,632 |
| Elimination of intersegment payables | | | | | (8,618,415) |
| Unallocated corporate liabilities | | | | | 11,854,791 |
| Liabilities related to discontinued operations | | | | | 203,250 |
| Total liabilities | | | | | 22,328,258 |

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, being the turnover of the Group, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains is as follows:

| | | Unaudited For the six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | | (Restated) |
| Revenue: | | | |
| Sales of goods | | **25,835,834** | 20,667,898 |
| Other income and gains: | | | |
| Government grants related to | | | |
| – Assets other than biological assets | *(a)* | **9,776** | 9,695 |
| – Income | *(b)* | **66,173** | 20,324 |
| Gain on deemed disposal of a subsidiary | *(c)* | **94,903** | – |
| Gain on deemed disposal of an associate | *(d)* | **22,916** | – |
| Foreign exchange gains, net | | **–** | 73,583 |
| Others | | **57,104** | 15,785 |
| | | **250,872** | 119,387 |
| | | **26,086,706** | 20,787,285 |

*Notes:*

(a) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase items of property, plant and equipment. There are no unfulfilled conditions or contingencies attaching to these grants. The grants are initially recorded as deferred income and amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives.

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

(c) On 13 January 2014, the Group disposed Inner Mongolia Fuyuan Farming Co., Ltd. ("Fuyuan"), an indirectly wholly-owned subsidiary of the Company, through issuing new shares to new shareholders. As a result, Fuyuan became an associate of the Group in which the Group held a 50.68% equity interest at that time.

(d) On 26 June 2014, Fuyuan issued new shares to its existing shareholders other than the Group, which resulted in the dilution of the Group's interest in Fuyuan to 43.35%.

## 5. OTHER OPERATING EXPENSES

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Provision for trade receivables and other receivables | **87,858** | 144 |
| Write-down of inventories to net realisable value | **261,176** | 286 |
| Loss on disposal of items of property, plant and equipment | **9,415** | 11,990 |
| Donations | **6,721** | 11,513 |
| Educational surcharges, urban construction and maintenance tax, and etc. | **125,531** | 93,832 |
| Foreign exchange losses, net | **50,780** | – |
| Others | **14,715** | 18,100 |
| | **556,196** | 135,865 |

## 6. PROFIT BEFORE TAX

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

| | | Unaudited For the six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | | (Restated) |
| Cost of inventories sold | | **17,451,250** | 15,149,123 |
| Realised and unrealised fair value losses of white sugar commodity future contracts, net | *(a)* | **2,766** | – |
| Cost of sales | | **17,454,016** | 15,149,123 |
| Depreciation of property, plant and equipment | | **614,747** | 562,627 |
| Amortisation of land use rights | | **13,015** | 10,408 |
| Amortisation of other intangible assets | | **8,645** | 6,992 |
| Outsourcing expenses | | **163,510** | 169,968 |
| Minimum lease payments operating lease on building and production equipment | | **127,751** | 81,282 |
| Display space leasing fees | | **257,169** | 275,023 |
| Employee benefit expense (excluding directors' and senior executive's emoluments) | | **1,354,052** | 1,363,124 |

*Note:*

(a) Since 2011, the Group has entered into various white sugar commodity futures contracts to manage its price exposure to future purchases of white sugar. A net fair value loss on derivative financial instruments of RMB2,766,000 (six months ended 30 June 2013: Nil) was charged to the consolidated statement of profit or loss.

## 7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Interest on long term payables | **4,660** | 7,201 |
| Interest on bank loans wholly repayable within five years | **109,422** | 18,133 |
| Interest on US$500,000,000 3.50% bonds due 2018 | **56,985** | – |
| Increase in discounted amounts of contingent consideration arising from the passage of time | **5,181** | 8,380 |
| | **176,248** | 33,714 |

## 8. INCOME TAX EXPENSE

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

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Current income tax** | | |
| Current income tax charge | **699,629** | 170,933 |
| **Deferred income tax** | | |
| Relating to origination and reversal of tax losses and temporary differences | **(447,128)** | 14,751 |
| | **252,501** | 185,684 |

(a) Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period.

(b) The tax charge represents the provision for PRC corporate income tax ("CIT") for the period at the prevailing tax rates applicable thereto.

During the period, certain PRC subsidiaries were subject to tax exemption 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".

## 9. DISCONTINUED OPERATIONS

**Fuyuan:**

On 25 November 2013, Fuyuan, Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu", a company in which the Company held a 93.29% equity interest), Inner Mongolia Hehe Investment Co., Ltd. ("Hehe", a company 100% held by Inner Mongolia Mengniu) and certain third parties entered into a series of agreements ("Investment Agreements") in order to better finance Fuyuan's business expansion. In accordance with the agreements, third parties will inject additional capital to Fuyuan, resulting in the dilution of Hehe's equity interest in Fuyuan from 100% to around 43%. Fuyuan engages in the dairy farming business. Upon the completion of the above deemed disposal, Hehe will lose control over Fuyuan. As such, as at 31 December 2013, Fuyuan was classified as a disposal group held for sale.

On 13 January 2014, the Group completed first batch of the above mentioned transactions and accordingly Fuyuan become an associate of the Group in which Hehe held a 50.68% equity interest. On 26 June 2014, Fuyuan further issued new shares to its existing shareholders other than the Group as scheduled in the Investment Agreements, which resulted in the dilution of Hehe's interest in Fuyuan to 43.35%.

**Chengdu Sales:**

On 29 August 2013, Inner Mongolia Mengniu Founding Industry Management Co., Ltd. ("Founding") acquired an additional 64% equity interest in Chengdu Mengniu Dairy Sales Co., Ltd. ("Chengdu Sales") exclusively with a view to subsequent disposal within one year. Prior to the acquisition, Chengdu Sales was a 36% associate of Founding. The purchase consideration for the acquisition was in the form of cash of RMB5,763,000 paid on the acquisition date. Chengdu Sales engages in the dairy products trading business. The subsidiary was acquired for the purpose of the Group's distributorship reorganisation. The Group expects to dispose Chengdu Sales in the second half year of 2014. Upon the acquisition of Chengdu Sales by the Group and as at 31 December 2013, the net assets of Chengdu Sales have been classified as a disposal group and as a discontinued operation in the consolidated financial statements.

The comparative statement of profit or loss has been re-presented as if the operations discontinued during the current period had been discontinued at the beginning of the comparative period.

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

The basic earnings per share 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.

The diluted earnings per share 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 of all share options during the period pursuant to contingent ordinary share provision in IAS 33 *Earnings Per Share*.

The following reflects the profit and the number of shares used in the basic and diluted earnings per share calculations:

| | Unaudited | |
|---|---|---|
| | For the six months ended 30 June | |
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Profit attributable to ordinary equity holders of the Company | **1,048,609** | 749,494 |
| | **Number of shares** | Number of shares |
| | ***(in thousand)*** | *(in thousand)* |
| Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation | **1,941,431** | 1,786,914 |
| Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period | **12,819** | 1,351 |
| Adjustments for restricted share award | **10,160** | – |
| Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation | **1,964,410** | 1,788,265 |

## 11. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil). During the six months ended 30 June 2014, the Company declared and paid final dividends of RMB0.20 (six months ended 30 June 2013: RMB0.16) per share as proposed for the year ended 31 December 2013 to the shareholders of the Company.

## 12. TRADE AND BILLS RECEIVABLES

The Group normally allows a credit period of not more than 30 days to its customers which is extendable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

| | **Unaudited** | Audited |
|---|---|---|
| | **30 June** | 31 December |
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,191,750** | 635,620 |
| 4 to 6 months | **31,912** | 95,743 |
| 7 to 12 months | **33,157** | 11,353 |
| Over 1 year | **5,387** | 11,549 |
| | **1,262,206** | 754,265 |

13. **TRADE AND BILLS PAYABLES**

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

| | **Unaudited 30 June 2014** *RMB'000* | Audited 31 December 2013 *RMB'000* |
|---|---|---|
| Within 3 months | **4,394,659** | 4,199,004 |
| 4 to 6 months | **680,495** | 524,303 |
| 7 to 12 months | **36,441** | 29,127 |
| Over 1 year | **9,203** | 8,864 |
| | **5,120,798** | 4,761,298 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2014, the tight supply of raw milk has turned around and the dairy industry has continued to steadily grow. In particular, liquid milk (including UHT milk, milk beverages and yogurt) maintained growth momentum with a clear trend towards the high-end segment, while organic milk, lactobacillus drinks and UHT yogurt witnessed strong growth. Meanwhile, the growth of the infant milk formula industry has slowed down in the first half of the year. To ensure the safety of dairy products and restore consumer confidence, the PRC government is tightening regulations over the dairy industry. In the long run, the dairy industry in China should develop on a healthy and orderly track and the trend of weeding out the weak players will continue to strengthen.

Currently, the per capita consumption of dairy products in the PRC is less than one-third of the world's average. With the accelerated urbanization, increase in disposable income and rise of awareness among consumers, the total consumption of dairy products in the PRC is expected to keep on increasing and the consumption structure is expected to undergo transformation and upgrade. The immense development potential has attracted capital inflows into dairy-related industries.

During the period, the supply of domestic raw milk increased while the price of raw milk declined in contrast with the price hike last year. The decrease in the cost of raw milk helped downstream dairy enterprises improve their gross margins.

## BUSINESS REVIEW

In 2013, with the strong support from its major shareholder COFCO Group, Mengniu forged a number of mergers and acquisitions as well as strategic partnerships. In the first half of 2014, Mengniu undertook integration of its businesses with its strategic partners and continued to strive for innovation in its marketing, business model and products. Mengniu also improved its management efficiency by streamlining processes, systems and products, while developing an open and transparent culture by enhancing internal and external communications and transparency.

According to the data released by Nielsen Company, Mengniu remained first in market share of liquid milk, UHT dairy products and chilled dairy products during the first half of 2014. Star brands such as *Milk Deluxe*, *Yoyi C*, *Fruit Milk Drink*, *Champion* and *Future Star* continued to lead the market with high popularity among consumers, while opportunity brands, including *Just Yoghurt* and *Deluxe*, and the new product *Minion Banana Milk* maintained strong sales growth.

Mengniu was recognized by the industry, capital market and media for its overall sound performance. During the period, Mengniu was ranked as one of the "Best 50 Performers in China" at the Global Entrepreneur Annual Conference. Mengniu was included among the "Global Dairy Top 20" list released by Rabobank for the sixth consecutive year and was in the Fortune China 500 for the fifth consecutive year. Mengniu also received the "Best Investor Relations" award from *Institutional Investor*, one of the most influential financial magazines. The award was assessed and selected by polling more than 800 buy-side fund managers, researchers and more than 600 sell-side analysts. This prestigious accolade testifies to the strong confidence of international investors in the future development of Mengniu.

Moreover, Mengniu was selected as one of the "2013 Top 100 Chinese Light Industry Enterprises", the "Top 100 Enterprises for Marketing Capability" and the "Top Ten Enterprises in the Chilled Beverage Industry in China" by the China National Light Industry Council and ranked 102nd among "China's 500 Most Valuable Brands" compiled by the World Brand Lab with a brand value of RMB18.833 billion.

### Strategic Cooperation and Integration

– *Chilled business: Danone S.A. and its subsidiaries (collectively known as the "Danone Group")*

  As at 27 March 2014, Mengniu has completed placing its shares to Danone Group, the world's largest fresh dairy enterprise. With its shareholding in Mengniu raised from 4.0% to 9.9% of the enlarged share capital, Danone Group has become the second largest strategic shareholder of Mengniu.

  In June, Mengniu and Danone Group established a joint venture, Inner Mongolia Mengniu Danone Dairy Co. Ltd., ("Mengniu Danone") with a view to integrating their chilled dairy business in China. As one team, Mengniu Danone shares the same vision of becoming the leader of the chilled dairy industry in China, with the target of increasing the per capita consumption and market share, while offering consumers safe and high-quality products through a more diversified product portfolio.

Mengniu Danone has streamlined the product structure and focused on the marketing of three high-margin brands – *Yoyi C* and *Champion* under Mengniu and *Bio* under Danone Group. Apart from reinforcing the product strengths, Mengniu Danone has also actively conducted new product research and development to meet the needs of different consumers. Moreover, Mengniu Danone has enhanced its operating efficiency and lowered its operating costs by improving the asset utilization ratio, strengthening economies of scale and prudently managing its costs and capital expenditure.

Since February, the operations experts of Danone Group in the Asia-Pacific region have been dispatched to the chilled plant in Ma'anshan City, Anhui Province to collaborate with Mengniu in launching the efficiency enhancement project, with a view to keeping food safety and quality abreast of the international standards. Key performance indicators have also been established to gradually enhance operational practices in all of the plants. The Ma'anshan plant has been upgraded in accordance with the global production and quality management standards of Danone Group. Since early June, certain products under *Bio* have been produced at the Ma'anshan plant. With the Ma'anshan plant as the pilot project, Mengniu plans to train the staff at other chilled plants with a view to bringing the operating efficiency of Mengniu's plants to world class levels.

In the second half of the year, Mengniu Danone will gradually upgrade all of its chilled plants to international operation standards by implementing seven key projects, including upgrading operating efficiency "from good to great", quality management training, improvement in product research and development, new product innovation and improvement, sales breakthrough in key markets for chilled products, breakthrough in key strategic products as well as bolstering of its reputation.

– *Arla Foods*

On 26 April, the China-Denmark Milk Technology Cooperation Center – the first national dairy project led by the ministries of agriculture of China and Denmark – formally debuted in the COFCO Nutrition and Health Research Institute in Beijing. Arla China Innovation Center, which is focused on developing cheese products for Chinese consumers, was also inaugurated at the same time and place. The China-Denmark Milk Technology Cooperation Center, already in operation, and the newly established Arla China Innovation Center marked another milestone in the close collaboration between the COFCO Group, Mengniu and Arla Foods. The location of the two centers at the COFCO Nutrition and Health Research Institute facilitates the three parties in consolidating their experiences and resources, thereby further strengthening their collaboration. Mengniu will conduct further research and innovation in food nutrition and health with the aid of the research strengths that COFCO Group has accumulated over the years. By introducing advanced Danish technologies in dairy breeding, product processing and packaging, Mengniu strives to produce and provide safe, tasty and high-quality products to consumers.

As the exclusive distributor of Arla Foods in the PRC, Mengniu principally cooperates with Arla Foods in the import business. During the period, Mengniu has significantly reduced the number of products under Arla Foods and optimized its brand structure while introducing its cheese and butter products. Mengniu will launch UHT milk for kids imported from Arla Foods in August. Mengniu and Arla Foods entered into an agreement, pursuant to which Arla Foods will endorse the high-end *Merla* series under the *Scient* brand of Yashili by cooperating with Yashili in a new infant milk formula series, *Arla Merla*, which is expected to be introduced to the Chinese market through direct import by the end of the year.

– *Milk formula business: Yashili International Holdings Ltd ("Yashili", stock code: 1230)*

With control over 76.58% of the equity interest in Yashili, Mengniu aims at turning Yashili into its infant nutrition product platform. During first half of 2014, Yashili has reformed its marketing model by actively implementing a membership system with the support of a technical and data platform. The reform is intended to rationalize the product value chain, increase interaction with consumers, solidify the professional foundation of its operations and enhance its capability of service precision with a view to expanding the customer base and reinforcing its market position.

Meanwhile, Yashili has actively explored and streamlined its channels and specifically strengthened the development of the mother and baby channel and network, thereby increasing market share in that channel. Yashili has also set up an e-commerce team to expand the e-commerce and online shopping business and has developed products exclusively for the e-commerce channels in order to create a new growth point.

In the second half of the year, Yashili is continuing the reform of its marketing model, expanding sales channels, building up a sophisticated brand portfolio as well as enhancing product research and development, overseas project construction, internal optimization and performance assessment management, thereby enlarging its market share and raising its profitability.

– *Plant-based nutrition product business: The WhiteWave Foods Company ("WhiteWave")*

On 6 January 2014, Mengniu and WhiteWave, a packaged food and beverage company in North America, announced that they would acquire 100% of the equity interests in Yashili (Zhengzhou) Nourishment Co., Ltd. ("Yashili Zhengzhou") for a consideration of RMB376.66 million.

Mengniu and WhiteWave have completed the acquisition of Yashili Zhengzhou through a joint-stock company established at the end of April, with Mengniu and WhiteWave holding 51% and 49% of the joint-stock company respectively. The joint-stock company is mainly engaged in the manufacturing, packaging and distribution of nutrition products in the PRC. Since early April, the joint-stock company has been engaged in preparation works for factory production, conducting technical upgrades for Yashili Zhengzhou. The joint-stock company has also embarked on product research and development as well as devising brand positioning and marketing strategies. Plant-based protein beverages are planned to be launched by the end of the year to explore the high-end plant-based protein beverage market in the PRC and enrich Mengniu's product lines.

## Quality Management

The "four carriages" of Mengniu's quality management system, namely the quality and safety management system and three quality management centers on milk sources, operations and sales respectively, continued to ensure end-to-end food quality and safety. With a unified direction and key focus, the "four carriages" have been coordinated to form an inspection team across milk source suppliers and the retail-market in order to proactively identify and solve problems on a timely basis.

The quality and safety management system and the quality management center on milk sources have worked closely together to foster the establishment and operation of the milk source technical standard system. A set of industrial standards has been set up by standardizing and improving seven aspects, including regional risk, source suppliers, the safety of milk sources, factory management, laboratory capabilities, control over substandard milk and supplier management. To improve milk quality, Mengniu has helped dairy farmers perfect the proportion of dairy cows and fodder by adjusting the formula and conducting experiments and tests. Mengniu has also adopted a uniform pricing model for all suppliers and conducted assessment to further ensure the quality of raw milk, with an aim to provide consumers with "a drop of goodness".

The quality management center on operations has improved efficiency through implementing numerous quality innovations and refinements without compromising quality. For instance, the raw milk microorganism quick testing machine can significantly reduce the substandard products, and the commercial sterile quick testing method can substantially decrease the testing time.

The quality management center on sales has strengthened the training and assessment of frontline staff through an online examination platform to ensure that safety operational standards have been put into practice. Besides, Mengniu has embarked on establishing a quality management system over its cold-chain business at retail end. The review of the warehouse management and cold-chain business has been completed, while the resources allocation, consumer management key performance indicator management and marketing work have been initiated.

## Raw Milk Sourcing

Mengniu continued to refine the structure of milk sources and ensure the quality of raw milk aimed at strengthening the product quality from its sources. Mengniu's milk sources provided by ranches and scaled farms reached 94%, maintaining the top spot in the industry.

With an aim of establishing a win-win ecosystem, Mengniu has facilitated the development of milk source bases in China towards an intensive, scaled and modernized way in order to create its strategic core assets. New reforms were implemented to best match milk sources with production capacity and product structure. The proportion of small- and medium-sized ranches was increased to facilitate the upgrading of milk source bases. With reference to Arla Gaarden's ranch management model, Mengniu has also assisted suppliers in enhancing their operational level and breeding efficiency through aligning with international standards. A resource platform was set up to help the suppliers select high-quality vendors and lower their procurement costs. Through the platform, Mengniu also strengthened its upstream quality control and ensured the quality of its raw milk.

Mengniu has also established a model ranch with reference to the ranch management experience of Arla Foods, as seen in the construction of cowsheds and optimized management of milking. To raise the management level of ranches, Mengniu also set up the "University of Ranchers", the first-institution-of-its-kind, to provide theoretical and practical training to the managerial staff of large- and medium-sized ranches.

**Sales Channels**

Mengniu has continued to implement and refine the sales operations model comprising Center Business Unit ("CBU"), Regional Business Unit ("RBU") and branch company direct operations. The number of frontline staff has been increased to reinforce sales terminal management with an aim to strengthen CBU's control over the channels and retail-end. Certain major sales regions were further divided to extend the market coverage and deepen the penetration of RBU in order to better support distributors in third- and fourth-tier cities to improve their sales performance. Branch companies were further consolidated to raise the profitability and retail-end service capabilities in first- and second-tier cities. Mengniu has gradually established regional marketing and operational centers in Beijing, Tianjin, Chengdu and Hohhot by establishing regional sales platforms and setting up regional subsidiaries. In the meantime, by focusing on enhancing the overall operational capability of distributors and streamlining the sales channel segmentation, Mengniu bolstered the quality and expansion effectiveness of its channel.

Mengniu has adopted an innovative and a proactive approach towards modern sales channels. The three-level key account ("KA") service team composed of the headquarters client team, the regional KA team and the distributor KA team has changed from a pure "supplier" to a "strategic partner" of retailers by cooperating with them in product category management to enhance the service level and efficiency of KA. Besides, the development of the KA-EPOS intelligent data system has led to considerable labor cost savings and created a sophisticated data-based sales management model for Mengniu.

Horizontally, Mengniu has also developed catering and special channels to expand its sales network. Moreover, Mengniu has proactively launched the e-commerce business and its products have already covered the mainstream e-commerce platforms. Mengniu's e-commerce platform has played a crucial role in new product promotion and consumer insights, which was conducive to precision marketing and lowering marketing costs.

**Branding Strategy**

In response to market evolution, Mengniu continued to streamline the number of products and optimize its brand structure by categorising the brands into star brands, backbone brands, profit contributor brands and opportunity brands. Mengniu pooled more resources to promote its key products and interact precisely and profoundly with targeted consumers. Through consuming Mengniu's products and visiting Mengniu's plants, consumers' understanding of and turst in Mengniu's brand was enhanced. Adhering to its brand value and product positioning, Mengniu has actively built the brand image of its parent brand and interpreted the brand proposition "Little Happiness Matters" through "A Drop of Goodness".

In terms of media advertising, in view of the trends of media development and the media habits of targeted consumer groups, Mengniu has increased its investment in digital media, which has effectively enhanced the return on investment. By tapping mobile network and social media, Mengniu has extensively interacted with consumers and fully benefited from the positive effect of relationship chain dissemination on brand enhancement.

The successful use of new media has greatly reinforced the creative branding activities of Mengniu. During the period under review, Mengniu has garnered several major advertising awards for its successful brand marketing activities, including the "China Advertisement Effectiveness Case Award", "The 6th China Advertisers JinYuan Award (Network category) – Silver", "The Tiger Roar Award for Traditional Media in China (Beverage category) – Outstanding Achievement Award" and "2014 Content Marketing: Best Sound Effect for Variety Show Contents – Gold".

For *Fruit Milk Drink*, partnering with the popular variety show *I Am a Singer* of Hunan Satellite TV, Mengniu went far beyond the conventional practice of embedded advertising by tactfully combining the brand elements with the show. High engagement with consumers using new media effectively promoted the image of the brand. After the campaign, the Weibo followers of *Fruit Milk Drink* increased to 2.4 million and more than 620,000 interactions were recorded on its WeChat account, doubling the average in the industry. Its market share and brand awareness were significantly enhanced.

Taking advantage of the fast-growing opportunity for pro-biotic beverages, Mengniu launched the "The Detox Team Summoning Order" marketing campaign for *Yoyi C* on TV, outdoor and digital platforms. The campaign was to promote the product feature of "healthy exercise for the intestines with 30 billion active C bacteria". By targeting six groups of people who may need intestine exercises and making use of cute bottles, "The Detox Team" quotes and creative videos, this campaign succeeded in attracting wide attention and participation as well as boosting the brand influence, setting a very successful example of content marketing.

*Just Yoghurt* is Mengniu's key high-end UHT yogurt product. Its brand philosophy of zero additives was widely promoted on a number of online and offline platforms. On 18 May, Mengniu attracted more than 110,000 participants in ten cities in the PRC to set the Guinness World Records for the "Yogurt Tasting Survey with the Most Participants", which has earned *Just Yoghurt* and the parent brand *Mengniu* positive market feedback.

**Management System**

Adhering to its Five-Year Strategic Plan, Mengniu has introduced the state-of-the-art SAP system to boost its management capabilities in six aspects – precision marketing and in-depth sales channel management; an integrated management platform for business and finance; a responsive synergetic system for production, supply and sales; integrated quality management and refined quality tracking; rational industrial planning as well as efficient management on procurement and logistics. The aim of the SAP system is to enhance operating efficiency and its competitiveness.

The SAP project includes an Enterprise Resource Planning (ERP) system, a Customer Relationship Management (CRM) system, an Advanced Planning Optimization (APO) system, a Distributor Management System (DMS), a Sales Force Automation (SFA) system, a Transportation Management System (TMS) and a Business Intelligence (BI) system. The project is being implemented in three stages, with the first phase focusing on ERP and CRM.

In March, the trial run of the ERP system was completed in some of the plants. This has yielded benefits such as integrating Mengniu's operations and finances, enhancing effectiveness and providing data support to management for quick analysis and decision-making. The ERP system was first used in four major product categories, namely UHT, chilled, ice cream and yogurt, monitoring the eight systems of milk sources, procurement, planning, production, sales, logistics, quality and finance.

Trial operation of the CRM 2.0 system was also finished in certain key sales regions in the same month. The sales management level of Mengniu was greatly enhanced through full process management in sales task planning and promotion expenses, and multi-dimensional analysis of the profits and losses of the Mengniu brand. The trial operations have covered the management of sales network, customer portal, planning task and promotion expense, etc.

## FINANCIAL REVIEW

### Revenue

Mengniu continued its ongoing adjustments to its internal structure and streamlining its product portfolio in order to utilize resources more effectively on key brands. These efforts have yielded significant results with the support of innovative marketing initiatives. As the Group has carried out a series of reforms to stimulate organic growth, in addition to the revenue contribution of RMB1,545.7 million from Yashili given that it was consolidated into Mengniu since August 2013, the Group's revenue for the six months ended 30 June 2014 grew by 25.0% year-on-year to RMB25,835.8 million (2013: RMB20,667.9 million). Excluding Yashili, the Group's revenue rose by 17.5% to RMB24,290.1 million. The products with a greater contribution to revenue growth were *Milk Deluxe*, *Future Star*, *Fruit Milk Drink*, *Yoyi C* and *Champion*, while *Yoyi C*, *Champion* and *Just Yoghurt* achieved strong growth.

## Gross Profit

Raw milk prices dropped from the high levels recorded at the beginning of the year due to the increase in domestic supply of raw milk. The decrease of the costs of raw milk, together with the price increase of Mengniu's products at different times since the beginning of last year, led to further growth of the Group's gross profit for the period. The Group has been proactively grasping the trends of market development. Efforts were made to restructure product portfolio and develop high-margin products. As a result, the gross profit of the Group for the six months ended 30 June 2014 increased to RMB8,381.8 million (2013: RMB5,518.8 million), while gross margin reached 32.4%, an increase of 5.7 percentage points as compared with the same period last year. Excluding Yashili, the Group's gross profit was RMB7,548.6 million, while gross margin rose 4.4 percentage points year-on-year to 31.1%.

The gross profit contribution from Yashili to the Group for the period amounted to RMB833.2 million (2013: N/A).

## Operating Expenses

The Group has modified its strategies on expenditures in response to market conditions. As a result, operating expenses rose to RMB7,415.4 million (2013: RMB4,744.2 million), representing approximately 28.7% (2013: 23.0%) of the Group's revenue. Excluding Yashili, the Group's operating expenses were RMB6,716.8 million, representing 27.7% of the revenue excluding Yashili.

Due to the greater investment in sales channels in response to market competition, selling and distribution expenses increased by 54.9% to RMB5,897.1 million (2013: RMB3,806.9 million), and its percentage to the Group's revenue increased to 22.8% (2013: 18.4%). Excluding Yashili, the selling and distribution expenses of the Group were RMB5,325.2 million, representing 21.9% of the revenue excluding the contribution of Yashili, up 3.5 percentage points year-on-year.

The Group's continued increase in its investment in digital media and offline marketing activities led to an increase in advertising and promotion expenses of 111.8% to RMB2,860.6 million (2013: RMB1,350.9 million) for the period, and its percentage to the Group's revenue increased to 11.1% (2013: 6.5%). Excluding Yashili, the Group's advertising and promotion expenses rose by 98.1% to RMB2,675.7 million, representing 11.0% of the revenue excluding Yashili's contribution, up 4.5 percentage points year-on-year.

Administrative and other operating expenses increased by 62.0% to RMB1,518.2 million (2013: RMB937.3 million), and its percentage to the Group's revenue increased to 5.9% (2013: 4.5%). Excluding Yashili, the Group's administrative and other operating expenses was RMB1,391.6 million, representing 5.7% of the revenue excluding Yashili's contribution, up 1.2 percentage points year-on-year. The increase was mainly a result of the increase in provision for inventory of raw materials, the grant of restricted shares and the negative impact resulted from fluctuations in foreign exchange rate.

**Profit from Operating Activities and Net Profit**

Despite the growth in revenue and gross profit being partially offset by the increase in cost and operating expenses, the Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 35.8% to RMB2,041.9 million (2013: RMB1,503.6 million), while the EBITDA margin grew to 7.9% (2013: 7.3%). Excluding Yashili's contribution, the Group's EBITDA was RMB1,793.4 million, and the EBITDA margin rose to 7.4%.

Profit attributable to owners of the Company amounted to RMB1,048.6 million (2013: RMB749.5 million), representing a year-on-year growth of 39.9%. In particular, the profit contribution from Yashili to the Group amounted to RMB117.6 million. Basic earnings per share amounted to RMB0.540 (2013: RMB0.419), representing a year-on-year increase of 28.9%.

**Capital Expenditure**

During the six months ended 30 June 2014, the capital expenditure (CAPEX) of the Group amounted to RMB1,485.1 million (2013: RMB3,715.4 million), representing a 60.0% decrease year-on-year. The CAPEX for the first half of 2013 included an amount of RMB2,537 million for the acquisition of equity interests in China Modern Dairy Holdings Ltd. The CAPEX of the current period was used for: construction of production plants and procurement of equipment amounting to RMB1,387.1 million; purchase of biological assets amounting to RMB40.18 million and the equity investment expenses amounting to RMB57.8 million. The Group has adopted a prudent policy in its CAPEX so as to lay a solid foundation for future development. Excluding Yashili, the CAPEX of the Group was RMB1,077.2 million.

The CAPEX of Yashili amounted to RMB407.9 million, which was mainly used for the construction of the plant in New Zealand.

**Working Capital, Financial Resource and Capital Structure**

The Group's net cash inflow from operating activities decreased to RMB1,546.5 million (2013: RMB2,331.6 million). The decrease was primarily attributable to an increase in raw material inventory.

As of 30 June 2014, the Group's net borrowings (cash and bank deposits net of total bank loans and bonds) amounted to RMB1,307.9 million (31 December 2013: net borrowings of RMB4,595.5 million). Excluding Yashili, the Group's net borrowings were RMB1,759.7 million.

On 27 March 2014, Mengniu announced the completion of the placement of shares to Danone Group with proceeds of HK$5,152.5 million (approximately US$665.0 million), which were used to repay the related outstanding amount of loans for the acquisition of Yashili and other outstanding corporate debts in order to improve Mengniu's capital structure. As of 30 June 2014, the Group's outstanding bank loans and bonds were reduced to RMB9,984.6 million (31 December 2013: RMB11,697.0 million). Excluding Yashili, the Group's outstanding bank loans and bonds amounted to RMB9,430.3 million (31 December 2013: RMB11,697.0 million).

In May, the Group has closed a US$200 million 3-year syndicated loan facility. The facility marks the Group's debut in the offshore syndicated loans market. The funds were used for refinancing the existing debts of the Group.

The total equity of the Group was RMB23,230.5 million as of 30 June 2014 (31 December 2013: RMB18,011.1 million), while the debt-to-equity ratio (total bank loans and bonds over total equity) was 43.0% (31 December 2013: 65.0%).

The Group's finance costs amounted to RMB176.2 million (2013: RMB33.71 million), accounting for approximately 0.7% of the Group's revenue (2013: 0.2%). Excluding Yashili, the Group's finance costs were RMB173.4 million, representing 0.7% of the revenue excluding Yashili, up 0.5 percentage point year-on-year.

**Products**

Mengniu has actively adjusted and optimized its product portfolio based on the market situation. Apart from developing mid-range to high-end dairy products to increase profitability, Mengniu has also continued to rationalize its brands to concentrate resources on building star and opportunity brands. Mengniu has forged stronger collaboration with its leading international counterparts in order to develop the businesses with high potential, namely yogurt, milk formula and nutrition products, thereby advancing its products to the forefront of the market.

Mengniu's principal businesses comprise liquid milk, ice cream, milk formula and other dairy products. Their performance during the period is as follows:

| Product category | Financial performance | Highlights | Key products |
|---|---|---|---|
| **Liquid milk** | Revenue amounted to RMB21,764.8 million (2013: RMB18,262.5 million), accounting for 84.2% of Mengniu's total revenue (2013: 88.3%) | | |
| *UHT milk* | Revenue amounted to RMB12,737.4 million (2013: RMB10,940.8 million), accounting for 58.5% (2013: 59.9%) of the liquid milk segment revenue | – Launch of *Future Star Kid Organic Milk*, which is produced from 100% organic ranches containing 1.5 times more high-quality DHA algal oil without any additives, artificial color, preservatives or sugar, to differentiate from the highly homogenous market for children's milk products and reinforce the high-end image of *Future Star*; introduction of two flavored milk products, namely *Future Star Kid Walnut Milk* and *Future Star Kid Strawberry Milk*, to suit children's tastes<br>– The target consumers of *Awakening Youth Milk* are health aware middle-aged and elderly who enjoy life. A packaging upgrade for *Awakening Youth Strengthener* and *Energiser Milk* in March. The inner package is made of metal foil with pictures of grandparents interacting with their grandchildren on the package, enhancing the brand image and value. The new packaging was well received by consumers<br>– Repositioning of *XinYangDao* as a lactose-free functional milk product targeting people with lactose intolerance and discomfort with milk; a packaging upgrade for the three product versions, namely whole milk, low-fat milk and nutritious milk<br>– The packaging featuring Minion, a popular cartoon figure, *Minion Banana Milk* has successfully captured young consumers with its innovative design and was tops in first month sales volume among all newly launched products | – *Milk Deluxe*<br>– *Prime Ranch Pure Milk*<br>– *Just Yoghurt*<br>– *Awakening Youth Milk*<br>– *Future Star Kid Milk*<br>– *Arla Foods Organic Pure Milk*<br>– *Minion Banana Milk* |
| *Milk beverages* | Revenue amounted to RMB5,826.2 million (2013: RMB4,732.1 million), accounting for 26.8% (2013: 25.9%) of the liquid milk segment revenue | – *Yoyi C* recorded outstanding performance with double-digit growth in sales<br>– Portrait of *Latte* as the *Milk Deluxe* among all flavored milk products; introduction of four-pack package in July | – *Fruit Milk Drink*<br>– *Suan Suan Ru*<br>– *Latte*<br>– *Yoyi C*<br>– *Miao Miao Milk* |

| Product category | Financial performance | Highlights | Key products |
|---|---|---|---|
| *Yogurt* | Revenue amounted to RMB3,201.2 million (2013: RMB2,589.6 million), accounting for 14.7% (2013: 14.2%) of the liquid milk segment revenue | – Launch of *Bio Fruity MIXI* together with Danone Group in June which targets the high-potential convenience store channel. With strawberry, mixed berries and tropical fruit flavors, *Bio Fruity MIXI* introduces fresh fruit taste in yogurt anytime, anywhere<br><br>– An upgrade for *Champion* from blue to platinum packaging. With the double benefits of adjusting intestinal bacteria and boosting the immune system, *Champion*'s health products have been approved and certified by the China Food and Drug Administration | – *Champion*<br>– *Future Star Kid Yogurt*<br>– *Junlebao*<br>– *Bio* |
| **Ice cream** | Revenue amounted to RMB1,988.4 million (2013: RMB1,954.4 million), accounting for 7.7% (2013: 9.5%) of the total revenue | – *Milk Stick*, launched at the end of 2013, gained high popularity among young consumers for its lovely packaging | – *Deluxe*<br>– *Mood for Green Ice Crystal Cup*<br>– *Ice⁺*<br>– *Milk Stick* |
| **Milk formula** | Revenue amounted to RMB1,933.8 million (2013: RMB394.1 million), accounting for 7.5% (2013: 1.9%) of the total revenue | – Following *Oushi*, Mengniu introduced another infant milk formula brand, *Milex*, in June to enter the mid-range to high-end infant milk formula market. Made 100% from prime milk sources of five major ranches in Northern Europe, *Milex* is tailored for Chinese infants for easy digestion and absorption, adjusting intestinal functions and boosting the immune system<br><br>– Launch of the upgraded infant milk formula of *Yashili $\alpha$-golden+Stage*, with lactotransferrin – a core immunoglobulin found in breast milk – added on top of the basic formula of *$\alpha$-golden Stage* to make the nutrition and taste close to breast milk and strengthen the immune system of babies; exclusive for online sales | – *Arla Baby&Me*<br>– *Oushi*<br>– *Yashili Super $\alpha$-golden Stage*<br>– *Milex* |
| **Other dairy products** | Revenue amounted to RMB148.8 million (2013: RMB56.92 million), accounting for 0.6% (2013: 0.3%) of the total revenue | – A packaging upgrade for *Kids Cheese Sticks*, the best-selling cheese product of Arla Foods | – *Kids Cheese Sticks* (*Future Star*'s products)<br>– *European Fromage Frais*<br>– *European Fermented Milk* |

Mengniu's products, including *Pure Milk*, *Low Fat High Calcium Milk*, *Milk Deluxe*, *Fruit Milk Drink* and *Yoyi C* are available in four overseas markets, namely Hong Kong, Macau, Mongolia and Singapore. All four markets recorded stable growth.

## Production

Mengniu's allocation of production capacity is based on market potential and product strategy. As of June 2014, Mengniu has 31 production bases across the country, with a total production capacity of 8.04 million tons (December 2013: 7.77 million tons). The enhancement of production capacity was mainly achieved by increasing the existing production capacity through reforming the production lines and technical upgrades, as well as the expansion of the production scale of Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao").

## Social Responsibility

While focusing on swift development, Mengniu has also put great efforts on contributing to the community in many areas, including environmental protection, charity events and promotion of industrial development and exchange of information. Mengniu's long-term efforts on corporate social responsibility have added significant value to the brand.

– *Environmental protection*

  Environmental protection is an inevitable trend for the sustainable development of the dairy industry. Mengniu has promoted the "Green Golden Industry Chain" by achieving emissions and pollution reduction in each production process. To turn one-way production into a green cycle, Mengniu has built up a green industry chain from milk sources to the dining table through biogas power generation, sewage treatment, recycled breeding, rainwater collection, barren mountain greening, ecological grassland construction and recycling of environmentally-friendly packaging materials.

  From 2015 onwards, Mengniu's high-tech sewage treatment plant will provide reclaimed water to the thermal power plant nearby to be used as recirculating cooling water and desulfurization water. The recovered water will be reused at the Helin (Headquarters) Plant in Inner Mongolia to achieve zero sewage discharge. Besides, Mengniu has participated in the tree planting activity of the first "Green Bank" in China to help protect the environment.

– *Charity events*

  Immediately after the earthquake in Ya'an City, Sichuan Province in 2013, Inner Mongolia Mengniu Dairy (Group) Company Limited, a subsidiary of Mengniu, has donated RMB10 million to Sichuan Charity Federation in support of restoration and reconstruction in Sichuan. In the first half of 2014, after paying site visits and communicating with Meishan City Board of Education, Sichuan Province, Mengniu decided to use the donations to reconstruct two schools. In particular, RMB8 million is to be used to fund the construction of a library and arts complex at Che Cheng Secondary School (Su Temple Middle School, Taihe Branch) in Dongbo District, Meishan City. With a gross floor area of 9,748 $m^2$, the complex is to be named as "Mengniu Arts Building" upon completion. The remaining RMB2 million is to be used to fund the construction of Zhao He Primary School in Liujiang Town, Hongya County, Meishan City. The facilities are to comprise a teaching and learning complex of 1,100 $m^2$, a student canteen of 300 $m^2$, a sports ground and ancillary facilities. The school is to be renamed as "Mengniu Primary School" upon completion.

On the afternoon of 3 August 2014, a 6.5-magnitude earthquake struck Longtoushan Town, Ludian County, Zhaotong City in Yunnan Province. With the disaster relief experience gained from the Wenchuan earthquake and Ya'an earthquakes in Sichuan and the Yushu earthquake in Qinghai, Mengniu immediately initiated the disaster response mechanism, setting up an earthquake emergency aid team. Arrangements were made at the locality on that night to deliver relief materials to the disaster site. By the next day, the first batch of more than 2,000 cartons of milk was sent to the afflicted areas. So far, Mengniu has donated nearly 10,000 cartons of milk.

As for charity, Mengniu values personal and sustainable participation above mere donation of money and resources. Mengniu strongly believes that participants can gain meaningful insight only from personal experience, which would inspire continuous dedication to charitable works. As part of the "Most Beautiful to Have You – Have a Lecture in My Hometown" lecture series in 2014, Mengniu worked with the executives of its partners and dignitaries to give more than 37 lectures in rural primary schools, covering football, music, judo, paper cutting, inspirations and traditional opera, etc. "Happy Gift", including water pumps, electronic pianos and stationery, were also distributed. Through such programs, Mengniu hopes to encourage more people to help the teachers and students of rural primary schools in their own hometown.

"Rural Education in China through the Lens" is an extension of the large-scale charity campaign "Looking for Teachers with the Most Beautiful Hearts in Rural Areas". By taking pictures of rural schools in different districts, ten experienced Chinese photographers captured the current status of rural education in China with their cameras, so as to spur the interest of more people in the charity.

On the internet, Mengniu has bolstered its interaction and communication with consumers through the platform "Your Question, Our Responsibility". Off the internet, Mengniu has continued to organize factory visits for consumers and has welcomed nearly 500,000 visitors in total. Moreover, in light of consumers' concern over the safety of domestically produced dairy products, Mengniu, as a leading dairy manufacturer in China, has launched a popular science project "Milk Power" with China Dairy Industry Association to disseminate accurate scientific knowledge about milk in order to enhance the awareness and understanding of consumers in dairy products.

– *Promotion of industrial development and exchange*

The dairy industry in China is undergoing modernization. One way in which Mengniu has contributed to the process is by taking the initiative to help dairy farmers raise their technical and ranch management levels. Ranchers with 300 to 3,000 milkable cows are crucial to the dairy farming industry in China. Mengniu has selected 100 ranchers to attend the "University of Ranchers". Among these, 30 outstanding ranchers may be promoted to enroll in the advanced talent training program and obtain a certificate of completion jointly issued by the University of Ranchers, the Technology System in Dairy Industry, the Ministry of Agriculture and China Agricultural University. From a practical aspect, Mengniu has collaborated with the China-Denmark Milk Technical and Cooperation Center to invite experts with practical experience to evaluate the problems faced by ranches and propose solutions in order to enhance ranch efficiency. Outstanding ranchers may have the opportunity to further their studies in the ranches in Denmark and Israel, where boast the most advanced breeding techniques and internationalized management.

The 100 ranchers also entered into the "Social Responsibility Codes for Ranchers", pursuant to which they undertook to abide by the law, respect their staff and commit themselves in technical innovation, green ecology, ethical treatment of animals and achieving a win-win situation, thereby striking a balance between social responsibility and scientific breeding. This project is the first large-scale trial of the ISO 26000, the international standard on social responsibility, in the dairy farming industry. Mengniu will cooperate with the top performers selected from these 100 ranchers to establish a model ranch, which will drive the development of nearby ranches. In addition, Mengniu has also designed a special assessment system – Star Ranch Assessment – to perform digital document management on the current conditions and development of the ranches. For this upstream industry chain, Mengniu has not only provided technical support at the early stages and staff training at the later stages, but has also assisted ranchers in obtaining more favorable and even interest-free funds by guaranteeing their bank loans and credit facilities. Mengniu has facilitated the modernization of ranches by aligning its own interests with those of ranchers.

Moreover, Mengniu has actively participated in industrial forums to facilitate international exchanges in the dairy industry. In May, dairy giants from all over the world gathered at the annual meeting of the Global Dairy Platform ("GDP") to discuss topics including the challenges faced by the dairy industry, nutrition safety and sustainable development. It was the first time that GDP held its annual meeting in Asia, evidence of the rising importance of the Asian market, particularly China. As a leading dairy manufacturer in China and the first Chinese enterprise member of GDP, Mengniu introduced the changes in the Chinese dairy market to its international counterparts and proposed to redefine Chinese milk through resource consolidation, communication with consumers and product innovation.

In the same month, Mengniu exchanged ideas with its international peers about the prospects of the dairy industry in China and the world as well as resource consolidation and planning for the internationalization of Eastern and Western dairy industries at the World Dairy Leaders Forum hosted by the IDF World Dairy Summit. The challenges faced by the global dairy industry and the responses were also discussed. In June, Mengniu shared with leaders of world's leading dairy enterprises, suppliers, consumers and analysts the evolution of the milk drinking culture in China and the latest industry trends in the 8$^{th}$ Global Dairy Congress.

**Human Resources**

As at 30 June 2014, the Group had a total of about 38,100 employees in China and Hong Kong, including around 6,000 from Yashili. During the period, total costs of employees (excluding salaries of directors and senior executives) amounted to approximately RMB1,354.1 million (2013: RMB1,363.1 million).

Since the indicators such as the net profits and operating cash flows of Mengniu in 2013 reached the annual targets set by the Board of Directors, on 17 April 2014, Mengniu granted 6,055,000 restricted shares, representing approximately 0.34% of the issued share capital of Mengniu as at the adoption date, to the outstanding staff under the restricted share award scheme. This grant was made in order to motivate the outstanding staff to strive to achieve the performance targets set for their positions.

In response to the rapid development of the Group and the restructuring of employee, Mengniu launched a number of human resources programs, including “Mengniu 100”, “Mengniu 100 Junior” and “Mengniu 100 GT” to enhance the academic qualifications, quality and technical standards at different levels.

Aiming at strengthening the comprehensive capability of the employees, “Mengniu 100” provided training to 100 management elites from Mengniu, Yashili, Junlebao and Mengniu Danone. Mengniu arranged a management training program called “Innovation and Entrepreneurship” to develop the “Mengniu 100” members into “second generation of entrepreneurs” with independent thinking, bold ideas and hands-on experience in order to lay an innovative foundation for the long-term development of Mengniu.

For “Mengniu 100 Junior” members from Mengniu, Yashili, Mengniu Danone and Junlebao, the Group also arranged a training program entitled “I-Tools: Managers for Revolutionary Innovation”, in which high-calibre lecturers from the American Management Association, the world’s largest management education institution, were invited to talk about the “I-tools”. The presentations covered five topics including the definition of innovation, development of innovation capability, tools for innovation, process and management of value innovation, as well as becoming an innovator and manager.

As a campus recruitment program, “Mengniu 100 GT” selected about 100 fresh graduates as management trainees, who will be trained into department managers in three years, to build a new talent pool for Mengniu.

**Prospects**

Based on market estimates, the dairy industry in China will grow by about 10% to 12% annually during the next four to five years, with the size of the market exceeding RMB400 billion by 2016, presenting immense room for development. Against the favorable backdrop including the government’s encouragement of mergers and acquisitions and industry consolidation, the imposition of a series of restrictions over imported dairy products and the initiation of the two-child policy for couples where either the husband or the wife is the only child in the family, Mengniu is placed in an advantageous position as a leader in dairy products in China.

Looking ahead, Mengniu will execute its upstream strategic plan by integrating its internal and external resources, while building up its brand and distribution network and strengthening its end-to-end quality and safety management to enhance its overall competitiveness. Apart from reinforcing the liquid milk business, Mengniu will also extend into a wide array of product categories, with particular focus on the sectors of milk formula, yogurt and nutrition products.

Mengniu will strive for continuous innovation in marketing, operational system and product development. In terms of marketing, Mengniu will redefine its brand value with broader use of new media, closer interaction with consumers and focus on consumers' experience. As for operational system, Mengniu will grow together with its strategic partners to create a win-win ecosystem and promote the O2O (Online to Offline) business model to boost sales leveraging the quickly emerging e-commerce platforms. In terms of product, Mengniu will optimize its product portfolio by increasing the proportion of high margin products and introducing professional and differentiated innovative products in response to market demand.

Mengniu will continue to build up its internal systems by boosting its quality and safety management, strengthening its milk sources, consolidating sales channels and upgrading the IT system. Mengniu will build its talent pool and develop the corporate culture of "Sunshine, Nobility, Responsibility and Innovation" to fully support its comprehensive development and revolutionary innovation.

This year marks the 15th anniversary of Mengniu's establishment and the 10th anniversary of its listing. Mengniu has commenced the branding campaign "A Drop of Goodness". Mengniu will not only produce quality milk, but also deliver care through its products. Mengniu will grow with its clients, employees, shareholders and all stakeholders. Bearing this mission in mind, Mengniu strives to become a consumer-oriented and innovation-led food company offering nutrition and health.

## CORPORATE GOVERNANCE CODE

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2014, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held on 6 June 2014 due to unavoidable business engagements outside of Hong Kong.

## SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (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 2014.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2014, except that the trustee of the restricted share award scheme of the Company adopted on 26 March 2013 (the "Scheme"), pursuant to the rules of the Scheme, purchased on the open market a total of 6,993,000 the Company's listed securities at a total consideration of about RMB213.0 million.

## AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Wu Kwok Keung Andrew (chairman), Mr. Jiao Shuge (alias Jiao Zhen), 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, internal control and financial reporting matters, including the review of the Group's unaudited interim financial statements for the six months ended 30 June 2014.

## SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the six months ended 30 June 2014 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial statements for the period. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the websites of the Company at *www.mengniuir.com* and Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk*. The 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 Ms. Sun Yiping and Mr. Bai Ying. The non-executive directors of the Company are Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Finn S. Hansen, Ms. Liu Ding and Mr. Christian Neu. The independent non-executive directors of the Company are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya, Mr. Wu Kwok Keung Andrew and Dr. Liao Jianwen.

## 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**
**Sun Yiping**
*Chief Executive Officer and Executive Director*

Hong Kong, 27 August 2014