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蒙牛

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 2015**

HIGHLIGHTS			
For the six months ended 30 June (Unaudited)	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	Change %
Revenue	25,564,409	25,835,834	(1.1)%
Gross profit	8,142,810	8,381,818	(2.9)%
Profit attributable to owners of the Company for the period	1,338,669	1,048,609	27.7%
Earnings per share (RMB)			
– Basic	0.689	0.540	27.6%
– Diluted	0.686	0.534	28.5%

* For identification purposes only

- Under the “New Normal” growth stage of the Chinese economy, the sub-segments under dairy products have delivered varied performances against the backdrop of intensified competition and changing consumer demand. Premium pure milk brand *Milk Deluxe*, UHT yogurt brand *Just Yoghurt* and chilled brands *Champion* and *Yoyi C* recorded strong growth, which has optimized the product mix.
- Mengniu has further consolidated resources, enhanced product innovation and continued to optimize product mix. These efforts, combined with a focused expense investment strategy, have caused the profit attributable to owners of the Company to rise 27.7% during the period.
- Through various technical means, Mengniu has exercised strict control over the quality of raw milk by providing services to the players at the forefront of the industry chain. During the period, the proportion of milk sources provided by ranches and scaled farms reached almost 100%.
- By introducing the advanced knowledge and technology management systems from international strategic partners and fully implementing an intelligent information management system SAP, Mengniu has managed to achieve more effective information management and has considerably enhanced its operational efficiency.
- Inner Mongolia Mengniu Danone Dairy Co., Ltd. (“Mengniu Danone”), a joint venture established by Mengniu and Danone Group, has accelerated the technological upgrade of its production facility, channel expansion and product development. Currently, Mengniu Danone continues to lead the chilled dairy products market in China and ranks first in terms of market share.
- Advances have been achieved in cooperation with international brands: in March, Mengniu renewed its marketing strategic partnership agreement with NBA China; in April, subsequent to the contract renewal, it launched special promotion packaged products.
- With a stable overall performance, Mengniu ranked 11th in the “2015 Global Dairy Top 20” list released by Rabobank, its seventh year on the list.

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 2015, 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

		Unaudited	
		For the six months ended	
		30 June	
	<i>Notes</i>	2015	2014
		RMB'000	RMB'000
Continuing operations			
Revenue	4	25,564,409	25,835,834
Cost of sales		<u>(17,421,599)</u>	<u>(17,454,016)</u>
Gross profit		8,142,810	8,381,818
Other income and gains	4	177,611	250,872
Gain/(loss) arising from changes in fair value less cost to sell of dairy cows		(6,912)	3,345
Selling and distribution costs		(5,565,274)	(5,897,135)
Administrative expenses		(1,093,651)	(962,047)
Other operating expenses	5	<u>(182,839)</u>	<u>(556,196)</u>
Profit from operating activities		1,471,745	1,220,657
Interest income		273,764	253,868
Finance costs	7	(134,616)	(176,248)
Share of profits of associates		143,306	183,180
Profit before tax from continuing operations	6	1,754,199	1,481,457
Income tax expense	8	<u>(321,343)</u>	<u>(252,501)</u>
Profit for the period from continuing operations		<u>1,432,856</u>	<u>1,228,956</u>
Discontinued operations			
Loss for the period from discontinued operations	9	<u>(8)</u>	<u>(22)</u>
Profit for the period		<u>1,432,848</u>	<u>1,228,934</u>

Unaudited
For the six months ended
30 June

	<i>Note</i>	2015 RMB'000	2014 RMB'000
Attributable to:			
Owners of the Company		1,338,669	1,048,609
Non-controlling interests		94,179	180,325
		<u>1,432,848</u>	<u>1,228,934</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)			
	<i>10</i>		
Basic			
– For profit for the period		0.689	0.540
– For profit from continuing operations		<u>0.689</u>	<u>0.540</u>
Diluted			
– For profit for the period		0.686	0.534
– For profit from continuing operations		<u>0.686</u>	<u>0.534</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2015 <i>RMB'000</i>	Audited 31 December 2014 <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		9,561,985	9,667,308
Construction in progress		2,213,966	2,030,097
Investment properties		70,860	103,814
Land use rights		1,096,149	1,050,567
Goodwill		5,837,501	5,837,501
Other intangible assets		1,616,377	1,620,375
Investments in associates		4,077,563	3,840,594
Deferred tax assets		503,365	379,910
Biological assets		182,270	160,271
Non-current financial assets		2,266,368	1,894,059
Long term prepayments		121,919	163,704
		27,548,323	26,748,200
CURRENT ASSETS			
Other current financial assets		5,884,029	8,338,024
Derivative financial instruments		33,446	17,455
Inventories		4,289,320	4,342,292
Trade and bills receivables	12	1,864,042	1,148,186
Prepayments, deposits and other receivables		1,429,381	1,573,053
Pledged deposits		441,622	255,589
Cash and bank balances		8,606,899	4,649,560
		22,548,739	20,324,159
Assets of disposal groups classified as held for sale	9	8,257	8,433
		22,556,996	20,332,592
CURRENT LIABILITIES			
Trade and bills payables	13	5,160,711	4,991,847
Other payables and accruals		4,955,686	4,554,420
Interest-bearing bank and other borrowings		5,052,277	4,360,618
Other loans		172,965	118,365
Derivative financial instruments		13,836	4,506
Deferred income		23,921	23,537
Income tax payable		284,625	297,280
		15,664,021	14,350,573
Liabilities directly associated with the assets classified as held for sale	9	398	572
		15,664,419	14,351,145
NET CURRENT ASSETS		6,892,577	5,981,447
TOTAL ASSETS LESS CURRENT LIABILITIES		34,440,900	32,729,647

	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	5,416,792	5,464,050
Long term payables	47,077	63,812
Deferred income	244,690	270,477
Deferred tax liabilities	93,836	92,076
Derivative financial instruments	13,660	7,618
Other non-current financial liabilities	2,390,435	2,338,741
	<u>8,206,490</u>	<u>8,236,774</u>
NET ASSETS	<u>26,234,410</u>	<u>24,492,873</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	196,459	196,246
Treasury shares held under share award scheme	(347,830)	(489,075)
Other reserves	13,412,945	14,963,385
Retained earnings	8,157,513	6,818,844
	<u>21,419,087</u>	<u>21,489,400</u>
Non-controlling interests	4,815,323	3,003,473
TOTAL EQUITY	<u>26,234,410</u>	<u>24,492,873</u>

Notes:

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 2015 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 2014.

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 2014, except for the adoption of the following new or revised standards and interpretations effective as at 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendments is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 3 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Company is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

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 beverage and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream;
- Milk powder segment – manufacture and distribution of milk powder; and
- Other products segment – principally the Group’s cheese, plant-based nutrition product 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/(loss) before tax from continuing operations 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 2015 (unaudited)

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Other products RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	21,940,946	1,644,268	1,783,488	195,707	25,564,409
Intersegment sales	299,468	109,649	24,197	143,866	577,180
	<u>22,240,414</u>	<u>1,753,917</u>	<u>1,807,685</u>	<u>339,573</u>	<u>26,141,589</u>
Reconciliation:					
Elimination of intersegment sales					(577,180)
Revenue from continuing operations					<u>25,564,409</u>
Segment results	1,924,679	57,951	27,201	(170,009)	1,839,822
Reconciliation:					
Interest income					273,764
Finance costs					(134,616)
Loss arising from changes in fair value less cost to sell of dairy cows					(6,912)
Share of profits of associates					143,306
Unallocated corporate expenses					(361,165)
Profit before tax from continuing operations					1,754,199
Income tax expense					(321,343)
Profit for the period from continuing operations					<u>1,432,856</u>
At 30 June 2015 (unaudited)					
Assets and liabilities					
Segment assets	23,855,618	2,573,786	16,126,657	2,202,031	44,758,092
Reconciliation:					
Elimination of intersegment receivables					(8,830,462)
Unallocated corporate assets					14,169,432
Assets related to discontinued operations					8,257
Total assets					<u>50,105,319</u>
Segment liabilities	13,083,343	1,848,813	2,598,436	1,428,995	18,959,587
Reconciliation:					
Elimination of intersegment payables					(8,830,462)
Unallocated corporate liabilities					13,741,386
Liabilities related to discontinued operations					398
Total liabilities					<u>23,870,909</u>

For the six months ended 30 June 2014 (unaudited)

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Milk powder products <i>RMB'000</i>	Other products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	21,764,843	1,988,376	1,933,841	148,774	25,835,834
Intersegment sales	<u>525,241</u>	<u>62,344</u>	<u>231,533</u>	<u>7,699</u>	<u>826,817</u>
	22,290,084	2,050,720	2,165,374	156,473	26,662,651
Reconciliation:					
Elimination of intersegment sales					<u>(826,817)</u>
Revenue from continuing operations					<u>25,835,834</u>
Segment results	1,303,907	137,889	255,716	(7,627)	1,689,885
Reconciliation:					
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					<u>(472,573)</u>
Profit before tax from continuing operations					1,481,457
Income tax expense					<u>(252,501)</u>
Profit for the period from continuing operations					<u>1,228,956</u>
At 31 December 2014 (audited)					
Assets and liabilities					
Segment assets	22,706,898	2,583,398	12,409,854	1,795,576	39,495,726
Reconciliation:					
Elimination of intersegment receivables					(9,242,313)
Unallocated corporate assets					16,818,946
Assets related to discontinued operations					<u>8,433</u>
Total assets					<u>47,080,792</u>
Segment liabilities	13,408,400	1,715,683	2,408,830	1,048,115	18,581,028
Reconciliation:					
Elimination of intersegment payables					(9,242,313)
Unallocated corporate liabilities					13,248,632
Liabilities related to discontinued operations					<u>572</u>
Total liabilities					<u>22,587,919</u>

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	
	2015	2014
	RMB'000	RMB'000
Revenue:		
Sales of goods	25,564,409	25,835,834
Other income and gains:		
Government grants related to		
– Assets other than biological assets	12,753	9,776
– Income and biological assets	56,768	66,173
Gain on deemed disposal of a subsidiary	–	94,903
Gain on deemed disposal of partial interests in an associate	–	22,916
Gain on disposal of a subsidiary	49,989	–
Unrealised gain on forward currency contracts and forward currency swaps	15,991	–
Others	42,110	57,104
	<u>177,611</u>	<u>250,872</u>
	<u>25,742,020</u>	<u>26,086,706</u>

5. OTHER OPERATING EXPENSES

	Unaudited	
	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Provision/(reversal of provision) for trade receivables and other receivables	(28,013)	87,858
Write-down of inventories to net realisable value	23,808	261,176
Loss on disposal of items of property, plant and equipment	7,153	9,415
Donations	8,059	6,721
Educational surcharges and city construction tax	129,088	125,531
Foreign exchange losses, net	23,283	50,780
Others	19,461	14,715
	<u>182,839</u>	<u>556,196</u>

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	
	2015	2014
	RMB'000	RMB'000
Cost of inventories sold	17,421,634	17,451,250
Realised and unrealised fair value loss/(gain) of white sugar commodity future contracts, net	(35)	2,766
Cost of sales	17,421,599	17,454,016
Depreciation of items of property, plant and equipment	678,071	614,747
Depreciation of investment properties	1,586	1,693
Amortisation of land use rights	12,135	13,015
Amortisation of other intangible assets	8,798	8,645
Outsourcing expenses	258,452	163,510
Minimum lease payments under operating leases on buildings	95,741	127,751
Display space leasing fees	343,950	235,078
Employee benefit expense (including directors' and senior executive's emoluments)	1,871,540	1,503,677

7. FINANCE COSTS

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

	Unaudited	
	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest on long term payables	3,508	4,660
Interest on bank loans wholly repayable within five years	64,711	109,422
Interest on US\$500,000,000 3.50% bonds due 2018	57,730	56,985
Increase in discounted amounts of contingent consideration arising from the passage of time	4,814	5,181
Unrealised loss on interest rate forward contracts	3,853	–
	134,616	176,248

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	
	2015	2014
	RMB'000	RMB'000
Current income tax		
Current income tax charge	439,940	699,629
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	<u>(118,597)</u>	<u>(447,128)</u>
	<u>321,343</u>	<u>252,501</u>

- (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 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".

9. DISCONTINUED OPERATIONS

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 reorganisation of distribution channels. As at 31 December 2014, the Group expected to dispose Chengdu Sales in 2015. As at 30 June 2015, Chengdu Sales was still in the process of liquidation and management expected to complete the local administrative procedures of liquidation in the second half year of 2015. As such the net assets of Chengdu Sales have been classified as a disposal group and the operating results have been disclosed as a discontinued operation in the consolidated financial statements.

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.

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

	Unaudited	
	For the six months ended 30 June	
	2015	2014
	<i>Number of shares</i>	<i>Number of shares</i>
	(in thousand)	(in thousand)
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	1,942,963	1,941,431
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	2,282	12,819
Adjustments for share award scheme	4,761	10,160
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	1,950,006	1,964,410

11. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

During the six months ended 30 June 2015, the Company declared and paid final dividends of RMB0.28 (six months ended 30 June 2014: RMB0.20) per share as proposed for the year ended 31 December 2014 to the shareholders of the Company.

12. 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 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 30 June 2015 <i>RMB'000</i>	Audited 31 December 2014 <i>RMB'000</i>
Within 3 months	1,752,101	1,018,735
4 to 6 months	71,352	82,420
7 to 12 months	8,656	20,722
Over 1 year	31,933	26,309
	<hr/> 1,864,042 <hr/>	<hr/> 1,148,186 <hr/>

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 2015 <i>RMB'000</i>	Audited 31 December 2014 <i>RMB'000</i>
Within 3 months	4,634,600	4,200,799
4 to 6 months	480,408	752,738
7 to 12 months	35,194	30,792
Over 1 year	10,509	7,518
	<hr/> 5,160,711 <hr/>	<hr/> 4,991,847 <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the first half of 2015, the dairy industry in China has recorded a slower growth rate and the industry growth has been primarily driven by the increase of volume and improvement in product mix. Amongst the wide variety of dairy products, liquid milk has remained the main product consumed in the Chinese market with milk formula being second. Amongst liquid milk products, UHT milk was still the most consumed product despite recording a slower growth. On the other hand, there was still compelling demand for quality healthy products by consumers, while there was a strong boost in product sub-categories such as high-end UHT milk, UHT yogurt, chilled yogurt and lactobacillus drinks. Currently, the difference in consumption patterns of dairy products in urban and rural areas in China is highly significant. The dairy product consumption of the rural population, which represents 45% of the nation, accounts for less than half of that of urban population, leaving huge room for growth for the dairy industry in rural areas.

At present, the Chinese dairy industry has achieved great progress in all aspects ranging from upstream raw milk suppliers to downstream dairy enterprises. With joint efforts by the government and enterprises, consumer confidence is gradually recovering. As globalization advances, interaction between the Chinese and overseas dairy product markets is increasing, Chinese dairy enterprises have expedited their efforts to “go global” and have actively commenced strategic cooperation with overseas outstanding dairy enterprises and have forged a strategic network for global milk sources. In the first half of 2015, the growth rate of liquid milk imports has declined. Imported liquid milk only had a marginal impact on the Chinese liquid milk.

During the period, the industry still faced the challenge of an excess supply of raw milk in China. Raw milk prices peaked in February 2014 and dropped continuously until now. The declining cost of raw milk and change in market demand together resulted in intensified market competition. Under these conditions, an optimized product mix can help brand enterprises lift their profit margin.

As for milk formula, the industry is still experiencing fast channel transformation. The maternal and child channel and the e-commerce channel are becoming increasingly important, which is an opportunity as well as a challenge to domestic milk formula enterprises.

BUSINESS REVIEW

During the first half of 2015, Mengniu has continued to deepen integration of its resources with strategic partners, strengthened its business structure and introduced advanced knowledge and technology management systems in order to gradually build a solid operational foundation from within. At the same time, Mengniu has created a platform by leveraging an ecosystem and formed an environment where all upstream and downstream industry partners win. Mengniu has put more efforts into point-of-sale resources, streamlined its sales system, enhanced control over core markets and improved the competitiveness of distributors through detailed management. During the period, Mengniu accelerated its product innovation, actively embraced the internet, brought a more interactive experience to consumers by utilizing social media while accelerating the internationalization of its brand. As for internal management, Mengniu has achieved significant progress in respect of smart information management, and further enhanced quality and safety assurance and operating efficiency by introducing more scientific-based systems and procedures. The Group has also emphasized improving the cultivation of innovation and cross-cultural collaboration of its staff so as to lay a foundation for the execution of its international strategies.

Mengniu has placed great emphasis on improving its profit margins through continued adjustment of its brand mix. During the period, its star products such as *Milk Deluxe*, *Just Yoghurt*, *Champion* and *Yoyi C* have recorded satisfactory growth. Proudly entering its 10th year of serving consumers, *Milk Deluxe* has maintained its market share leadership in the high-end pure milk market.

With a stable all-round performance, Mengniu ranked 11th on the “2015 Global Dairy Top 20” list released by Rabobank, a jump of three places over last year and was in the list for seven consecutive years. Mengniu was ranked 18th among the most valuable Chinese brands in the BrandZ™2015 list, and was included among the “Asia’s Top 1000 Brands 2015” jointly presented by *Campaign Asia-Pacific* and Nielsen. In the fifth China Brand Power Index (C-BPI) published by the Ministry of Industry and Information Technology of the PRC in 2015, Mengniu was awarded the C-BPI champion in three categories – liquid milk, yogurt and ice cream. Mengniu’s *Prime Ranch Pure Milk* also garnered the “Best New Commercial Brand” award in the World Dairy Innovation Awards and was the only honored Chinese dairy brand in the year. Mengniu also captured two awards – “Best IR by Chairman/CEO” and “Best IR Presentation Collaterals” – from the Hong Kong Investor Relations Association, recognition of the investor communication efforts made by Mengniu and reflecting investors’ confidence in the Group.

Strategic Cooperation and Integration

– *Chilled business: Danone S.A. and its subsidiaries (the “Danone Group”)*

Danone Group is the second-largest strategic shareholder holding 9.9% of Mengniu’s shares. In June 2014, Inner Mongolia Mengniu Danone Dairy Co. Ltd. (“Mengniu Danone”), a joint venture established by Mengniu and Danone Group fully commenced operation. Mengniu and Danone Group hold 80% and 20% shares in the joint venture respectively.

Currently, Mengniu Danone continues to lead the chilled dairy products market in China and ranks first in terms of market share. While consolidating its nationwide advantage, Mengniu Danone has identified five key breakthrough markets and has expanded its market in the eastern and southern regions of China which represent about half of the domestic chilled dairy products market. As for channel building, Mengniu Danone has also embarked upon the development of channels such as campuses and catering in addition to enhancing management of both modern and traditional channels.

During the period, Mengniu Danone has further integrated the advanced technology and professional expertise of Danone Group in order to standardize its plant operation and improve operational efficiency. The Ma’anshan plant has passed the 2015 global operation standard inspection of Danone Group, indicating that the plant continues to operate at a world-leading level. With the Ma’anshan plant as a pilot project, Danone Group has assigned technical experts to stay in Mengniu Danone’s plants so as to further fortify and enhance the performance of the plants. A comprehensive evaluation and assessment on the Qingyuan plant has been completed in the first half of 2015, and benchmark improvement measures will be implemented in the second half of the year. Furthermore, Mengniu Danone has carried out a wide range of trainings for the staff of the other chilled plants and has continued to implement annual operational assessments.

Mengniu Danone has focused on the marketing and growth of three star brands – *Yoyi C*, *Champion* and *Bio* together with the development of its parent brand Mengniu. Mengniu Danone has also actively conducted new product research and development in order to reinforce the strength of its product line. During the period, two new products, ready-to-drink version and oat product, were launched under the brand *Champion*. The new ready-to-drink version mainly targets the southern market which has a preference for thinner yogurt products, while the new oat product comes in two flavors – yellow peach oat and walnut oat. The new oat products adopted new specifications and new packaging with improvements on the texture of bottles as well as the taste of products. *Bio*’s additive-free 170-gram yogurt targeting the eastern and southern China markets, was initially launched in Shanghai. Moreover, the formula of basic yogurt under the brand of Mengniu Danone has also been improved.

Through introducing the advanced quality management technique and product innovation capability of Danone Group and, at the same time, utilizing the leading market position and the extensive distribution network of Mengniu, Mengniu Danone is well-positioned to fully realize the huge potential of China's chilled dairy products market.

– *Arla Foods*

In 2015, Mengniu speeds up the incorporation of the world-leading dairy industry knowledge and production technology of Arla Foods in order to bolster its innovation and enhance its operating capabilities. During the period, by adopting the lean management standard, the outstanding operation team of Arla Foods has conducted a technical assessment on Mengniu's UHT, chilled and ice cream plants by comprehensively inspecting the filling process, equipment maintenance, energy supply, utilization ratio of production lines and workflow standardization, subsequently making suggestions and together formulating plans for optimization in these areas. Meanwhile, Mengniu has benchmarked Arla Foods' innovation system and has conducted a comprehensive technical assessment on the research and development system. The experts of Arla Foods have also provided strategic support and trainings for the research and development and innovation departments of Mengniu. Furthermore, the China-Denmark Milk Technology Cooperation Center has arranged for Mengniu's business personnel to visit Arla Foods in Denmark to learn more about the dairy industry, especially the international working culture, to help Mengniu execute its internationalization strategy.

The fingerprint spectrum raw milk testing project introduced by the China-Denmark Milk Technology Cooperation Center has entered the final stage. The development and validation of the project have been successfully completed, and research efforts were made to implement 11 testing methods for China's raw milk quality. The research on developing cheese products for Chinese consumers by Arla China Innovation Center has also achieved milestone results.

As for dairy breeding, during the period, Mengniu has further promoted Arla Gaarden's ranch management system and has set goals for the ranch management of Mengniu's suppliers by adopting Arla Foods' advanced ranch operating model and management standards.

As its exclusive distributor in China, Mengniu closely collaborates with Arla Foods in the import business. Starting from the second quarter of 2015, the imported Arla Foods UHT milk has been fully upgraded to global packaging which is more in line with the image of a 100% imported product. Meanwhile, Mengniu has initiated aggressive brand image promotion at the points-of-sale and has cooperated with China Next Generation Education Foundation to launch "Arla Foods Milk Donation Campaign", and has also persistently promoted the brand proposition of "Consumed by the Danish Royal Family, Crowning our Precious Health". Besides, the packaging of *Kids Cheese Sticks* has been redesigned to feature fairy tales. In-store interactivity and online video product placement have been leveraged in order to better approach Chinese consumers.

- *Milk formula business: Yashili International Holdings Ltd (“Yashili”; stock code: 1230)*

On 30 October 2014, China Mengniu International Company Limited (“Mengniu International”), Danone Asia Baby Nutrition Pte.Ltd (“Danone Asia”) and Yashili have jointly entered into a share subscription agreement. The subscription was completed in February 2015. Danone Asia, with 25% of the shares, has become Yashili’s second largest shareholder while Mengniu, still holding 51% of the shares, remains Yashili’s controlling shareholder. In January 2015, Mr. Lu Minfang, a former senior management in Danone Early Life Nutrition Greater China, was appointed as the Chief Executive Officer of Yashili.

In the first half of 2015, Yashili actively optimized its marketing models and transformed its sales channels. In terms of the maternal and child channel, as of the end of June 2015, Yashili has developed more than 14,180 maternal and child points-of-sale among which more than 2,500 were directly-supplied. In respect of the e-commerce channel, Yashili has set up a professional e-commerce team and has strategically cooperated with JD.com and launched online products distinct from those in the offline channels and boosted the exposure of its online activities as well as online sales. In the aspect of system management and consumer acquisition by leveraging an information system and a data platform, Yashili has enhanced its opportunities to interact with consumers and improved its professional operation standard and customization of its services, thereby strengthening customer loyalty.

Aiming at targeted consumers of different consumption levels, Yashili has set up a complete range of infant milk formula product lines. Yashili has also built up its key products through activities focusing on core brands and interactions with consumers. Yashili’s infant milk formula product series, namely the *Yashily Super α -Golden*, the *Ambery Golden* and the *Arla Merla* (in cooperation with Arla Foods), are quality products with superior nutrition that aim at consumers in the high-end market. Yashili’s core products, *Yashily α -Golden series* and *Scient Golden series*, mainly focus on mid-range to high-end consumer groups, while Yashili’s *Newwitt series* and *Scient’s Ordinary Pack Series* mainly target mid-range consumer groups.

During the period, Yashili has consolidated its resources and conducted product research and development, enhanced manufacturing technologies and completed the commissioning of new products to the factories in New Zealand, laying a solid foundation for producing higher-quality and safer products.

Stringently monitoring and controlling the quality of products, Yashili has set up a comprehensive system of quality control spanning from procurement to retail sales. As it actively implemented structural reform, Yashili has relocated its headquarters to Guangzhou, eliminated redundant staff and streamlined its administration, further strengthening its organizational structure, integration of back offices and the coordination with the supply chain.

In the second half of 2015, Yashili will continue to uphold its core value of “Focus, Brand, Resource”, and targets efforts in channel reform, brand rebuilding and management upgrading in order to enhance market share and profitability. Meanwhile, Yashili will leverage the powerful platforms of COFCO Group, Mengniu and Danone Group so as to carry out integration of production capacity, optimize business layout and strengthen the in-depth cooperation with top international raw materials and services suppliers, in order to promote the professionalization and internationalization of the brand. Yashili’s factories located in New Zealand will commence production during the second half of the year, which will ensure that products are produced with the best milk sources from New Zealand to meet international standards, so as to satisfy the demand of the consumers in the PRC.

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

Mengniu and WhiteWave have completed the acquisition of Yashili (Zhengzhou) Nourishment Co., Ltd. through a joint-equity company established at the end of April 2014, with Mengniu and WhiteWave holding 51% and 49% of the joint-equity company respectively. The joint-equity company is mainly engaged in the manufacturing, packaging and distribution of plant-based food and beverage products in the PRC.

The joint-equity company has launched two series, namely walnut and almond, of *ZhiPuMoFang* plant-based beverage in December 2014, fulfilling demand in the premium plant-based beverage market in China. During the period, the joint-equity company conducted trial sale of *ZhiPuMoFang* in key channels, such as convenience stores, hypermarkets and e-commerce platforms, in first-tier cities. The overall market is still at an incubation stage.

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 facilitate end-to-end quality management and control across the entire industry chain. Mengniu has conducted a maturity assessment and has carried out optimization on the quality and safety management system to more effectively generate synergies between the system and business development activities. Meanwhile, to proactively prepare for potential risks, Mengniu has strengthened and has innovated the risk management mechanism to effectively conduct preventive measures on risks to quality with regard to seasons, regions and performance indicators. Mengniu has achieved quality informatization, smart management and quality tracking of the entire process starting from milk sources to raw and auxiliary materials and to products through launching the SAP system and introducing the Laboratory Information Management System (LIMS) .

By introducing the standards of the COFCO Group and the Danone Group, the quality review management of Mengniu’s suppliers was optimized, the entry barriers were lifted, and measures such as alerts were consequently integrated. Thus the quality and safety management system effectively guaranteed the quality, safety and stability of the supplied materials. During the first half of 2015, the pass rate of materials procured by Mengniu was up to approximately 100%, representing an improvement over the same period of 2014.

The quality management center on milk sources together with the quality and safety management system with a focus on four dimensions including system building, milk supplier management, project progress and quality indicators carried out comprehensive review on the various milk sources divisions. During the first half of 2015, 68 domestic sample testing organizations randomly inspected various business divisions of Mengniu on about 2,200 occasions with a pass rate of 100%. The quality management center on milk sources provided technical services and guidance for milk suppliers with respect to risk management and control on drugs for milk cows, promotion of feeding standards and standardization of plant management in order to form an ecosystem beneficial to the industry. Moreover, the inspection capability of Mengniu's laboratories has been significantly strengthened with the continuous improvement of the information management system.

Through optimizing and reviewing business operations flow and structure, the quality management center on operations has built eight model plants to improve the level of systematic plant management. During the period, the quality management center on operations helped produce perfect products in nine aspects, including improvements on cardboard box sealing, straw coming off, tearability of cup-sealing films, color difference of cardboard boxes, handle removal, monitoring of shipment appearance sampling, improvement on plastic packaging of multi-pack products, improvement on batch code printing, as well as control of foreign objects.

The quality management center on sales has completed the formulation of and amendments to 14 standards including "Management Standard for Chilled Distributors on Cold Chain Practices", which provides a unified standard on quality control and management on points-of-sale. Besides, the learning and promotion of quality standards at points-of-sale was also promoted through integration of on-site training and training on an E-learning platform. In terms of tracking at points-of-sale, the intelligent temperature control management project has been successfully introduced to seven test markets, opening up a new model of visible management of the cold chain at points-of-sale. The successful operation of *Yoyi C* Logistics Tracking IoT (Internet of Things) Project in Tianjin business division has bolstered the accuracy of logistics information and dispatch efficiency of products.

Mengniu has achieved a milestone in its joint establishment of a third-party independent certification body on food quality and safety with AsureQuality, a state-owned enterprise of New Zealand. In the first half of 2015, Mengniu has completed its evaluation and feasibility study on the project and has entered into a strategic cooperation agreement. Currently, the formulation of standards is underway with the framework already completed. In addition, Mengniu has achieved consensus with its strategic suppliers on the implementation and subsequent introduction of the standards.

Raw Milk Sourcing

Continuously focusing on enhancing its milk sources and endeavoring to construct a harmonious, symbiotic and mutually supportive ecosystem, Mengniu has laid a sound foundation for its own sustainable development and the upgrade and transformation of China's dairy industry. With a focus on the golden belt of milk sources in northeastern, northern and northwestern China, Mengniu has further enhanced its structure of milk sources and assured the supply of quality milk. During the period, the proportion of milk sources provided by ranches and scaled farms reached almost 100%.

Through various technical means, Mengniu exercised strict control over the quality of raw milk by providing services to the players at the forefront of the industry chain. Mengniu helped improve the profitability of milk suppliers and fostered a win-win situation for itself and the milk suppliers by standardizing the factory management of milk suppliers, carrying out systematic quality and safety inspection and guiding the transformation of milk suppliers from extensive herding towards intensive herding.

In collaboration with China Agricultural University, China Agricultural Machinery Testing Center of the Ministry of Agriculture (農業部農業機械實驗鑒定總站) and Holstein Farmer Satellite Auditorium (荷斯坦衛星大講堂), Mengniu has launched the “2020 Ecosystem Project for Sustainable Development of Milk Sources” in 2015 to develop a “sustainable ecosystem of milk sources”, which has an influence on the entire industry, starting at the forefront of the dairy industry chain.

Riding on the cooperation with China Agricultural Machinery Testing Center of the Ministry of Agriculture, a national authoritative testing body, Mengniu has launched the “Cow ‘SPA’ Project”, which optimized the cow milking system for milk suppliers and evaluated the health of milk cows by using comprehensive statistical data, enhancing the livelihood of cows and fostering pristine ecological quality ranches.

In addition, Mengniu has launched the “W-W Virtual Dairy Farming Industry Project” and “Project on Evaluation on the Operation of Milk Sources Ranches”. The “W-W Virtual Dairy Farming Industry Project” has adopted a contracting system in which the responsible managers of various Mengniu’s business divisions of the milk sources would carry out regular evaluation over 123 virtual trial ranches based on sources management, outcome review, technological management, financial management and 24 indicators, and provide on-site technological services and implement improvement measures. The “W-W Virtual Dairy Farming Industry Project” is carried out with an intention to help milk suppliers improve profitability and upgrade their raw milk quality through scientific breeding means. The “Project on Evaluation on the Operation of Milk Sources Ranches” primarily provided services to 100 small-to-medium-sized milk suppliers’ ranches nationwide which included the provision of professional testing instruments, scientific review plans and measures for comprehensive improvement.

As an extension of the “University of Ranchers” program, the “Gold Key Project” has been co-launched by Mengniu and China Agricultural University. The “Gold Key Project” aims to provide tailor-made and professional courses for technical staff and management personnel of milk suppliers by integrating quality technology, talent and platform resources, and allocating talent into different classes (primary, intermediate and advanced) according to their ability. In addition, Mengniu has introduced Holstein Farmer Satellite Auditorium, the first satellite service platform for the dairy industry in China, which provided a high-end learning platform for dairy farmers. Mengniu regards the advance of technology and abundant supply of talent as the cornerstone in achieving sustainable development for itself as well as the dairy industry in China.

Sales Channels

Mengniu strived to expand its sales channels and has adopted sophisticated management techniques so as to bolster its control over the core market and facilitate the enhancement of distributors' competitiveness. In addition, Mengniu has commenced the Wei Sales Platform ("WSP") through which information at points-of-sale can be promptly received through information tools and a foundation can be built for detailed management over points-of-sales and internet marketing.

In respect of the in-depth development of sales channels, Mengniu adhered to a strategy of "vertical flattening, horizontal integration, function optimization and enhancement in various regions", to better cooperate with distributors, support sales companies and develop Central Business Units ("CBU"). Mengniu has initiated the Route to Market ("RTM") Project which aims to increase the number of direct sales retail outlets and their sales proportion to the total sales by developing sophisticated management, and excellence in execution in order to foster the competitive advantage of the omni-channel management system. The sales system of Mengniu covers three sales channel modes, namely distributors, sale companies and CBU. The distributor mode is the main channel mode of Mengniu's sales system at present and in the future. The sales companies refer to the operation entity controlled by Mengniu. Mengniu will facilitate the ability of sale companies to operate independently by continuously strengthening the management of sales companies, increasing the number of business representatives and providing direct services to various retail outlets. CBU refers to a non-independent legal branch within physical operation platforms in sales regions, through which the business representatives of Mengniu receive orders directly and arrange delivery through third party logistic companies or existing distributors.

Through the use of information tools that support sales staff operations at point-of-sale, the WSP project realized three functions including implementation of the standardized process of sales visit, regulation of management over employees' attendance and guidance for benchmark management. WSP played a substantial role in real-time control, regulation of operation processes at points-of-sale and the opening of internet marketing. In the first half of 2015, the WSP project has been widely promoted among sales companies and CBUs.

With respect to modern sales channels, the three-tier key account ("KA") service team comprising the headquarters-based client team, the regional team and the distributor team was directly responsible for retailers' sales. They developed a win-win ecosystem with retailers and carried out the cooperation with the retailers in the management of product categories.

Mengniu's products have fully covered mainstream e-commerce platforms in China such as Tmall Flagship Store, Tmall Supermarket, JD Online Shopping Mall, Yhd.com, Suning Commerce and womai.com. Mengniu has successfully driven the sales growth of e-commerce platforms through a series of e-commerce platform activities such as "the 10th Anniversary Exclusive *Milk Deluxe* in Tmall Supermarket" and "618 Revelry in JD".

Mengniu's products are currently sold in Hong Kong, Macau and overseas markets including Singapore and Mongolia, where Mengniu has carried out product-oriented branding based on the conditions in respective markets. During the period, ice cream products and *Yoyi C* were launched in the Mongolian and Singaporean markets respectively, whereas the product categories of *Yoyi C* sold in Hong Kong and Macau were expanded. The introduction of new products fueled the growth of sales in Hong Kong, Macau and the overseas markets. Besides, the packaging and specification of *Fruit Milk Drink* were changed so as to bring a trendier and grander image for the product. The brand image of Mengniu in overseas markets has undergone a unified change in which its branding "A Full Bite of Happiness" is used to extend the brand concept of "A Drop of Goodness".

Branding Strategy

Through resourceful use of the internet, Mengniu has developed innovative interactive activities and brought a vivid interpretation of the brand concept of "A Drop of Goodness" through the utilization of digital platforms and social media. In addition, Mengniu has further enhanced core value of its brand by expediting the integration of global resources. Through constant dedicated efforts, Mengniu is evolving into a more international, digitalized and youthful brand.

During the period, Mengniu has accelerated its branding internationalization. In March 2015, Mengniu renewed its marketing strategic partnership agreement with NBA China, continuing their cooperation which began in 2007. In addition to the existing cooperation over media, events and marketing promotion between the parties, NBA China granted Mengniu the right to place its logo onto the package design of Mengniu's products and to develop unique milk products with product design including the elements of the NBA in the China market for the first time. Mengniu will create a healthier and modern lifestyle jointly with NBA China and provide opportunities for customers to enjoy the perfect fusion between nutrition and sports. In April 2015, Mengniu and Shanghai Disney Resort announced a multi-year strategic alliance which recognizes Mengniu as the official dairy provider of the resort. This alliance will ensure that guests who visit the resort can enjoy a wide variety of high-quality dairy products, including milk, yogurt and ice cream. In addition, Mengniu will have an integrated brand presence at a variety of locations, including ice cream carts and an ice cream shop throughout Shanghai Disney Resort.

In light of the changes in consumption style brought by the “Internet+” concept, “Digitalization” has become the focus of Mengniu’s innovation in brand communication and product marketing. Mengniu has applied the internet concept on its product, and introduced the digitalized milk, *Prime Ranch Pure Milk*, by utilizing the cloud technology and 2-D barcode tracking system. On top of that, Mengniu has implemented the “Traceable+” strategy jointly with Greatview Aseptic Packaging, WeChat and RT-Mart, through which a healthy connection among products, consumers and business partners can be fostered and therefore a mutually beneficial interconnecting ecosystem can be developed. By leveraging the “Traceable+” strategy, *Prime Ranch Pure Milk* will be upgraded from *One Barcode per Carton* to *One Barcode per Pack*. The “Traceable+” platform is expected to provide comprehensive services to consumers through a variety of WeChat applications. Riding on its constant technological innovation, *Prime Ranch Pure Milk* was recognized as the *Best New Commercial Brand* within the *World Dairy Innovation Awards* at the ninth Global Dairy Congress. Mengniu has become the only Chinese dairy brand to receive this honor.

By utilizing online videos, Mengniu has tailored its product marketing so that it better fits the viewing habits of consumers in an era of social media. To mark the 10th Anniversary of the launch of *Milk Deluxe*, Mengniu, Youku, Tudou and Jia Zhangke, a renowned movie director in China, have joined forces to create a video production “Our Age, A Decade of an Adventurous Journey” comprising 10 video clips. These clips record the thoughts and feelings of 10 leaders in different industries for the last decade from a human perspective conveying transformation and challenges encountered in the last decade and an outlook of the next decade. Using the concept of “decennial” as the lead-in, the video clips were an excellent in-depth promotion of the brand of *Milk Deluxe* and pluck consumers’ heartstrings through the seamless integration of *Milk Deluxe* and these peoples’ personal recollections of the last decade.

“Experience” plays an important role in Mengniu’s brand communication. The use of innovative events and digital tools have reshaped the interaction between customers and Mengniu. Mengniu has set up an online Love Dispatch in collaboration with COFCO womai.com for *Awakening Youth Milk*, the first milk in China dedicated to the senior population. Customers can simply log onto www.womai.com to upload their pictures and messages for their parents. After that, the system would automatically create a template and send a dispatch of *Awakening Youth Milk* directly to their parents together with the message of love printed on the package of the milk. Dedicated to provide customers with services that go beyond just products, *Awakening Youth Milk*’s Love Dispatch has in a virtual way shortened the distance between parents and their children and conveyed the message of love with more creativity. Besides, *Suan Suan Ru* signed up TFBOYS as its product ambassador and introduced a revolutionarily innovative package by adopting the cartoon element of Off POP, thus substantially boosting brand recognition and sales from youngsters.

During the period, Mengniu has invited over 80,000 consumers to visit Mengniu Life Experience Hall. Mengniu also organized interesting factory visits centering around the theme of “Play”, “Act” and “Eat” . Through the theme event, “Fun in the factory”, held in the factories in Ma’anshan and Helin etc., consumers could have a better understanding of products of Mengniu and professional knowledge of the dairy product segment through the interactive experience of exercises, entertainment and fine food. Customers could also better understand the brand proposition “A Drop Of Goodness”, further enhancing the reliability and recognition of Mengniu.

During the period, Mengniu carried out organizational structure adjustment, integrated the functions of research and development, marketing and trade marketing, and established management systems for the three product segments, namely, UHT dairy products, chilled dairy products, ice cream and milk beverages. This has centralized the management of marketing strategies, product positioning, sales planning, product research and development and investment and decision in production technologies of the three categories so as to connect more closely with the consumer insights, product innovation and market promotions.

Management System

In 2013, Mengniu introduced the state-of-the-art SAP system to build up and boost its management capabilities in six aspects – precision marketing and in-depth sales channel management; integrated management platform for business and finance; responsive synergetic system for production, supply and sales; integrated quality management and refined quality tracking; scientific and rational industrial planning; as well as efficient management of procurement and logistics.

The SAP project is being implemented in three stages: the first stage is the foundational implementation phase in 2013 and 2014; the second stage is the operational refinement phase in 2015 and 2016, and the third stage is the coordination and optimization stage in 2016 and 2017. The SAP project is currently at the second stage.

The first stage of the SAP project was completed successfully in March 2015, including two sub-projects, namely Enterprise Resource Planning (“ERP”) and Customer Relationship Management (“CRM”). The first stage of the SAP project consisted of sales plan management, expense management, market management, milk sources management, procurement management, production plan management, logistics management, quality control management and financial management, covering four major product categories, namely UHT, chilled products, ice cream and cheese. With the smooth implementation of the first stage of the SAP project, the standardization and transparency of Mengniu business data have been greatly enhanced. At the same time improving the internal work efficiency, management efficiency and decision-making efficiency, data extraction and data application are further realized.

The second stage of the SAP project includes four sub-projects, namely Business Intelligence (“BI”), Plant Maintenance (“PM”), Customer Relationship Management (“CRM”) and Finance Shared Service Centre (“FSSC”). All of these four sub-projects were officially launched in the first half of 2015 with the commencement of blueprint design.

FINANCIAL REVIEW

Revenue

Affected by the market competition and the year-on-year decrease in revenue in the milk formula business, the Group's revenue for the six months ended 30 June 2015 was RMB25,564.4 million (2014: RMB25,835.8 million), representing a decrease of 1.1% on a year-on-year basis. Meanwhile, the revenue of Yashili for the period was RMB1,161.5 million (2014: RMB1,545.7 million). Excluding Yashili, the revenue of the Group rose by 0.5% to RMB24,402.9 million (2014: RMB24,290.1 million). Brands such as *Milk Deluxe*, *Yoyi C*, *Champion* and *Just Yoghurt* achieved strong growth, which has optimized the product mix.

Gross Profit

During the period, raw milk prices further dropped due to the increase in the domestic supply of raw milk. The Group has strengthened promotional activities of some products in response to intensified market competition. As a result, the gross profit of the Group for the six months ended 30 June 2015 decreased to RMB8,142.8 million (2014: RMB8,381.8 million), while gross margin decreased by 0.5 percentage points to 31.9% as compared with the same period last year. Excluding Yashili, the Group's gross profit was RMB7,573.3 million (2014: RMB7,548.6 million), while gross margin decreased by 0.1 percentage points year-on-year to 31.0%.

The gross profit of Yashili for the period amounted to RMB569.5 million (2014: RMB833.2 million).

Operating Expenses

The Group has been proactive in modifying its strategies on expenditures in response to market conditions. As a result, operating expenses decreased to RMB6,841.8 million (2014: RMB7,415.4 million), representing approximately 26.8% (2014: 28.7%) of the Group's revenue. Excluding Yashili, the Group's operating expenses were RMB6,223.1 million (2014: RMB6,716.8 million), representing 25.5% of the revenue excluding the contribution of Yashili (2014: 27.7%).

Selling and distribution expenses for the period decreased by 5.6% to RMB5,565.3 million (2014: RMB5,897.1 million), and their percentage of the Group's revenue decreased to 21.8% (2014: 22.8%). Excluding Yashili, the selling and distribution expenses of the Group were RMB5,041.7 million (2014: RMB5,325.2 million), representing 20.7% (2014: 21.9%) of the revenue excluding the contribution of Yashili, a decrease of 1.2 percentage points year-on-year.

As for marketing, the Group has improved the efficiency of advertising and promotion and has carried out more precisely focused sales and marketing activities. Consequently, the advertising and promotion expenses for the period decreased by 19.9% to RMB2,290.2 million (2014: RMB2,860.6 million), and their percentage of the Group's revenue decreased to 9.0% (2014: 11.1%). Excluding Yashili, the Group's advertising and promotion expenses decreased by 21.9% to RMB2,089.0 million (2014: RMB2,675.7 million), representing 8.6% of the revenue excluding Yashili's contribution (2014: 11.0%), dropping by 2.4 percentage points year-on-year.

Administrative and other operating expenses decreased by 15.9% to RMB1,276.5 million (2014: RMB1,518.2 million), and their percentage to the Group's revenue decreased to 5.0% (2014: 5.9%). Excluding Yashili, the Group's administrative and other operating expenses was RMB1,181.4 million (2014: RMB1,391.6 million), representing 4.8% of the revenue excluding Yashili's contribution (2014: 5.7%), a decrease of 0.9 percentage points year-on-year, which was mainly a result of the impairment of a significant amount of raw milk powder inventory for the corresponding period in 2014.

Profit from Operating Activities and Net Profit

Due to the improvement in the product mix and the effective control of operating expenses, the EBITDA of the Group has increased by 13.4%, reaching RMB2,315.6 million (2014: RMB2,041.9 million), and EBITDA margin increased to 9.1% (2014: 7.9%). Excluding Yashili, the EBITDA of the Group was RMB2,289.3 million (2014: RMB1,793.4 million), with the EBITDA margin increasing to 9.4% (2014: 7.4%).

Profit attributable to owners of the Company increased by 27.7% year-on-year, amounting to RMB1,338.7 million (2014: RMB1,048.6 million) of which RMB41.81 million was contributed by Yashili. Basic earnings per share of the Group was RMB0.689 (2014: RMB0.540), representing a year-on-year increase of 27.6%. Excluding Yashili, profit attributable to owners of the Company was RMB1,296.9 million (2014: RMB931.0 million), representing an increase of 39.3% year-on-year.

Income Tax Expenses

For the six months ended 30 June 2015, the effective income tax rate of the Group was 18.3%, increasing by 1.3 percentage points year-on-year. Excluding Yashili, the effective income tax rate of the Group was 18.5%, increasing by 0.7 percentage points year-on-year. The relatively low effective income tax rate during the same period of 2014, was attributable to the fact that Yashili has reversed the withholding tax provided in 2013 for payment of a dividend overseas from the PRC. The relatively high effective income tax rate during the period was also partially due to the Group, acting prudently, has not recognized the tax losses arising in certain subsidiaries as deferred income tax assets.

Capital Expenditure

For the six months ended 30 June 2015, the capital expenditure (“CAPEX”) of the Group were RMB1,439.6 million (2014: RMB1,485.1 million), which represents a year-on-year decrease of 3.1%. The CAPEX consists of expenses that were spent on building new and modifying existing production facilities and related investment amounting to RMB1,399.0 million, purchasing biological assets amounting to RMB30.65 million and equity investments amounting to RMB10.00 million. Excluding Yashili, the CAPEX of the Group was RMB1,237.8 million (2014: RMB1,077.2 million). The CAPEX of Yashili amounted to approximately RMB201.8 million, which was mostly spent on constructing the factory in New Zealand. The Group has adopted a prudent strategy in its CAPEX, so as to lay a sound foundation for future development.

Working Capital, Financial Resources and Capital Structure

The Group’s net cash inflow from operating activities for the six months ended 30 June 2015 increased to RMB2,107.3 million (2014: RMB1,546.5 million), primarily due to the increase in operating profit.

As of 30 June 2015, outstanding bank loans and bonds of the Group increased to RMB10,469.1 million (31 December 2014: RMB9,824.7 million). Excluding Yashili, the outstanding bank loans and bonds of the Group were RMB9,350.0 million (31 December 2014: RMB9,062.1 million).

Net borrowings (total amount of bank loans and bonds net of cash and bank balances) of the Group as at 30 June 2015 were RMB1,862.2 million (31 December 2014: RMB5,175.1 million). Excluding Yashili, the net borrowings of the Group were RMB4,426.6 million (2014: RMB5,212.3 million).

The Group’s total equity as of 30 June 2015 was RMB26,234.4 million (31 December 2014: RMB24,492.9 million). The debt-to-equity ratio (total amount of bank loans and bonds over total equity) was 39.9% (31 December 2014: 40.1%).

Finance costs of the Group for the six months ended 30 June 2015 were RMB134.6 million (2014: RMB176.2 million), accounting for about 0.5% of the revenue (2014: 0.7%). Excluding Yashili, the finance costs of the Group were RMB132.2 million, accounting for 0.5% of the revenue excluding that of Yashili, which represents a year-on-year decrease of 0.2 percentage points.

Products

In the first half of 2015, Mengniu further integrated the global resources of its strategies partners, enhanced the advantages of respective product categories and accelerated product innovation. Mengniu actively embraced the internet with particular emphasis on the two-way interaction with consumers. It focused precisely on various aspects such as product categories, taste, packaging, distribution channels, and brand experience so as to promote consumers’ loyalty. Furthermore, in order to respond to the rapidly changing market conditions, Mengniu continued to focus on key products, optimized its product mix and enhanced the sale and promotion of the basic products to reinforce its market penetration against the backdrop of abundant raw milk supply.

Mengniu’s principal businesses comprise liquid milk, ice cream, milk formula and other products. Their performance during the six months ended 30 June 2015 is as follows:

Product Category	Financial Performance	Highlights	Key Products
Liquid milk	Revenue amounted to RMB21,940.9 million (2014: RMB21,764.8 million), accounting for 85.8% of Mengniu’s total revenue (2014: 84.2%)		
UHT milk	Revenue amounted to RMB10,710.4 million (2014: RMB12,365.3 million), accounting for 48.8% of the liquid milk segment revenue (2014: 56.8%)	<ul style="list-style-type: none"> – Marking the 10th Anniversary of the launch of <i>Milk Deluxe</i>, it has maintained the leading position in the high-end milk market with its comprehensive product lines, bringing the consumers a better lifestyle. – <i>Pure Milk</i> introduced customized packaging featuring NBA teams and players, advocating a more stylish and wholesome lifestyle centering around milk, delivering a perfect experience of good nutrition coupled with exercise. – <i>Future Star</i> series launched the brand new <i>Miao Miao Milk</i> with fortified calcium, iron and zinc and the addition of prebiotics, providing children with pure natural nutrients, also enriching and completing the product mix of milk beverages. – <i>Awakening Youth Milk</i>, a milk product with specialized functions suitable for the middle-aged and the elderly, integrated festivals and celebrations into thematic marketing and conveyed the idea that “every box of milk carries our regards”, emphasizing the emotional communication between the product and the consumers. – <i>XinYangDao</i> upgraded the packaging of three products, namely whole milk, low-fat milk and nutritious milk, targeting consumers with lactose intolerance and featuring the slogan “Lactose-free milk, better ingestion of nutrients”, so as to alter the consumers’ perception of the brand. – <i>Latte</i> highlighted the marketing theme of “Fully enjoy the romantic good taste”. Apart from sponsoring online variety shows, <i>Latte</i> also sponsored A-meí’s world tour concert offline and appointed Kris Wu as the brand ambassador in order to turn their fans into loyal consumers and enhance the consumers’ loyalty to the product through celebrity association. 	<ul style="list-style-type: none"> – <i>Milk Deluxe</i> – <i>Milk Deluxe Global Selection Pure Milk</i> – <i>Milk Deluxe Grain</i> – <i>Prime Ranch Pure Milk</i> – <i>Awakening Youth Milk</i> – <i>Future Star Kid Milk</i> – <i>Arla Foods Organic Pure Milk</i> – <i>Latte</i>

Product Category	Financial Performance	Highlights	Key Products
Milk beverages	Revenue amounted to RMB5,657.8 million (2014: RMB5,826.2 million), accounting for 25.8% of liquid milk segment revenue (2014: 26.8%)	<ul style="list-style-type: none"> – <i>Suan Suan Ru</i> introduced innovative Off POP packaging and through brand ambassadors TFBOYS, a popular music group, to convey the brand proposition of “Youth, daring to do and say”. – <i>Fruit Milk Drink</i> sponsored “Divas Hit the Road”, a travelling reality show, in association with Hunan TV and introduced a new packaging featuring the show to better convey the ideal of the brand that “Reality is More Fun”. – <i>Yoyi C</i> launched a 340ml low-sugar flavor beverage with a 25% reduction in sugar, advocating the fat-free concept. The new 100ml plain, apple and strawberry flavors were also offered to consumers to increase the number of choices, helping their digestion and sharing a relaxing and healthy lifestyle. – <i>Minion Banana Milk</i> launched the basic tetra pack packaging and enhanced consumers’ awareness of the product though the popular image of Minion. 	<ul style="list-style-type: none"> – <i>Fruit Milk Drink</i> – <i>Suan Suan Ru</i> – <i>Yoyi C</i> – <i>Miao Miao Milk</i> – <i>Minion Banana Milk</i>
Yogurt	Revenue amounted to RMB5,572.7 million (2014: RMB3,573.3 million), accounting for 25.4% of the liquid milk segment revenue (2014: 16.4%)	<ul style="list-style-type: none"> – <i>Champion</i>, striving to produce “great yogurt that cannot be replicated”, launched the yellow peach oat and walnut oat flavors which energize consumers with cereal ingredients. Meanwhile, a new ready-to-drink yogurt was launched, targeting southern China market, which has a preference of thinner yogurt products. – <i>Bio</i> launched a new 170-gram new packaging, which features no-addictive. – Enhanced the formula of basic yogurt launched by of Mengniu Danone. – With “Good taste, no additives” as this year’s marketing theme, <i>Just Yogurt</i> insisted on making pure and natural products “with no additives”. 	<ul style="list-style-type: none"> – <i>Champion</i> – <i>Bio</i> – <i>Just Yoghurt</i> – <i>Future Star Kid Yogurt</i>
Ice cream	Revenue amounted to RMB1,644.3 million (2014: RMB1,988.4 million), accounting for 6.4% of the total revenue (2014: 7.7%)	<ul style="list-style-type: none"> – <i>Ice+</i> launched the new lemongrass and peach and apricot flavors of ice cream, which are a delicious and cooling combination of ice, frozen milk and real raisins, engaging the taste buds in a refreshing and textured experience. – <i>Suibianbaoliao</i> launched wheat flakes and cookies ice cream comprising chocolate ice cream added with chocolate bits, dried wheat flakes and cookie crumbs, delivering consumers a brand new sensation of eating chocolate ice cream. – Launch of <i>Love Sweet Potatoes</i>, a brand new simulated ice cream food series resembling the texture and taste of ice cream. Added with real sweet potato sauce, the product initiates innovations in ice cream products. 	<ul style="list-style-type: none"> – <i>Deluxe</i> – <i>Mood for Green</i> – <i>Ice+</i> – <i>Suibianbaoliao</i>

Product Category	Financial Performance	Highlights	Key Products
Milk formula	Revenue amounted to RMB1,783.5 million (2014: RMB1,933.8 million), accounting for 7.0% of the total revenue (2014: 7.5%)	<ul style="list-style-type: none"> - The new “contaminant-free” product <i>Ruipuen Organic Infant Milk Formula</i> launched by Mengniu using European milk sources, has attained a certification by the organic authority in China. The product aims to set the highest safety standard of milk formula and endeavors to bring Chinese mothers higher quality and safe milk formulas. - A new member <i>Meimengyi</i> has been added to Mengniu Arla’s “Beauty Series”, the formula of which is designed to best suit babies’ nutrition needs by incorporating various growth, nutrition and health factors in order to provide comprehensive and balanced nutrition for babies at every stage of growth and development. - Yashili has launched the <i>Super α- Golden</i> and <i>Arla Merla</i> milk formula series offering quality nutrition targeting the high-end market segment. 	<ul style="list-style-type: none"> - <i>Oushi</i> - <i>Ruipuen</i> - <i>Milex</i> - <i>Meimengyi</i> - <i>Arla Merla</i> - <i>Yashily Super α- Golden</i> - <i>Arla Baby & Me</i>
Other products	Revenue amounted to RMB195.7 million (2014: RMB148.8 million), accounting for 0.8% of the total revenue (2014: 0.6%)	<ul style="list-style-type: none"> - Four tastes of Arla Foods’ <i>Kids Cheese Sticks</i> including plain, mild, strawberry and banana are offered, providing a variety of tastes and nutrition for kids. - The joint-equity company has launched two series, namely walnut and almond, of <i>ZhiPuMoFang</i> plant-based beverage in December 2014, fulfilling demand in the premium plant-based beverage market in China. 	<ul style="list-style-type: none"> - <i>Future Star Kids Cheese Sticks</i> - <i>European Fromage Frais</i> - <i>European Fermented Milk</i> - <i>ZhiPuMoFang</i>

Production

Mengniu has deployed its production capacity according to market potential and product strategy. As of June 2015, Mengniu has 33 production bases across the country, with a total production capacity of 8.61 million tons (December 2014: 8.10 million tons). The increase of production capacity was mainly due to new production lines and expansion of product categories.

Corporate Social Responsibility

Mengniu always endeavors to give back to society and advocates a “sustainable ecosystem” as a key concept of corporate social responsibility. Mengniu considers food safety and health, product and service innovation, efficient operation and management, low-carbon and green development, caring for the staff and their growth, and social participation and development as the core of fulfilling social responsibility. At the same time, its business partners are also incorporated into the scope of social responsibility management in order to satisfy demand of society and address social issues.

The “Give a Lecture in My Hometown” program was launched again in the first half of 2015. Ms. Sun Yiping, the Chief Executive Officer of Mengniu, gave a lecture at a school in Liulinghuang, Longping Xiang, Jianshi County, Enshi City, Hubei Province (湖北省恩施州建始縣龍坪鄉柳林荒) to the children in the poverty area as a volunteer teacher. Mengniu invited Mr. Chen Chusheng, a famous singer, to join “Give a Lecture in My Hometown”, the 89th celebrity participant. He gave an fascinating public lecture to students in Licai Middle School (立才中學) of Yucai Town, Sanya City (三亞市育才鎮) as a volunteer teacher.

The project of “Sustainable Ecosystem of Milk Sources” is one of the plans in Mengniu’s “2020 Sustainable Development Strategies”. Mengniu has joined hands with China Agricultural University, China Agricultural Machinery Testing Center of the Ministry of Agriculture and Holstein Farmer Satellite Auditorium, and worked together from the forefront of the dairy industry chain, to improve the overall technical service level in the industry through diversified approaches, providing consumers with better quality and safer products in order to achieve sustainable industry development.

On 17 June 2015, an opening ceremony was held for the completion of the 53rd well, another landmark of the “Mengniu’s Charity Well” major civil project and charity campaign launched in 2011. Mengniu invited hydrologists to conduct field exploration and drilling to assist pastoral people to overcome drought. In this way, Mengniu spreads love to the underprivileged and the places in need of help.

Mengniu has also dedicated substantial efforts in contributing to environmental protection through implementation of emissions and pollution reduction and energy conservation, and strived to promote renewable energy sources. During the period, Mengniu has made improvement on boilers, replaced natural gas with biofuel and is currently installing two biofuel boilers at a Wuhan factory weighing 15 tons and 10 tons respectively. Both are in the preliminary commissioning stage. Upon the completion of this project, it is expected that approximately 31,000 tons of standard coal will be saved and 77,300 tons of carbon dioxide will be reduced on an annual basis. Furthermore, Mengniu has actively adopted a synergistic energy model and replaced all ordinary electric machines with high-efficiency electric machines. Upon the completion of the modification, the amount of electricity saved annually is expected to be 4.12 million kWh.

In the first half of 2015, Mengniu has carried out a total of 53 energy-saving transformation projects investing ten millions of RMB. Energy-saving projects including lighting remodification, homogenizer dormancy, air-cooled energy saving, residual heat recycling and solar power generation have delivered encouraging results equivalent to saving 2,200 tons of standard coal, reducing carbon dioxide emissions by 5,424 tonnes, carbon particles by 1,496 tons and sulfur dioxide by 165 tons.

Mengniu has cooperated with Ecolab (China) Investment Co., Ltd. (藝康(中國)公司), a strategic partner, to set up the project of “1+1 Saving Water and Energy to Improve Efficiency” aimed at reducing the consumption of water and energy during the production process, lowering production costs and achieving efficient operations as well as sustainable development. In addition, the deodorization upgrade project has been implemented by the end of May 2015 to enhance the air quality and improve the living environment of residents in the vicinity by utilizing light decomposition and purifying methods.

During the period, Mengniu has established an on-line wastewater monitoring system at the Group level and implemented real-time and on-line monitoring of the sewage indicators at 30 sewage treatment plants. Mengniu has also launched “Energy Management and Control Project” through data collection, wireless transmission, data storage and internet technologies to collect the energy data from all of its production factories nationwide and feed them back to the energy management and control center for centralized review and management. The Energy Control Center can check the energy consumption and energy cost, conduct comparative analysis of the data through mobile terminals and achieve the effective integration of internet technology and traditional energy management.

In terms of the production safety, Mengniu has commenced a treatment in the ammonia cooling system project. During the period, Mengniu has completed the remodification of 11 cooling systems in nine production units. It has also worked to set up a system for identifying and removing potential hazards. Currently, Mengniu has conducted in-depth discussion and planning on the future positioning, usage, targets and application and operation of the system. A preliminary construction proposal of the project has been drafted.

Mengniu’s corporate social responsibility efforts were fully recognized by society and the industry. In 2015, Mengniu’s “Dairy Enterprises Relying on the Management of Sustainable Milk Sources” was awarded the second prize in the “National Business Administration Modern Innovation Achievement” scheme. Furthermore, for the “Mengniu Corporate Social Responsibility Project of University of Ranchers”, Mengniu was awarded as a “Golden Bee Enterprise” and was on the list of “Golden Bee CSR China Honor Roll” in 2014 as an example of Chinese enterprises fulfilling their corporate social responsibility.

Human resources

As of 30 June 2015, the Group had a total of about 38,800 employees in China and Hong Kong, including around 4,364 at Yashili. During the period, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB1,871.5 million (2014: RMB1,503.7 million).

With the aim of “motivating its staff to grow together with the Group”, Mengniu has put in place a five-tier incentive system that centers around amicable competition and motivation including, in particular, incentives for personal performance, group benefit sharing, group over-turnover, and group appraisal as well as the group share award scheme.

To achieve professional development of its talent in two different fields, Mengniu continued its two talent selection and training programs, namely the “Management 100 Series” and the “Professional 100 Series”. During the period, Mengniu further launched the “Mulan 100” project to offer instruction in marketing expertise and leadership skills for two years to female staff who passed the selection and assessment and build up a diversified, open and tolerant talent team, so as to achieve sustainable talent development.

In the first half of 2015, the five sub-projects of the “Management 100 Series”, “Top 20”, “100 Senior”, “100 Junior”, “100 MT” and “100 GT” have conducted 15 training courses. The accumulated training headcount and hours amounted to 1,406 individuals and 400 hours respectively. The five sub-projects of the “Professional 100 Series”, namely “Milk Source 100”, “Sales 100”, “Quality 100”, “Technology 100” and “100 Professional GT” have conducted 10 training sessions. The accumulated training headcount and hours amounted to 912 individuals and 228 hours respectively.

During the period, Mengniu continued to promote the “Big Dipper” leadership behavior model, including vision, innovation, teamwork, execution, organization, decision-making and training skills, and has applied the model to recruitment, personnel training, 360 assessment and the succession plan in steps, for the purpose of boosting its management leadership.

Prospects

Given the increase in the urbanization ratio in the PRC, the penetration of dairy enterprises’ sales channels into third and fourth tier cities and rural market, and the fact that the per capita consumption of dairy products in the PRC is far behind than that of Japan and South Korea and large European and North American countries, there is a remarkable growth potential for the consumption of dairy products in the PRC. At the same time, the innovation of dairy products segmentation, the upgrading of product mix, the survival of the strongest which will result in the optimization of the competitive landscape, as well as the layout of international resource, will offer a huge development opportunity for the dairy enterprises, in particular the leading dairy enterprises.

The development of dairy products towards the high-end segment is increasingly apparent. High-end UHT milk, UHT yogurt, lactobacillus drinks and chilled yogurt will maintain a strong growth momentum.

Looking ahead, Mengniu will make the best use of the synergy with its strategic partners with global vision and optimize resource consolidation and utilization. Mengniu will continue to introduce advanced technology and management experience from strategic partners. Meanwhile, Mengniu will join hands with strategic partners to establish an intensive procurement system to reduce procurement costs. As the leading producer of liquid milk products and chilled business operation, Mengniu will reinforce its leading position in the area of liquid milk products and chilled business, consolidate Yashili’s milk formula business and prepare for the development of low-temperature fresh milk business. Through providing the ranches with comprehensive resource platform services, multiple-channel financing service, authoritative and customized technology instruction and support in management training, Mengniu strives to its promotion of ranches’ sustainable development, building a harmonious, symbiotic and mutually supportive ecosystem with upstream partners.

In order to satisfy customers' specific and differentiated needs, Mengniu will speed up its product innovation. Mengniu will also focus on brand building, conduct clear communication and close interaction with consumers under the concept of "Little Happiness Matters", building an international brand with "Happiness" elements. Moreover, Mengniu will continue to refine and enhance various distribution channels, and basing on a sales system that centers on distributors mode, in order to promote distributors' effective control and management at the points-of-sale. It will also accelerate the development of direct sales mode to increase the number and the sales share of the directly controlled retail outlets. Meanwhile, Mengniu will advance the penetration of channels into towns and rural markets. Mengniu will also enhance the management of market expenses to increase budget efficiency.

In respect of internal management, Mengniu emphasizes the models of "System Building, Talent-job Matching and Development and Innovation". Through continuous build-out of the SAP platform and introduction of intelligent systems, Mengniu's capability in digital management and operation efficiency will continue to advance, which will eventually lead to benefits in boosting profitability and enhancing comprehensive competitiveness. Complementing this direction, Mengniu will also establish a more rational, efficient and innovative internal management structure. Adhering to its corporate cultures of "Openness, Integrity, Accountability and Innovation", Mengniu will exploit the potential of each and every staff member and nurture their global vision.

Mengniu will continuously advance towards its goal 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 2015, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held on 5 June 2015 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 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 2015.

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 2015, except that the trustee of the 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 2,358,000 listed securities of the Company at a total consideration of about RMB68 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 2015.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the interim results announcement of the Group's results for the six months ended 30 June 2015 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 interim results announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.mengniu.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, 26 August 2015