

2016

China Mengniu Dairy Company Limited
Sustainability Report

HKSE: 2319

Fascination for Dedication



About This Report

Period

January 1st, 2016-December 31st, 2016

Organizational Scope

The parent company "China Mengniu Dairy Co., Ltd.", and all its branches, subsidiaries, and affiliates.

Publications:

China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2016) is the forth comprehensive non-financial report of the Company.

- China Mengniu Dairy Company Limited Corporate Social Responsibility Report (1999-2007)
- China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2008-2013)
- China Mengniu Dairy Company Limited Sustainability Report (2014-2015)

References

- The Stock Exchange of Hong Kong: Environmental, Social and Governance Reporting Guide
- Global Reporting Initiative (GRI): Sustainability Reporting Guide(G4)
- GB/T 36001-2015, Guidance on Social Responsibility Reporting
- CASS: Social Responsibility Reporting Guidelines of Food Industry
- ISO 26000: Guidance on Social Responsibility (2010)
- RHB 901-2016: Guidance on Social Responsibility of Dairy Industry

Denotation

For convenience, "China Mengniu Dairy Company Limited" is also referred to as "Mengniu", "the Company" and "We" in this report.

Data Sources

All information and data used in this report originate from formal files, statistic reports, and financial reports of the Company. All materials used in this report are provided by our employees and our partners, which will only be used for reporting our progress in sustainable development, and may not be used for commercial purpose.

Language

This report is provided in three languages: simplified Chinese, traditional Chinese, and English. In case of any discrepancy among these three versions, the Simplified Chinese version shall govern.

Feedback

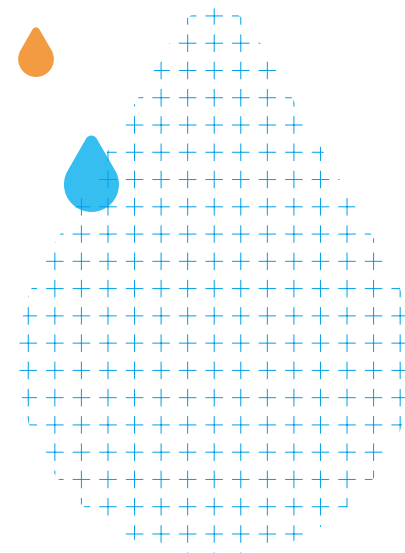
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President's Address

Each year, more than one billion consumers choose Mengniu products, which makes it our top priority to shoulder the great responsibility of the nutrition and health of every single Chinese, and therefore motivates all employees in Mengniu to strive to become a craftsman in milk production.

Mengniu has always been dedicated to becoming the world's first-class dairy producer and never stopped pursuing better products. In order to achieve higher quality, we focus on every detail about milk production, from ranches to dining tables. In addition, we coordinate best resources of the full industry chain in the world, and adopt international management experience and standards, which has raised the content of milk protein to 3.2g/100ml. As a result, Mengniu has taken the lead in getting the certification of "same production line, same standard, and same quality", which enables consumers both home and abroad to enjoy our products at the same high quality.

Mengniu regards innovation as an essential factor for re-creating value in the dairy industry. In order to achieve further expansion and growth, we have cooperated with farms, suppliers, and distributors to build a sustainable ecosystem that contributes to the integrated development the industry. In addition, we have improved the "Mengniu 100" talent training system, established three global R&D bases, and kept running programs such as "Ranchers University", so that we can strengthen our operating and management ability, as well as lead the whole dairy industry to achieve further development.

Mengniu lays equal emphasis on both development and responsibility, and strives to contribute more to society through greener development. We have injected the "green" concept into every part of our production and management process, and created a green production pattern regarding

ranches, factories, transportation, and storage. In addition, we have cooperated with 389 charity institutions to organize charitable events concerning nine areas of public welfare including education, environment, community development, and public health, and covers 22 provinces and more than 600 schools in the countryside. We have taken the initiative to promote the idea of having a healthy and environment-friendly lifestyle.

We have realized that sustainable development has already received broad consensus globally and become the norm of our time, it is also a common gene of all excellent companies in the world. Faced with the 2030 Sustainable Goal proposed by the United Nations, we will spare no effort to build a sustainable ecosystem considering the characteristics of this industry, cooperate with more friends and partners, and strive to create a better future.

The shining spears and armored horses have been prepared for the challenge and are ready to start a new journey. In 2017, we will continue to "be dedicated to people's nutrition and health, and bring happiness to more people at every moment every day", put more emphasis and efforts on products, quality, values, and execution by applying QVIP pattern, provide Chinese consumers with products and services that reach international quality standard, and contribute to the health and well-being of our whole society as much as we can.

Lu Minfang
Chief Executive Officer & Executive Director

About Mengniu

China Mengniu Dairy Co., Ltd. has been listed on Hong Kong Stock Exchange. We have been dedicated to developing and producing dairy products, and providing consumers with diversified products. Now we have a matrix series of milk, ice cream, milk powder and cheese, which are also sold in countries and regions such as Singapore, Mongolia, Hong Kong, and Macau. In 2016, we have achieved 9.4 million tons of capacity, RMB 53.78 billion of revenue, RMB 17.64 billion of gross profit, and RMB 2.92 billion of tax (excluding Yashili and ZhiPuMoFang). We have been among the global top 20 companies of the dairy industry for eight consecutive years.

We have our strategic cooperation with Danone and Arla Foods, and have been deploying the high quality milk sources in countries such as Denmark, Germany, and Austria.

We have built 33 production bases and 58 factories in 21 provinces and cities.

U.S.

Europe

Mainland China

Asia

We export our products to countries and regions such as Hong Kong, Macau, Mongolia, Singapore, and Myanmar.

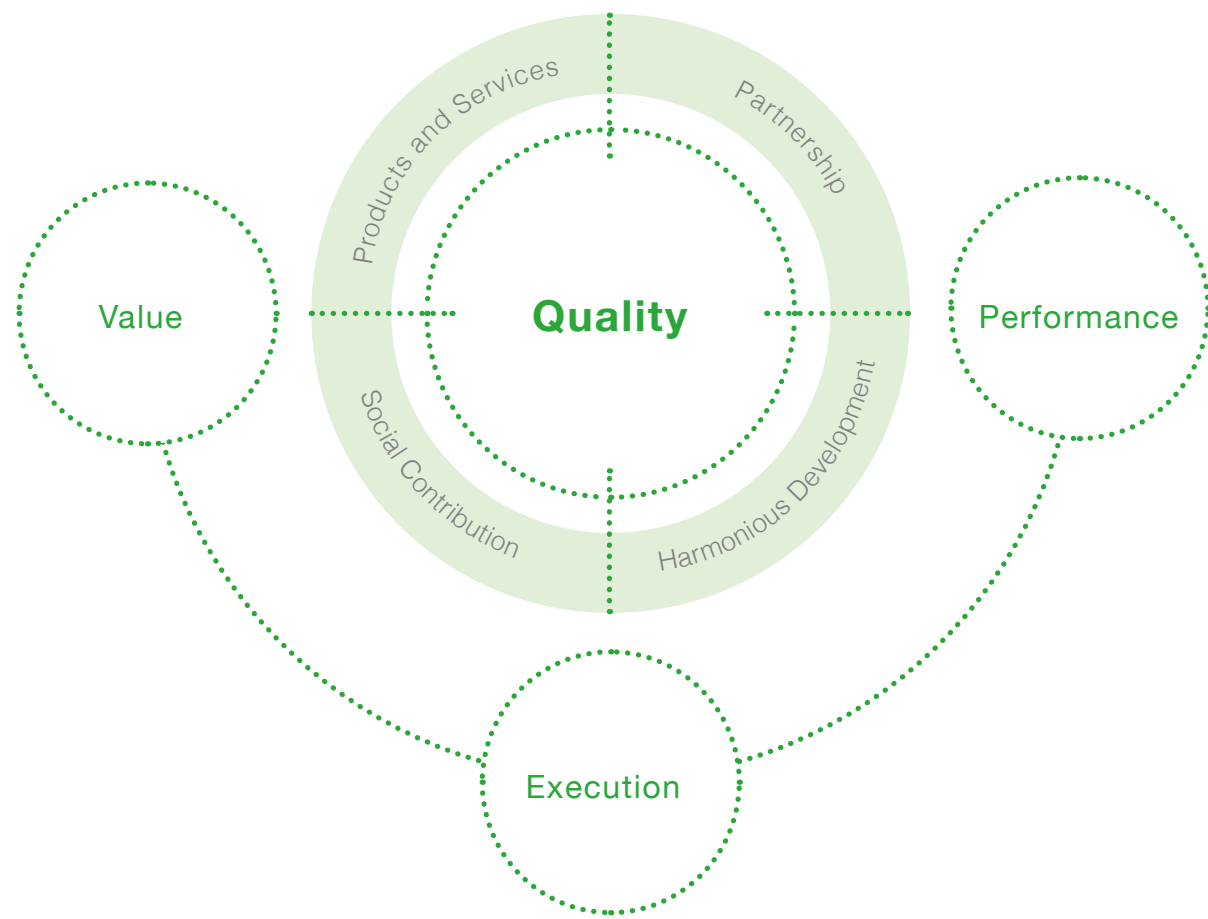
We have collaborated to establish the "Mengniu – University of California, Davis Nutrition and Health Innovation Research Institute".

We cooperated with Pengxin and Miraka to deploy the sources of high quality milk, sources and established Yashili factories.

New Zealand

To Become the World's First-Class Dairy Company

We insist in providing our consumers with products that are healthier, contain more nutrition, and have higher quality. We are also dedicated to becoming the world's first-class dairy company based on values, execution, and performance, and promote sustainable development for both Mengniu and the society as a whole.



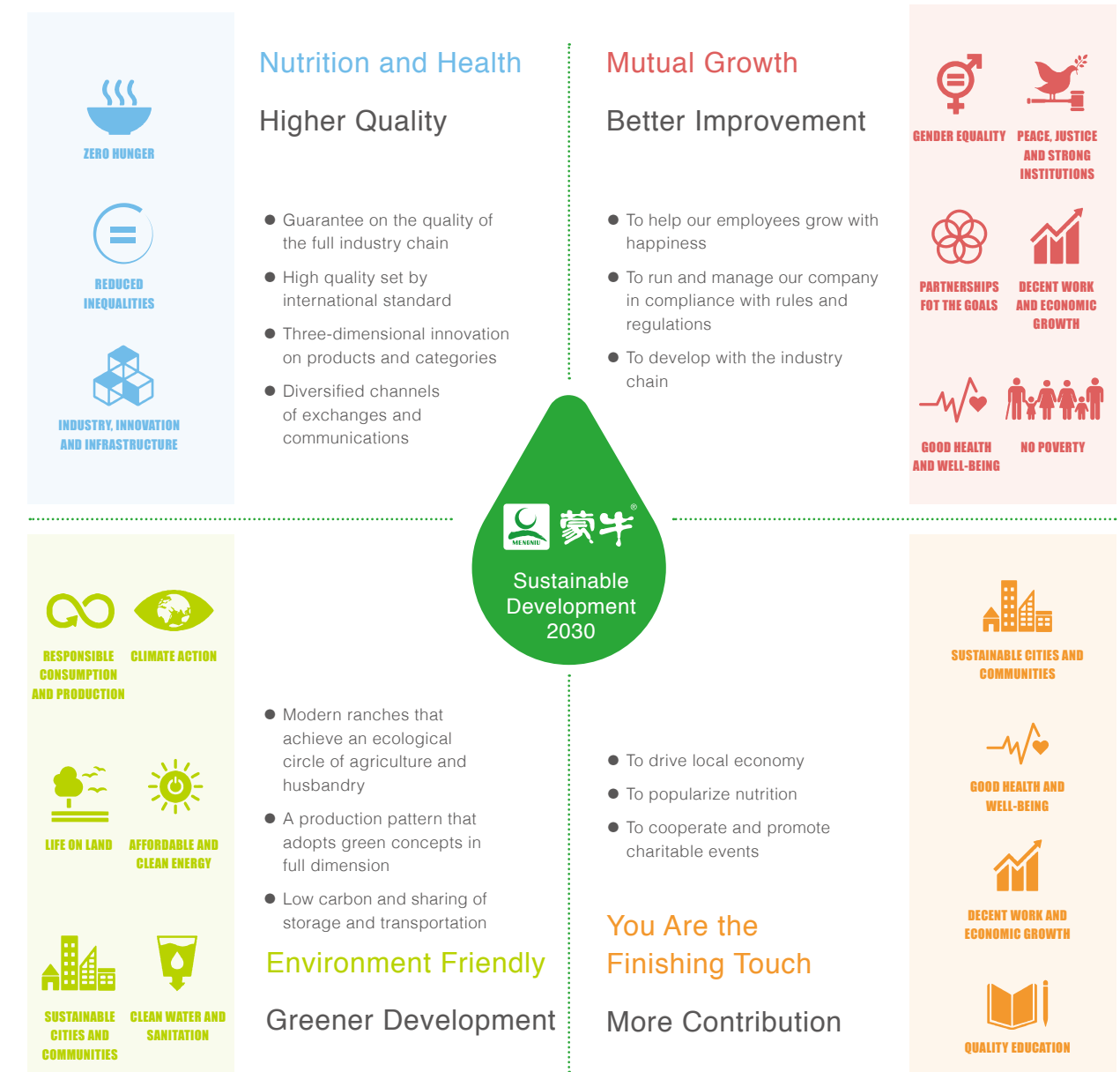
“Quality is essential for Mengniu to achieve sustainable development. We have taken the initiative to explore ways of upgrading the industry and solving social development problems through our own technology and influence.”

Shi Dongwei, Executive President of Mengniu

Make Strategies for Sustainable Development 2030

The earth is now facing huge economic, social, and environmental challenges. Based on this circumstance, United Nation's Sustainable Development Goals (SDGs) has made global visions and priorities in 2030.

We are determined to become the world's first-class dairy company. In order to achieve this goal, we focus on subjects such as Nutrition and Health, Mutual Growth, Environment Friendly, and You Are the Finishing Touch, combine faith and determination of our employees with our stockholders and global resources, make strategies for sustainable development 2030, and strive to become a role model in contributing to and achieving sustainable development.



Mission

Devote to nutrition and health and bring drops of happiness to more people every moment in every day



Vision

Consumer-focused, committed to being an innovative and time-honored nutritional and healthy food company

- Speak the truth and do practical things
- Make decisions based on data and facts
- Manage people well and keep promises
- The general interest comes first and corporate interests overweigh individual interests

- Think from the perspective of consumers
- Drive innovation with systematic approaches
- Keep improving and make bits of progress every day
- Make breakthroughs bravely and fear no failures

Integrity

Innovation

Core values

Passion

- Go beyond oneself
- Seek methods for successes instead of excuses for failure
- Shoulder responsibilities boldly
- Maintain a young and curious heart and always challenge yourself

Openness

- Be honest, transparent and active in communication with various parties
- Respect, tolerate and appreciate others
- Change roles and feel for others
- Break boundaries for cross-system collaboration and mutual cooperation



Corporate Governance

Under the help of our strategic shareholders such as China Oils, Foodstuffs and Cereals Corp ("COFCO"), Danone France, and Arla Foods Denmark, we will realize diversification and externalization of our shareholding structure and internationalization of corporate governance, in order to achieve a stable ownership structure.

We will set up a devoted board of directors, and improve the internal supervision system. The board of directors consists of three executive directors, four non-executive directors, and four independent non-executive directors, with Mr. Lu Minfang as our president and executive director. The board of directors is responsible for making overall strategies and policies, setting up rules for evaluating performance and management goals, assessing achievements and supervising the performance of the management team. Under the board of directors are four committees – Audit Committee, Remuneration Committee, Nomination Committee, and Strategy and Development Committee. The Party Committee and the board of directors are independent from yet supervised by each other to guarantee more cautions and well-planned strategies and decisions of our company.

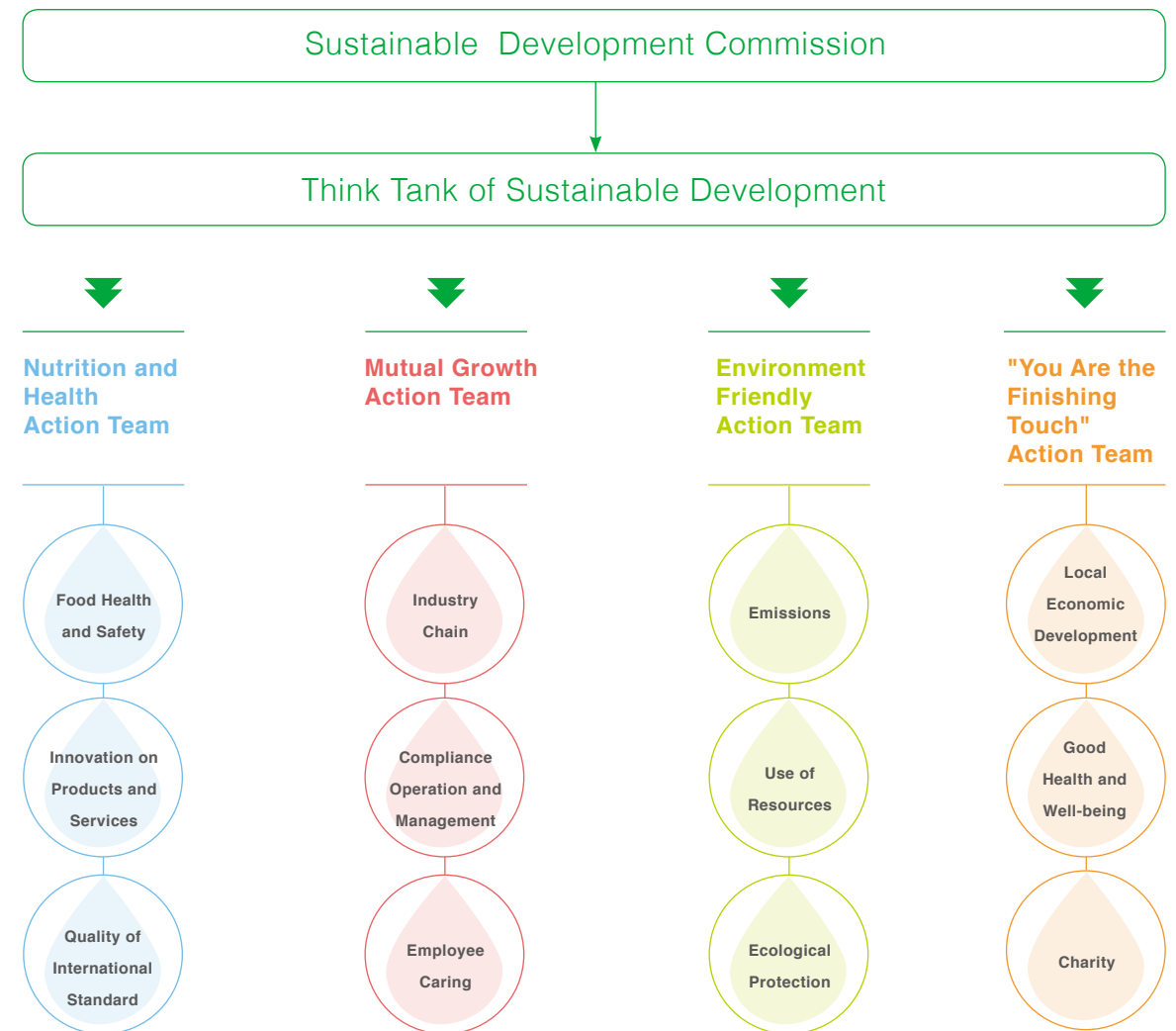
In 2016, we were awarded the golden prize for "The Best Corporate Governance in 2016" by the Hong Kong magazine "The Assets", and we have been the only dairy company winning this prize so far. We have also been awarded "The Most Promising Asian Company on Corporate Management and Governance" by Corporate Governance Asia.

Working Mechanism of the Think Tank of Sustainable Development

We will improve the three-level interoperable mechanism concerning Sustainable Development Commission, Think Tank of Sustainable Development, and coordinators of all sustainable development departments. Our president acts as the director of Sustainable Development Commission, directors of all departments will be the deputy director of Sustainable Development Commission, and will be responsible for making goals for our sustainable development and overseeing its progress.

We will systematically and comprehensively identify the current and potential impacts, both positive and negative, of the business activities of our company and the whole value chain on the global sustainable goal, so as to find our priorities for managing sustainable development in our company.

We will also establish pools of experts and programs for sustainable development, gather together leading and excellent experts and professionals to develop realistic programs in a creative way, and inject the concept of sustainable development into our production and management process.



Communications with and Substantive Analysis of Stakeholders

Effective management of sustainable development is based on communicating with stakeholders in all aspects, getting a full knowledge of their needs, and responding to their requests right at the moment.

In 2016, Mengniu has conducted 552 questionnaires to our stakeholders such as stockholders, consumers, suppliers, and distributors, and has therefore identified essential issues to focus on and made this report accordingly.





Industry Leader

We will contribute to the sustainable development in dairy industry combining our own experience in management and practice.

Comprehensive Management

Under the guidance of the think tank of sustainable development, we will be devoted to our corporate governance and management from perspectives of strategy, industry chain, and social charity, and to guide other dairy companies to better promote their sustainable development process.

- We have assisted China Dairy Industry Association to release the Guidance on Social Responsibility of Dairy Industry, identified core issues for dairy industry to assume social responsibility, become a role model for strengthening management on social responsibility, and promoted the efficiency and upgrade of dairy companies and their sustainable competitiveness.

- We have comprehensively enhanced management on sustainable development. In addition, we were listed as top 1 in Index of Corporate Social Responsibility for Dairy Industry 2016 by the Chinese Academy of Social Sciences, and were awarded "Leading Company of The Tenth People's Corporate Social Responsibility" by www.people.cn and "People's Corporate Social Responsibility Award 2016" by www.people.cn and its media supervision department.
- We have been promoting the incorporation of the concept of sustainable development in the business management and have innovatively produced Ranch Service and Management of Dairy Company Based on Big Data. As a result, we were awarded "Modernized and Innovative National Corporation on Management".

Transparent Information

We have been improving the information disclosure mechanism of the sustainable development reports and special reports on social responsibility, and diversifying channels for information disclosure. We have also made full use of the Internet and social media and established diversified mechanisms that adapt to the media era.

- We have assisted the social responsibility research center of the Chinese Academy of Social Sciences to draft and release Guidelines 3.0 on Social Responsibility Reporting in the Food Industry, in order to provide reference to standardizing the information disclosure of the social responsibility of food industry.

- We have systematically summarized our management experience on sustainable development, written case studies for MBA, and organized exchanges with universities such as Peking University, Tsinghua University, and Shanghai Jiao Tong University to further discuss how Chinese companies could better assume social responsibilities.
- We have creatively written reports on sustainable development centered on sustainable development DMA. We have been awarded "The Golden Bee 2016 Excellent Leadership of Corporate Social Responsibility" by China WTO Tribune and China Business Council for Sustainable Development, and "2016 Excellent Report on China Social Responsibility Award" by Xinhuanet and Social Responsibility Research Center of the Chinese Academy of Social Sciences.

Focus on ESG

Numbers are best tools to measure quality, which best manifest how Mengniu has been devoted to the quality of its products and how Mengniu has taken the initiative to carry out the Environmental, Social and Governance Reporting Guide proposed by The Stock Exchange of Hong Kong.

Achievements on Protecting the Environment

Emission in COD

1,403.75 tons

Reuse of recycled water

11.38 %

Water saving volume

516,000 tons



Solar power generation

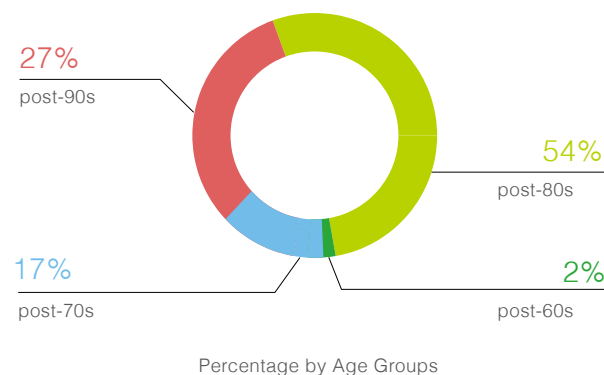
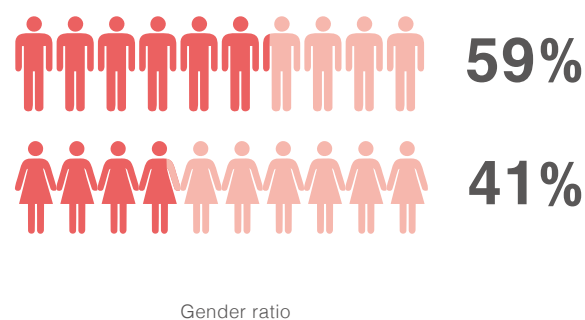
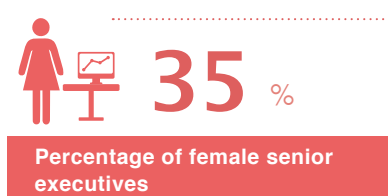
3.415 million kWh

Investment in going green (RMB)

12.377 million



Achievements on Employment and Labour Practices



2014-2016 Rate of physical examination coverage

100 %



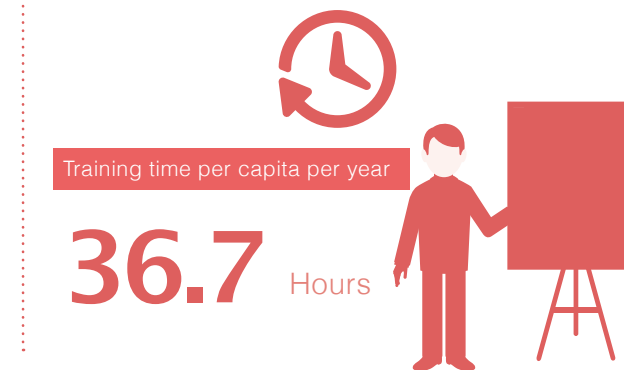
2014-2016 Rate of signing labor contract

100 %

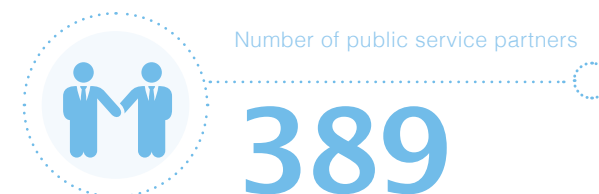


2014-2016 Rate of social security coverage

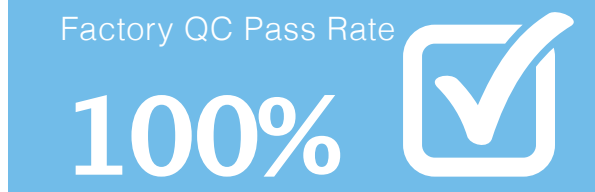
100 %



Achievements on Operating Practices



Percentage of product batches for quality and safety tests



Nutrition and Health



Goal

Higher Quality



Strategy
2016

- To implement the four "most strict" and guarantee the quality of every part of industry chain, from ranchers to dining tables.
- To become more internationalized, realize globalization in allocating strategic resources, integrate process from raw material to products, and set international standard for the quality of our products.
- To lay emphasis on product categories, brands, and diversification, build an innovative matrix of a comprehensive and three-dimensional product category, broaden diversified selling channels, make transparent communication and interaction, and promote healthy trend.



Implementation
2016

- We test and examine each of the 9 processes, 36 monitoring points, and 105 indicators.
- We make certain that every product is traceable due to its QR code, and become the leading company that adopts this method among global dairy enterprises.
- We have been supporting the development of China's aerospace industry with our highest-quality products for 13 consecutive years.
- We have deployed our milk sources in places such as Denmark, Australia, Austria, and New Zealand.
- We have learned management experience from Danish ranches. As a result, we have created Standard Operating Procedure (SOP) for our ranches.
- We have cooperated with three research centers to enhance innovation ability on basic nutrition, low-temperature yogurt and cheese, and so forth.
- We have made the first 720°VR video for the China dairy industry.

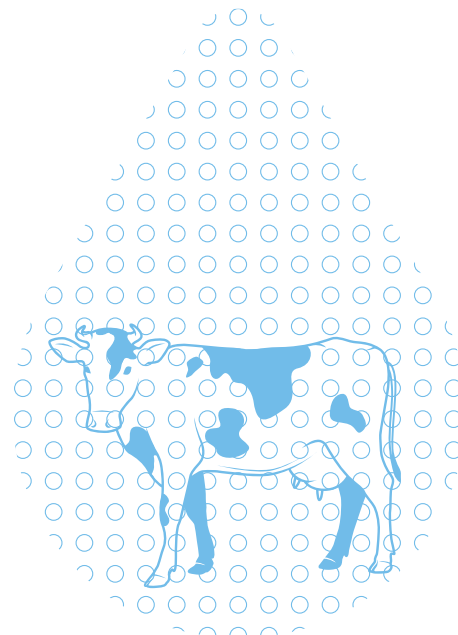


Achievements
2016

- We have raised the protein content of pure milk to 3.2g/100ml.
- We were the first dairy company in China to get the certification of "Same production line, same standard, and same quality".
- We have won the "Award for Contribution to China's Aerospace Industry" from China Aerospace Fund.
- We have been listed among "The Top 3 Brands that Consumers Buy Most" by 2016 Brand Report for the second time.
- We have been awarded "Consumers' Favorite Food Brand" by the MIIT of National Food Safety Publicity Week of the State Council.

Food Health and Safety

? Will I be rest assured about this glass of milk for my children?



9 Processes

36 Monitoring Points

105 Indicators

Practices

We have raised the standard for testing the original milk, to guarantee the high quality of every drop of our milk.

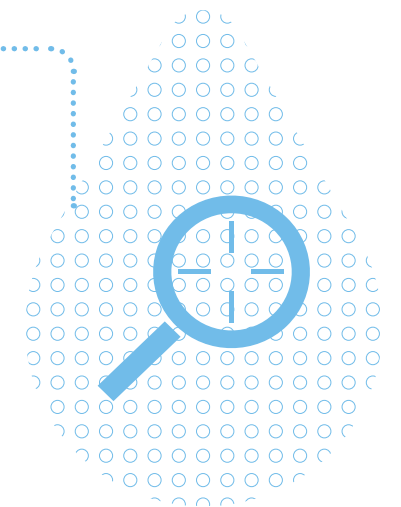
- We have systems such as SAP and LIMS (laboratory information management system) to guarantee that only qualified original milk gets a "Fitness Certificate".
- We use techniques such as filtering, separating, and removing impurity of original milk to enhance purity.
- We adopt homogeneity to produce our milk – to break fat globules so that our milk will have even concentration.
- We have adopted the internationally advanced UHT for sterilization, which uses temperature as high as 137°C to kill the germ.
- We have adopted advanced degassing process to remove the smell of original milk and keep it fresh, free from oxidation.
- We have adopted aseptic packaging.
- We test on every batch of our product, and have a qualified rate of 100%.

Milking



To milk the cow scientifically and guarantee the quality of every drop.

- We dip the cow's breast before and after milking, and abandon milk from the first three times of milking.
- We use turntable auto machine to milk the cow, which is under aseptic operation.
- We refrigerate the milk under 4°C through cold exhaust system for 2 hours after milking, so as to keep the milk fresh.
- The original milk will be sealed and kept in milk tanks through closed pipelines.
- We will deliver the milk within 24 hours to keep it fresh.



A Small Link: The Central Laboratory

80% of the researchers and experts in the central laboratory have at least a master's degree. They have been devoted to R&D on the testing technique, taken part in 5 researching topics that are beyond the Inner Mongolia Autonomous Region, made 13 national standards, published 136 papers on core journals, and acquired 147 national patents on testing technique.

"Same Production Line, Same Standard, and Same Quality"

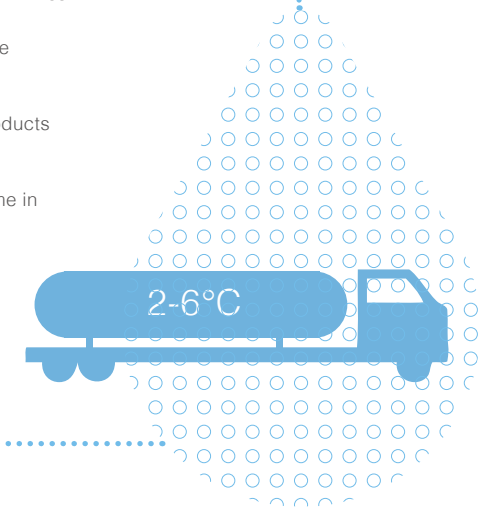
Mengniu has been exporting products that come from the same production line, meet the same standard, and have the same quality as all products sold domestically, which accords with and makes us the first dairy company to get the certification of "Same Production Line, Same Standard, and Same Quality" in China. We always make it a goal to offer the same high-quality products domestically and abroad.



Storage and Transportation

Low-temperature for storage and high efficiency for transportation, we strive to keep every drop of our milk fresh.

- We set up different storage sections based on the characteristics of different products.
- We adopt cold chain method to transport our products under the ideal temperature, which is 2-6°C.
- We use GPS to make specific plans to reduce time in transportation so that our milk will remain fresh.



Traceability

Under the principle of honesty and integrity, we have made our publicity and information disclosure authentic and reliable, and rest assure our consumers to enjoy our products carefree.

- We tag our products and provide authentic information strictly in accordance with the national standard on food safety.
- Under the advertising law, we make certain that we promote our products by providing true information, and protect the legitimate rights and interests of our consumers.
- We have adopted "One Package One Code" to make certain that every single product is traceable and to inform our consumers of the whereabouts of our products.
- We have established product and raw material tracing system, so that we can withdraw or recall our products immediately if necessary. In 2016, percentage of products recalled during transportation or sales for safety concerns is 0.
- We have opened our official Weibo account, WeChat account, and 24-hour national hotline to provide our consumers with convenient channels for consulting and filing complaints. We also guarantee that each consumer will be replied as soon as possible.



“ As one of Mengniu's strategic partner for a long period of time, we provide Mengniu with aseptic packaging materials, filling machine, and supportive service for spare parts. The program "Traceable+" Mengniu cooperated with us has given every single product an "ID" QR code that contains all data of the production process. We have been devoted to helping Mengniu achieve "One Package One Code", and contributed to the upgrade of "Traceable+" for China's dairy industry.

”
Bi Hua, Executive President of Greatview Packaging Co., Ltd.

Quality Upgrade Driven by Internationalization

? | Is overseas purchase necessary if our products have international quality?



Milk Source

Percentage of standardized ranches and scaled farms

100 %

Rate of milking automatically

100 %



- We have deployed the milk source in places such as Denmark, Australia, Austria, and New Zealand.
- We have established strategic cooperation with New Zealand Pengxin Group and Miraka on milk source and processing of dairy products.
- We have invested in New Zealand and built factories for producing and processing milk, so as to provide our consumers with authentic imported products.
- Over 200 of our experts have examined 661 focal points, and as a result, we have transformed the Arla Garden ranch management system into MN Garden ranch management system. By June 2016, Mengniu's ranch management standards were more than 65% integrated with Arla Garden's, resulting in consistent enhancement of management level.
- We have introduced Denmark Ranch Standard Operating Procedures (SOP) and creatively formed SOP that applies to Chinese ranches, which involves 18 first-degree modules, 108 second-degree modules, and 469 focal points.
- We have established strategic cooperative relationship with AsureQuality, COFCO, and PWC New Zealand, and introduced international authentication system of food quality and safety. By the end of 2016, nearly 20 of our strategic partnership ranches have passed the certification.
- All of our raw milk suppliers are standardized ranches and scaled farms and provided us with premium quality sources.
- All cows are being milked automatically, which has largely improved the efficiency of milking and guaranteed quality of the raw milk.
- All cows are fed based on total mixed ration (TMR), which gives cows balanced nutrition.
- All ranches are covered by silage, which helps enhance the health of the cows and its milk production.

R&D

- We have aligned with the China-Denmark Dairy Research Cooperation Center and brought their over-a-century experience into China, so that we can develop products that adapt to Chinese eating habits.
- We have cooperated with UC Davis, and based on its research resources on nutrition, we provide consumers with nutrition solutions.
- We have set up Mengniu Danone Dairy Co., Ltd. with Danone and, under the support of Danone's R&D on yogurt, we have enhanced our ability to culture and stabilize the high quality of strains, and prolonged their shelf life from 21 days to 25 days.

Production

- We have introduced equipment of the Swedish company Tetra Pak, which is also adopted by the Sixth Project of Horinger Production Base, and designed and installed the equipment according to the international standard GMP and HACCP. As a result, our workshop features the largest span, the largest number of production lines, the most capable of producing and processing milk, and the smartest in the world, which is called "The World's Sample Factory".
- We have imported workshop equipment from the Swedish company Tetra Pak, the German company GEA, and the British company APV.
- We have engaged independent international third party to audit the maturity of our factories, so as to enhance our ability to identify, analyze, and improve the weaknesses of our management on quality and food safety.
- We have established strategic partnership with Siemens and their imported laboratory information management system (LIMS) to build an intelligent and systematic LIMS covering the whole value chain and realize forward-backward tracing of information on the quality control sites of the whole value chain. The rate of automatic data collection has reached 93%.



“ The cooperation between Mengniu and Danone has provided a great platform for us to "do great things" in China. The rich experience and capability of Danone will be introduced into the Chinese market and help young companies like Mengniu deal with its weaknesses. What's more, if we learn from Danone's expertise and experience while investing enough resources in the business in China, we will, without doubt, improve the ability of our employees and promote more businesses. ”

Steve John Donnelly, Senior Executive of the Mengniu-Danone Joint Venture

Innovation on Products and Services

? | What product should I choose considering the nutrition for the whole family?

Supply of Full-Category Dairy Products

Milk, Pure and Natural

We have maintained meticulously managed standardized and scaled ranches and adopted advanced degassing process to keep the natural flavor of our products. We have raised the milk protein content to 3.2g/100ml.

Just Yogurt, Untainted and Genuine

Our products contain no pigment, flavors, or preservatives but pure and original flavor and simple ingredient, which have provided our consumers with diversified nutrition.

We have cooperated with the Hunan TV reality show "Run for Time" to spread the concept of "No additional flavor but pure, original, and tasteful" and interacted with consumers through WeChat and Weibo.

We have organized the running campaign "Pure + Run for Nature-Olympic Run from Mengniu to Rio" in tourists spots of 100 cities in China, which has aroused people's passion for running, as well as spreading the concept of "Excellent Milk, Naturally Pure" among consumers.



Milk Deluxe, Advanced Level of Nutrition

Milk Deluxe contains 3.6g/100ml natural milk protein and 120mg natural high calcium.

We have cooperated with the prestigious performing artist Chen Daoming and has therefore combined his personal charm with our brand to spread the high-end brand image.

We have been devoted to creating innovative ideas and co-presented the large-scale musical show "See You Again, National Music". After the show, we have packaged our products with the national music theme, which has elevated the brand image of our products.



Scan the QR code and get to the advanced level of nutrition

“ Milk Deluxe has been part of the eating habits of our family for seven years, and I think such a long period of time implicitly shows our trust in Milk Deluxe. I can't remember since when did I stop selecting brands for dairy products and start sticking to Deluxe. As a consumer, my devotion to Milk Deluxe comes from its devotion to better nutrition, and I hope such devotion will continue to exist and expand in the future. ”

He Xiaoyong, Consumer of Milk Deluxe

Champion, Define the New Beauty

Champion Yogurt contains carefully selected Danish BB crown bacteria, American red pomegranate and cherry, Yunnan roses, and milk originated from Chinese ranches and introduced super red fruit and flower yogurt series specially tailored for female consumers.

Champion Yogurt has kept supporting the development of China Aerospace Industry. The Bifidobacterium bifidus BBMN68, developed by itself, has been carried to the outerspace through Shenzhou 11 spaceship, which shows that Champion has been exploring the potential nutrition upgrade of future dairy products.

YoYiC, Guard for Intestinal Health

YoYiC has products that contain sea-salt lemonade flavor with a low level of sugar, of which the sea salt originates from Australia and has been carefully selected. With less sugar and more salt, this product ensures intestinal health. In addition, YoYiC has sponsored the third season of the reality show "Chef Nic" of Zhejiang TV and aimed to become more popular and identifiable. In the show, 30 billion active bacteria C of YoYiC have joined hand in hand with consumers to extend their diet experience with Chef Nic.





Deluxe

To develop fruit and yogurt ice cream, we have adopted 100% fermentation process and freezing technology and added active lactic acid bacteria. The product is an ice cream when frozen, and tastes like yogurt when melting, which has become a new trend for enjoying delicious and healthy ice cream.

Ecosphere partner: Givaudan



Danone-bio

Every 100g of Danone-bio contains 4 billion B intestinal bacteria patented in France and other excellent ingredients, which is conducive to digesting. Danone has obtained the certification of 7 quality and food safety management systems and 6 index of consumer satisfaction survey to make sure that the whole process, from safe production to consumer experience, will meet Danone global quality standard. Therefore, the Danone-bio Fermented Yogurt meets the global high quality, which is safe and sound.

Ecosphere Partner: Danone



Mengniu Ruipuen Oushi

We have adopted 100% pure organic milk from ranches in the high altitude of the Alpines, which provides cows with fresh air and nutritious grass, and make certain that every drop of our organic milk is 100% pure, natural, and healthy. Our Mengniu Ruipuen Oushi has passed the WIT certification, which proves that our products meet the organic standard in China.

Ecosphere Partner: Arla Foods

ZhiPuMoFang

We have adopted WhiteWave's leading technology of plant nutrition on the soy milk of ZhiPuMoFang and tailored our products to Chinese consumers.

Ecosphere Partner: WhiteWave



Prime Ranch Pure Milk

Prime Ranch Pure Milk products are the first ones in China that use traceable system (QR code), which enables consumers to get a full knowledge of our ranches without having to be there in person. In addition, we have set several Mengniu moon milk vending machines in the moon theme restaurant of "Independence Day 2", which has promoted our image among young consumers.

Ecosphere Partner: Hollywood



"TianXiaoHai"

"TianXiaoHai" sweet milk is our new product, which is aimed at the post-90s and encourages them to fight against negative feelings and embrace positive attitudes through tasting delicious sweet milk.

For post-90s customers



Go for Ecosphere,
Better Nutrition, and
More Selection

Communications and Exchanges in All Dimensions

Convenient Purchasing Channels

We have improved our service network and have formed a three-dimensional selling channel of offline stores, online stores, and mainstream E-business platforms, besides this, we have also expanded our overseas market. As a result, we have managed to provide our consumers with convenient and pleasant shopping experience.

- We have established the Happiness Train official online selling platform and provided fast and convenient services such as recharging VIP card, buying products, changing products, re-gifting, and order inquiry, etc.
- We have cooperated with five mainstream E-commerce platforms including T-mall, JD, YHD, Sunning, and Womai.com.
- We have expanded our overseas selling channels in Hong Kong, Macau, Mongolia, Singapore and Myanmar, and have promoted different products according to the characteristics of different markets.

1.9 million

Number of sales outlets

300,000

Number of frontline sales staff



"Fun in Factory"

We have improved our factory-open day and hosted events such as Fashion Food, Milk Olympic, and Stage Drama, etc., in order to spread the concept of a healthy lifestyle among consumers.



27 factories available for visit

Over **1** million visitors per year

“ As one of the consumers that like milk, including my children, myself and my whole family have a large demand for milk every day. After taking part in the open day of Mengniu Ranch and witnessing the modernization from meadows to raising environment, scientific raising and technology support. I have more confidence in Mengniu's products now. ”

Ms. Chen, Consumer

Factory Visit and VR Exchange Platform

We have adopted VR technology and created the first 720° full-view VR video "Fantastic Journey in Mengniu Factory" among all dairy companies in China, which has demonstrated our transparency and passion for technology. The video has covered 40,543,000 person-times, spread 3,032,000 times, and viewed for 10,730,000 times.



Scan the QR code to see and get the good milk

The video has covered **40.543** million person-times

The video has been spread **3.032** million times

The video has been viewed for **10.73** million times

We have opened Mengniu Official Weibo and WeChat account to have instant communications with and get feedbacks from our consumers. We have been active in responding to consumer complaints, so as to gain their full trust in our products. According to "Law of the People's Republic of China on the Protection of Consumers' Rights and Interests", we have laid much attention on protecting consumers' information. Consumers can buy our products carefree.

Case: Business Cooperation and Popularization of Knowledge of Nutrition

We are a member of China Food Industry Anti-Rumor Association and have taken the initiative to collect, judge, deal with, fight against, prevent, and detect rumors about dairy products and relevant information online and knowledge promotion. We have also participated in discussing rumor transmission routes and mechanisms to deal with rumors, analyzing laws and liabilities concerning rumors about food, so as to promote consumers' food knowledge and prevent them from being fed wrong information about food.

Mutual Growth



Goal

Better Growth



Strategy

2016

- We protect the basic rights of employees, incorporate values of "integrity, innovation, passion, and openness" to the training and development of our employees, create a harmonious and open working environment, and promote happiness and growth of our employees.
- We are devoted to creating a sound system of internal control and a scientific layout of business structure, realizing digitalized and efficient operations and management, ensuring the preservation and appreciation of assets value, and promoting the sustainable development of our company.
- We provide specialized support and cooperation in order to help enhance the ability of sustainable development of ranchers, suppliers and distributors as well as achieve the common development and growth of the industry chain.



Implementation

2016

- We have established and improved our "Mengniu 100" talent training system.
- We have formulated "Employee Happiness Program".
- We have coordinated with two systems, i.e. SAP system and LIMS system to implement digitalized and intelligent management and enhance our ability to ensure product safety.
- We have launched Mengniu online service center for financial sharing and increased the efficiency of operation and management of businesses and processes in all dimensions.
- We have organized the "Golden Key of Cow" special event on technical demonstration.
- We have carried out full-lifecycle management of our suppliers.
- We have set up a national distributors' decision-making committee, which consists of 18 regions.



Achievements

2016

- Total number of employees: 41,600.
- We have achieved production capacity 9.4 million tons, RMB 53.78 billion of revenue, RMB 49.12 billion of total assets, and RMB 17.64 billion of gross profit.
- Our CSR program "Ranchers University" has won three awards: "Top Ten Popular Public Projects", "2016 Outstanding Public Welfare Programs of Chinese Enterprises", and "China Top 50 Public Welfare Projects".

Employee Development and Growth

? | What kind of employees are they behind a box of milk?

Rights and Protection

Coverage of social insurance
100 %

We adhere to the principle of equal employment and provide diversified and equal opportunities for jobs. We have 9,204 new recruits in 2016, including 1,268 fresh graduates. In addition to this, we have reached 100% coverage on staff physical examination and social insurance.

Coverage of physical examination of our staff
100 %

We have always been strictly complying with relevant laws and regulations and signing labor contracts according to law. We also firmly oppose child labor, forced labor and all forms of employment discrimination. By 2016, the total number of employees reached 41,600, with a labor-contract signing rate of 100% and 1.51% turnover of staff at level 6 and above.

We provide competitive payment and benefits, insist on equal payment for both men and women, pay five insurance premiums and housing provident fund, and offer holidays of specialty, birthday bonus and numerous other benefits. In addition, we have achieved 100% coverage of social insurance.

We emphasize on communications with and engagement of our employees and regularly organize labor union events and meetings of workers' congress. We also set up employee's suggestion box, management forum and other communication platforms to realize democratized management and ensure 100% response.

Health and Safety

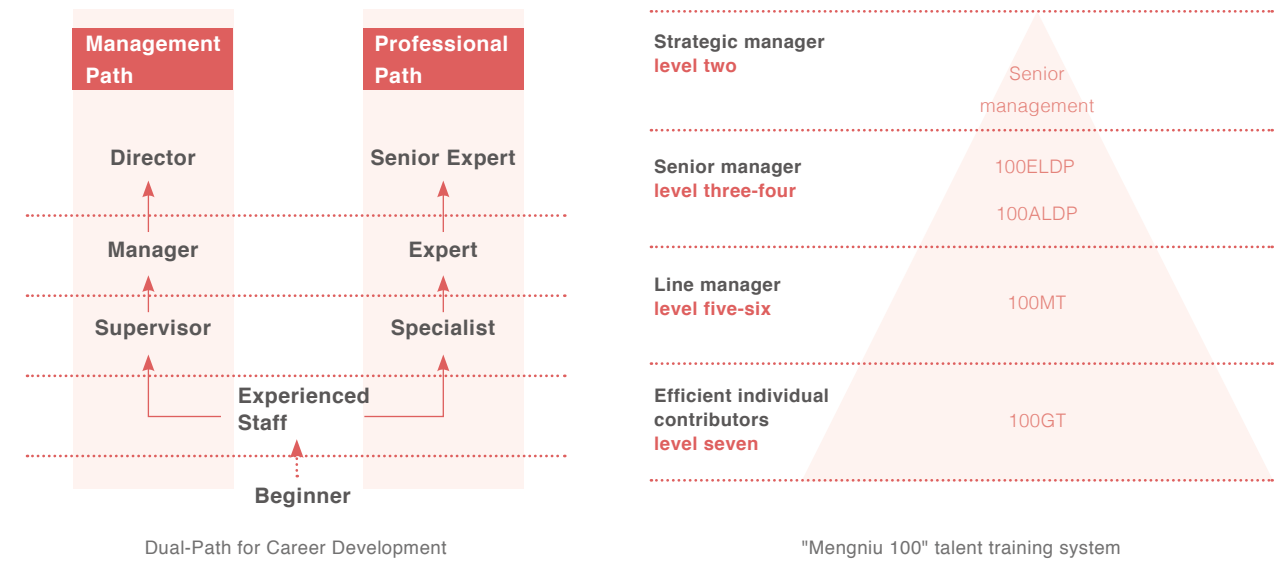
We have improved the "Management of and Control over Occupational Health", "Guidance on the Management of and Control over Occupational Health" and other occupational health and safety management systems. In addition, we have carried out education on safety and strengthened training on occupational health. As a result, no accident of production safety has ever happened in 2016.

We have improved prevention mechanism on occupational disease and provided personal protective equipment. Besides this, we set up regular physical examination for and establish health records for our employees. In 2016, we have achieved 100% coverage of physical examination of our staff.

We have organized lectures on mental health to help employee maintain mental and physical balance as well as keep a good mood at work.

Training and Development

We have combined our employees' professional career with their learning and development process, and established a learning and development program that is compatible with their dual career path. In addition, we have improved "Mengniu 100" talent training system and cultivated staff according to their own conditions to promote the growth of every employee.



“ I have been working in Mengniu for nearly six years. From taking part in the negotiation on strategic investment in domestic enterprises to preparing overseas M&A strategy, I have grown tremendously at work. In August, 2016, I was lucky enough to be assigned to Burra Foods in Australia and take charge in the integration between Mengniu and Burra businesses and cracking into the Chinese market. Mengniu's internationalized development has provided me with a broader platform for development. ”

Wang Xiaochun, Senior Management of Mengniu Australia Project

“ I was lucky to be a member of the first group of Mengniu 100GT trainee, under which I have become more professional and developed better systematic and logical thinking due to the multi-role, multi-level training exercise. Mengniu's merit-based talent selection concept has provided me with a wide range of career opportunities. ”

Chen Huifeng, Mengniu's Market Manager in Zhengzhou, Henan



Happiness Program

We care about the well-being of our employees and we expect every employee to feel the warmth all the time.

- **Balanced nutrition.** We have improved food in our cafeteria and provided a balanced diet, nutrition and health protection.
- **Cozy office environment.** We have created a comfortable office environment, production environment and learning environment. Besides this, we have also established leisure zones.
- **Caring for staff family.** We care about children of our employees and have been helping them solve difficult problems of school enrollment. We also offer free milk powder to every pregnant women and newborn, totaling RMB 870,000. In addition, we send Letters and "Mengniu Footprint Newspaper" to parents of our employees and help them know more about the working environment of their children in our company.
- **Caring poverty-stricken employees.** We express our caring and concerns to our employees with economic difficulty and retirees.
- **Enriching cultural and entertaining life.** We organize staff sports events, calligraphy exchanges, culture workshops and other diverse cultural and sports events in order to relieve stress and improve the happiness of our employees. In 2016, two sports meetings were organized in Jiaozuo and our base respectively, including 23 track and field events and entertainment events, more than 2,000 employees involved.

We have created a three-dimensional training system to enhance staff's comprehensive ability. We have also introduced online E-learning platform which integrates learning, communication, exchanging and testing; in addition to this, we have provided off-line courses of culture, general skills, leadership and other customized training courses. The training hours per capita has reached 36.7 in 2016.

We organize regular contests on technical skills, which has stimulated the enthusiasm of our employees and at the same time improved their job skills. In 2016, we have successfully organized 23 labor-skill contests covering nine modules such as production, quality, technology, etc., in which 50 talents have stood out.

Case: Hu Shanshan Model Worker Innovation Studio

Hu Shanshan Model Worker Innovation Studio, with a total of 180 members, was initiated by the national model worker Hu Shanshan. This Studio takes innovation and accumulation of excellent practices as its goal, employs "insight", "finding innovation" and "innovative start" three-step method as its innovative tools, and carries out 4D innovation and creation based on "reasonable suggestion", "management innovation", "technological innovation" and "B time" to help employees cultivate innovative spirit. By the end of 2016, it has adopted 197 4D innovations, in which two papers that test innovation were published in Chinese core dairy industry journals. The studio produces economic benefits of about RMB 4.2 million and was awarded by Bayannaer Federation of Trade Unions with the honorary title of the "Workers' Innovation Studio".



Case: "Somebody Says" Talk Show Contest

Mengniu has hosted the talk show contest "Somebody Says", which provides a platform for employees to present themselves and enrich their leisure and cultural lives. The contest brought together more than 400 participants and covered 30 regions. Participants could tell wonderful stories in the talk show and demonstrate their shining profiles of being creative and courageous.





Compliance Operation and Management

? | What is behind a box of high-quality milk?

Protecting the Right of Shareholders

Revenue (RMB)

53.78 billion

Year-on-Year Growth

9.7 %

We have improved mechanisms of risk management and monitoring to ensure standardized operation of the internal system and the maintenance and appreciation of assets value.

We have revised "Discipline on Inspection Management System", asked our senior managers to sign "Mengniu Management's Commitment to Integrity and Cleanliness"; and entered into "Anti-commercial Bribery Contract" with all suppliers.

We have enhanced information disclosure system and ensure to provide transparent information to shareholders in a timely manner.

We have improved the protection of rights of minority shareholders to guarantee their legitimate interests in our company.

We focus on four core businesses - room temperature, low temperature, ice cream, and milk powder, rationally allocate resources, optimize the asset structure, and promote the healthy and sustainable growth of our company. In 2016, our revenue has reached RMB 53.78 billion, with a year-on-year growth of 9.7%.

We have actively responded to the downturn in the market environment and adjusted our business operations strategy in a timely manner to achieve business growth, structural adjustment, and development promotion. In 2016, our company, laying emphasis on the future, has made a one-off impairment of Yashili's goodwill, which helped our company make better decisions.

Improving Management Efficiency

We have introduced SAP system to achieve unified management information system and to realize the whole supply chain integration, financial operations and business integration and production and supply integration, in order to improve the efficiency on work, management, and decision-making.

We have cooperated with IBM to creatively apply the world's leading CE + SSF + OPENTEXT platform and launched on-line service center of financial sharing to achieve zero cash management. In addition, we have completed once for all a mature business model featured in full-service and full-process so as to become an intelligent dairy enterprise. In 2016, our company has won the "IBM Global Best Practices Program" and "2016 Best Practices Innovation Award for the SAP Consumer Goods Industry".

We have promoted and implemented standardized management on safety production and have therefore been awarded the title of the first batch of "Safe Production Standardization Demonstration Enterprise in the Country's Industry and Trade Sectors".

“ As user of the information system, I have deeply felt the tremendous value created by the information systems for our daily work. LIMS stores all data related to the laboratory and connects perfectly with SAP system, which guarantees end-to-end data traceability. Such information management tools, while standardizing and simplifying our workflow, make quality control more secure at the same time. ”

Su Ye, Department of Laboratory Testing Standards Management, Quality and Safety Management System Center

Responsibility along the Value Chain

? In addition to Mengniu, what other responsibility points has a box of milk gone through?

Ranchers University



Scan the QR code to encounter "Niuka"

We have integrated experts, institutions, and partner resources in this industry and carried out intensive training, on-site guidance, technical promotion and financial assistance through the signing of "Ranchers' Social Responsibility Code" with ranchers to help raise ranchers' awareness of responsibility and their capabilities on refining operational management as well as enhance the quality of raw milk.

- **Technical Training.** We have established systemic training system equipped with platform such as China Agricultural University, Holstein Satellite Auditorium, and Sino-Danish Technology Center Cooperation platform. By means of professional training courses, we have improved the quality of herds, the process of feeding, and the technical level of production. By the end of 2016, we have trained more than 3,500 ranchers for free, which led to an all-around improvement in 24 dimensions including breeding and farming in 826 ranches.
- **On-site assessment.** We have established national teaching practice base, utilized advanced detecting equipment, employed a team of experts in the relevant field to assess cattle, dung screen and recipes to identify various aspects of problems and give specific guidance to ranchers accordingly.
- **Professional Development.** We have implemented W-W virtual animal husbandry project- each of the 503 front-line technicians and general managers will take charges for a pilot ranch and provide two tools including rancher service kit and MES evaluation system to promote the profitability of milk-supplying ranches and enhance the level of corporate governance.
- **Financial support.** We have increased supporting funds for milk-source base and resolved the ranchers' problems such as purchasing cattle, silage, transforming and upgrading and other operational challenges in a timely and efficient manner. In addition, we have innovated our financing pattern and fully expanded multi financing channels including government and bank to help our milk-source base upgrade and optimize. By the end of 2016, the total amount of supporting funds has exceeded RMB 10 billion.



Case: To Forge a "Golden Key" for Good Milk in China

We have launched a technical demonstration event, the "Golden Key" of cows, in Ranchers University, which has provided technical guidance on accurate feeding and lean management for ranchers of the front-end chain. By the end of 2016, Mengniu Ranchers University "Golden Key" Technical Demonstration event has conducted 10 special events covering more than 20 national milk-source bases and core national partners of raw milk as well as helped more than 1,000 ranches reduce the cost by RMB 0.2 per kilogram and lifted the average unit production by more than 2 kg, achieving revenue growth of over RMB 300 million.



“ In the past few years, I have learned cattle farm planning and design, cows feed and other operations management and scientific farming techniques thanks to the Mengniu-sponsored Ranchers University events. By the end of 2015, the cows we have collected from people now have put on an average weight of 100 kg. ”

Zhang Wenzhu, Ranchers of Tongliao Shenghua Ranch

“ Mengniu Ranchers University helps ranchers enhance every detail of ranch operations, create a win-win ecosystem, and provide thinking guidance and technical support for the dairy farmers, which, I think, reflects the social responsibility assumed by a big company. ”

Li Shengli, Chief Scientist of National Dairy Industry Technology System



Supplier Management

Selection



- We have improved the procurement system and conducted strict qualification checks on our suppliers.
- We adhere to the principles of openness, fairness and impartiality in procurement.
- We have established a list of qualified suppliers and stuck to strict implementation of the procurement within the list.
- We encourage responsible suppliers and prioritize our suppliers with excellent performance in energy conservation and emission reduction, use of environment-friendly materials, and social contribution.

Management



- We have established a "full-lifecycle" management system, clarified the standards for selection, evaluation, daily management, assessment and exit management, and encouraged suppliers to enhance the awareness of assuming and the ability to fulfill their responsibilities.
- We have established supplier management objectives, supplier appraisal standards, and a classification management system. In addition, we supervise and evaluate the supply capacity of our suppliers on a regular and continuous basis.
- In 2016, the number of suppliers of raw materials has reached 367, of which 96 were strategic suppliers.

Promoting Assumption of Responsibility



We adhere to returning the society on our own and, at the same time, leading partners to assume their responsibility. Under the influence of Mengniu's corporate culture, Inner Mongolia Xinhai Mingyue Transportation Co., Ltd., one of Mengniu's ecosystem partners, invested over RMB 1 million in establishing "Mengniu GuanYiRu Yogurt" Rural School Children's Palace for the Inner Mongolia Aerospace School, which has broadened rural children's horizons and knowledge and enriched their spiritual world.

Suppliers of raw materials

367

Strategic suppliers of raw materials

96

Cooperation with Distributors

We assess our distributors' qualifications, determine distributor-selection process, formulate MCC (market, competition, cooperation) distributor-evaluation system, perform category management on distributors, and improve their performance management and operational capabilities.

We have set up national decision-making committees for distributors in 18 regions and built communication platform for distributors to fully participate in the making of our sales strategy so as to promote common growth and development.

We have held distributors' meetings to strengthen our communications with distributors as well as understand and respond to the expectations and demands of distributors, in order to ensure and strengthen a long-term cooperative partnership.

We have conducted surveys on distributor satisfaction in terms of service, communication and care. In 2016, distributors had a satisfaction rate of 99% on Mengniu's strategy and tactics.

Distributors had a satisfaction rate of

99%

on Mengniu's strategy and tactics

Case: Project on the Small Family of Distributors

In order to better display market initiative, Room-temperature Business Department in Henan has been divided into 16 small families according to geographic distribution of all level-1 distributors. The prefecture-level city distributor, acting as the parent of the small family, is responsible for the internal management, promoting regional clients to share information, and integrating resources to help each other. In 2016, the sales target in Henan has reached 107%, with a growth rate of 11% and 103 new high-quality clients were introduced, which has enhanced the overall competitiveness and operational capability of the distributors.

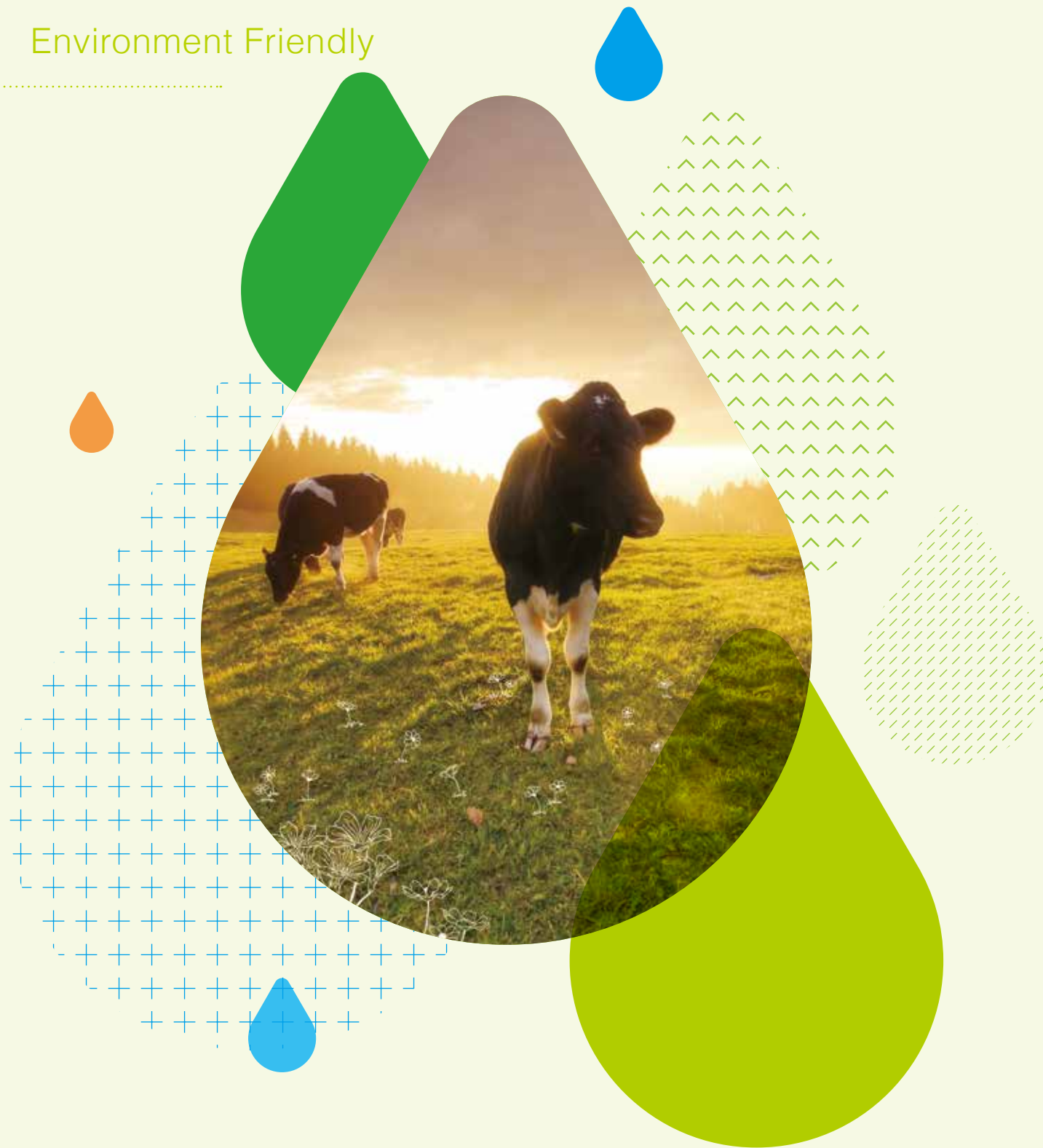
“Accompanied by Mengniu, I have walked through 17 years and have been through some difficulties and unknown hardships. However, I have never stopped my faith in, loyalty to and love for Mengniu. I would like to better myself and spread Mengniu's bit of happiness and social care to millions of households. This is my dream and responsibility, and I would like to fight for it till the end.”

He Ying, Chairman of Dalian Wujia Co., Ltd., Mengniu Distributor Partner

“Every time a new product comes out, I would buy one and taste it in person and learn the nutrients so as to explain to the consumers. We lay emphasis on setting up booths in the stores and treating each consumer with sincerity. I am responsible for keeping milk piles tidy and matching them with different product sales. In addition, I would deliver milk in person for the elderly with leg and foot problems. Witnessing products accompanying me to achieve outstanding results makes me so proud of myself.”

Huang Zuqin, Purchasing Guide of Mengniu Dairy Sales Co., Ltd. in Nanjing, Jiangsu

Environment Friendly



Goal

Greener Development



Strategy
2016

- To adhere to high standards of animal welfare and build a modern ecological agriculture and animal husbandry ranch that is based on eco-cycle pattern.
- To incorporate the green concept into every aspect of production and management.
- To optimize storage and transportation methods to reduce carbon emissions.



Implementation
2016

- We consider the sustainable development of ranches in terms of ranch-site selection, construction, and operation during the whole process.
- We abide by the principle of the World OIE animal welfare standard and ensure the health and comfortable life of our cows.
- We promote energy-saving technology programs to improve energy efficiency and reduce waste emissions.
- We innovate the cycle-sharing pattern of green development and establish a service platform for standardized logistics information.



Achievements
2016

- We have introduced ISO 14001 Environmental Management System and ISO 50001 Energy Management System.
- We have made RMB 12.377 million investment in improving technological innovation and environmental protection, which has saved a total of 5,345 tons of standard coal during the special energy-saving campaign.
- Our solar power generating capacity has reached 3.415 million, equivalent to saving 1,366 tons of standard coal.
- We have saved water at the amount of 516,000 tons and reduced COD emission by 1,403.75 tons.
- Each year we utilize 3 billion packets made from environmentally-friendly packaging materials, which achieves the same results as planting 1 million of trees.

Green Ranch

? | Do cows live a comfortable life?



Site Selection

- We have selected places for our ranches more than 500 meters away from population concentrated areas such as the source of drinking water and urban residential areas as well as major transportation routes including regional roads and railways so as to reduce impact on people's lives.
- We have selected places with soft soil, excellent water quality, and mild climate, so as to provide healthy and comfortable living environment for the cows.



Construction

- We are committed to building resource-saving, environment-friendly and eco-tourism type of ranches featured with grass planting, integration of forage processing, dairy farming, waste treatment, planting vegetables, ornamental flowers, personnel training, and leisure tourism.
- Based on the number of the cows that can produce high-quality milk under limited conditions, we scientifically estimate the overall ranch capacity and comprehensively determine the overall size of the ranch.
- We have built separation facilities of rain and sewage as well as wet and dry, in order to reduce the impact of emissions on the surrounding ecological environment.



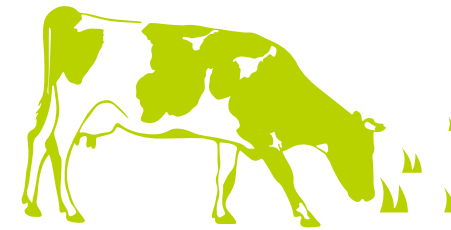
Operations

- We focus on protecting and restoring grassland ecosystem and promoted conservation on biodiversity.
- We adhere to high standards of animal welfare, protecting the health and rights of cows, improving the happiness of cows, and ensuring more nutrition when producing milk.
- We perform regular environmental impact assessment on sewage from cowshed, cow's excreta, and other possible pollution.
- We intensively collect sewage from barns and milking workshops and conduct multi-stage filtration and purification.
- We emphasize on recycling biogas, biogas residues and biogas slurries which are produced by cows. In addition, we invest in building livestock biomass power plants that make use of the cow dung to generate electricity.

Case: "Cow-Biogas-Grass" Agricultural Economic Cycle Mode

Modern Farming, an affiliate of Mengniu makes full use of biogas manure resources to ferment discharges that have gone through solid-liquid separation and lower secondary squeezing, which are then all used to improve the cowshed environment. This will enhance the sterilization effect and comfortableness, while reducing economic costs. All biogas slurry will be sent back to fields through pipeline, and 100% of organic liquid fertilizer will be used in agricultural planting. As a result, we have achieved the "cow-biogas-grass" agriculture economic cycle and turn cow dung into treasure.

Excellent feeding



Animal welfare principles

- Free from hunger
- Free from thirst

Mengniu practice

- Professional collocation on dietary nutrition
- 100% TMR scientific breeding
- 100% silage coverage

Excellent health



Animal welfare principles

- Free from injuries
- Free from diseases
- Free from pain caused by improper management

Mengniu practice

- Regular replacement of sawdust in bed every day
- 24-hour automatic cleaning of slurry
- Each cow is equipped with exclusive ear tags and has a digital record of health status
- Establish separated life-managing areas and provide professional veterinary staff for cows

Excellent feeding environment



Animal welfare principles

- Comfortable seating environment
- Comfortable temperature
- Smooth moving

Mengniu practice

- 100% standardized ranches and scaled farms
- Open breeding barn
- Wet curtain fan ventilation system to ensure timely ventilation
- Neat and separate bed
- Universal automatic scratching machine that provides massage
- A vast meadow for free walks

Psychological comfort and Behavioral freedom



Animal welfare principles

- Expression of social behavior
- Expression of other behaviors
- Good human-animal relationships
- Positive emotional state

Mengniu practice

- Set up "Cow SPA" project to let the cows enjoy a full range of massage and have a good mood
- Adopt advanced artificial breeding technologies and enhance the quality of the breeding cow

★ Our principles of animal welfare is based on "Five Principles of Freedom" for animal welfare proposed by OIE, FAO



Green Factory

? | Is the milk I drink as environment-friendly as I assume?

Energy Management

Investment in going green (RMB)

12.377 million

Solar power generation

3.415 million kWh

The rate of energy saving per ton is

2.5 %

We have improved the building of energy control center, equipped it with metering facilities which collects energy data automatically in order to realize the automation, informatization and visualization of energy management.

We have utilized energy map to analyze energy-intensive process and equipment for energy reduction to achieve closed-loop lateral, longitudinal energy management. In 2016, product energy consumption per ton was reduced by 2.5%.

We have established a project library of energy-saving technology, adopted project investment + contract energy model, regularly upgraded equipment and technology to improve energy efficiency. In 2016, RMB 12.377 billion was invested in upgrading environmental protection technology. In the energy-saving initiatives, 5,344 tons of standard coal was saved, 13,320 tons of CO₂ emission, 400.8 tons of SO₂ emission and 200 tons of NO_x emission were reduced.

We have introduced solar power generation technology, taken advantage of the roofs and lawns in the plant to build solar power grid-connected stations. In 2016, solar power generation capacity reached 3.415 million kWh, equivalent to 1,366 tons of standard coal saved.

Taking advantage of the low temperature in North China, we have adopted air-cooling energy-saving technology to save power consumption. This technology has been implemented in eight factories and more than 20 million kWh of electricity was saved annually.

Water Resource Management

We have improved the 3U water resource management strategy, namely, economical use, recycled use and common use, and improved water efficiency. In 2016, 516,000 tons of water was saved.

To use water resources economically, we have adopted water-saving technologies such as water system overall balancing and optimizing solution in transforming machinery with large water consumption. In 2016, water-saving technology projects totaled 45.

We have introduced NEPTUNE2.0 cleaning technology to make equipment cleaning more efficient; we have saved cleaning water consumption by 5% and enhanced the cleaning efficiency by 15% -20%.

We have made recycled use of steam condensate, equipment cooling water, reclaimed water, etc. to improve water efficiency. In 2016, water consumption for dairy products per ton decreased by 2.6%.

We have cooperated with power plants and reused the reclaimed water in the power plant as cooling water or production water. In 2016, reuse of recycled water reached 11.38%.

Water saving volume

516,000 tons

Implemented water-saving technology projects

45

Reuse of recycled water reached

11.38 %



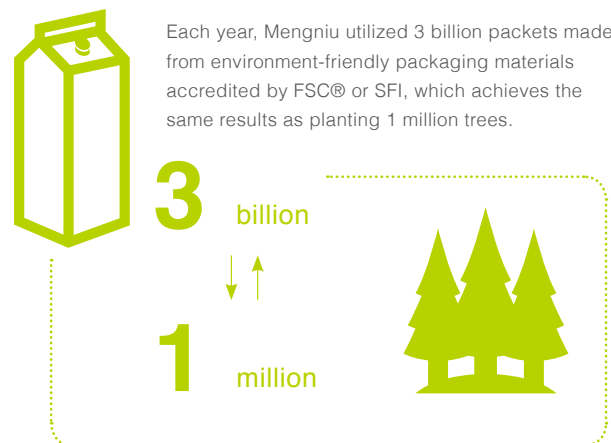
Green Packaging

We have improved packaging management system where environment-friendly packaging materials are preferred in order to reduce packaging materials consumption.

We have used renewable, aseptic and environment-friendly packaging materials with FSC® or SFI certification to prevent the forest resources from "one-time" damage and ensure sustainable development. Three billion packages of environment-friendly packaging materials are used each year, equivalent to planting 1 million trees.

We focused on the recycled use of packaging materials. The recycled packaging materials are used in the production of industrial pallets, outdoor floors, photo frames and other quality products.

The packaging boxes are printed with environmental protection tips aimed to inform consumers of green and low-carbon concepts.



Waste Water, Gas and Residue Management

Waste Gas

- Based on Energy Management System and Environmental Protection Management System, we have actively carried out energy-saving technology upgrade to reduce waste gas emission. Waste gas emissions in our plants meet national, local and company-level standards.
- We have conducted real-time online monitoring of gas emissions from the boiler and we strictly control the emission of greenhouse gas.
- We have replaced coal-fired boiler with alternative biomass briquette forming fuels to reduce waste gas emission. By the end of 2016, 8 biomass boilers were built, totaling 110 T/h.

Solid Waste

- We have made solid waste storage and disposal system to classify general solid waste and hazardous solid waste. Hazardous solid waste will be handed over to qualified institutions for disposal. All hazardous wastes are disposed of in compliance with the regulations.
- We have built facilities for temporary storage of solid waste at proper locations and made archives of hazardous solid waste.

Waste Water

- We have adopted whole process management of waste water and conducted waste water treatment from the water source. In 2016, total waste water discharge reached 20.65 million tons.
- We have conducted real-time online monitoring of waste water discharge and published monitoring data within the network.
- We have built altogether 32 waste water treatment plants to ensure that all discharges comply with national standards.
- We have used phosphate-free detergents, suspended solids separation techniques and other new materials and technologies for advanced treatment of waste water, i.e., plant vegetation and road cleaning. In 2016, COD discharges were reduced by 1,403.75 tons.
- We have organized training sessions for 43 waste water treatment professionals nationwide to improve their knowledge and practical skills in waste water treatment.





Green Storage and Transportation

? How does a box of milk come to my hands?

Storage

- We have implemented the strategy of "selling in the producing area and producing in selling area", scientifically planned storage layout, reduced transport mileage, energy consumption and pollutant emissions.
- We have improved the tray management mechanism by "instant delivery and recycling" and "tray recycling by special vehicles", to collect the trays and effectively reduced wearing of trays and increased its recycling rate.



Transportation

- We have implemented joint distribution, reduced the number of delivery tools and decreased energy consumption.
- We have monitored vehicles on the roads with GPS devices, realized the visualization, control and optimization of transport route, and reduced logistics mileage and carbon emissions.
- We have promoted environment-friendly transportation means and actively developed the railway and marine transportation resources. We have deepened strategic cooperation with National Railway Corporation to develop high-speed rail transportation, "mini" container transportation, promote railway transportation replacing highway transportation and reduce the impact of vehicle transportation on the environment.

Terminal

- We have reached an agreement with the freezer supplier on custom-made, energy-saving, environment-friendly and energy-efficient freezers.
- We have provided nearly 2,000 R290 environment-friendly and energy-efficient freezers to Inner Mongolia, Guangdong, Jilin and other regions. We aim to create a high-quality cold chain platform by reducing power costs by over 30%.

Reducing power costs by over

30 %

You Are the Finishing Touch



Goal

More Contributions



Strategy
2016

- We have promoted the development of dairy industry chain in surrounding areas to boost local economic development.
- We uphold the concept of nutrition popularization and raise the awareness of assuming responsibility in the dairy industry.
- We have encouraged the whole society to participate in charitable events.



Implementation
2016

- We have built 33 production bases and 58 factories nationwide to promote the development of dairy industry chain in surrounding areas and facilitate local development.
- In response to "Healthy China 2030", we are to improve the nutritional intake of children in rural areas.
- We have assisted China Dairy Industry Association in compiling Guidance on Social Responsibility of Dairy Industry to facilitate the dairy industry in better fulfilling their social responsibilities.
- We have cooperated with 389 partners to hold charitable events in nine fields of public welfare including education, health, environment and community care.
- We have improved emergency mechanism for disaster relief to bring warmth to the disaster-stricken area at the soonest time possible.



Achievements
2016

- We have paid taxes of nearly RMB 2.92 billion.
- We have made investment of RMB 10.5 million in public services.
- 100,000 people have benefited from the charitable project "I return to my hometown to give a lecture", which was awarded "Asia Responsible Entrepreneurship Award" by Enterprise Asia. Over 600 rural schools are covered in the project.

Local Economic Development

? How does a small box of milk promote local development?

We have promoted the building of local dairy industry chain and green food manufacturing base specializing in dairy product, beverage production and food packaging. In 2016, we paid taxes of nearly RMB 2.92 billion.

We have provided employment opportunities. We have built 33 production bases and 58 factories where local employees are preferred.

We have developed tertiary industry by establishing Mengniu Health Industrial Park and Eco-Industrial Park to develop tourist routes which integrate ecological leisure and agricultural experience and promote the rapid development of local tourism industry.

We have paid taxes of nearly (RMB)
2.92 billion

Case: Assist Horinger County in Transforming from a Poverty-stricken County to "Core Area" in the "Milk City"

While bringing vitality to local economic development, Mengniu also drives the common development of related industries and attracts a number of affiliated enterprises to settle down in Horinger, the most important green food production park in Inner Mongolia is therefore established. Represented by Mengniu, there are altogether 22 food enterprises and 10 supporting enterprises in Horinger County Economic Development Zone. These enterprises have facilitated the County in transforming into the "core area" in Hohhot from a poverty-stricken county supported by the central government. In 2016, the disposable income per capita of Horinger grew by 8.2% as compared with that in the previous year.

Case: Help Create "One Zone, Four Parks" in Saibei, China's Northern Frontier

As one of the leading dairy companies, Mengniu settled in Saibei Management Area to create a complete recycled economic chain of "forage grass planting, feed processing, dairy farming, organic fertilizer manufactured by biogas slurry, veterinary drugs processing, packaging materials processing, high-end milk processing" and help the region to move a step further towards becoming "China's modern agriculture demonstration area, dairy industry park, potato industry park, grass industry park, meat industry park". In the future, Saibei is expected to own 100,000 dairy cows with over 500,000 tons of fresh milk production as an important supply base for dairy products.

Good Health and Well-being

? Can children in poverty-stricken areas drink nutritious milk?

Nutrition Generalization

In response to "Healthy China 2030", we have cooperated with D20 enterprises of China Dairy Industry to launch a charity program to help impoverished students and further improve children's nutrition intake in rural areas.

Adhering to "Nutrition Popularization", we have targeted donation group and monitored donation procedure in order to provide genuine nutrition support to students with every box of milk.

We have cooperated with Jiangsu TV "Our Challenge" show to donate Just Yogurt worth over RMB 300,000 to underprivileged children and the elderly in Qinghai Province.



We have donated Just Yogurt worth over (RMB)
300,000

to underprivileged children and the elderly in Qinghai Province.

Common Responsibility

We have played the leading role as a large dairy company and assisted China Dairy Industry Association in compiling Guidance on Social Responsibility of Dairy Industry to provide guidance for the dairy industry to better fulfill corporate social responsibility in order to benefit more people.

“Based on the actual conditions of China Dairy Industry and referring to relevant standards and practices and common requirements for corporate social responsibility, Guidance on Social Responsibility of Dairy Industry defines the core content of dairy enterprises' social responsibility, leads enterprises to strengthen social responsibility management, promotes dairy enterprises to upgrade quality and efficiency and enhance sustainable competitiveness.”

Liu Meiju, Vice Chairman & Secretary General of China Dairy Industry Association

Social Charity

? What else can we do for the society in addition to the high-quality milk?

Public Education Welfare

Give a Lecture in My Hometown

We care about the growth and development of children in rural areas. We have carried out charitable event "I Return to My Hometown to Give a Lecture" and established partnership with rural schools to equip the students with knowledge. "I Return to My Hometown to Give a Lecture" has grown into an integrated charitable platform by accurate, systematic and lean measures such as inviting celebrities to give lectures in their hometown and attracting college students to give lectures.

In 2016, the year of the Rio Olympic Games, Olympic Champion Yang Wei, Zhao Ruirui, Jiao Liuyang were invited to give lectures on sports and dreams. Meanwhile, 15 students from Beijing Normal University set off to Korla and Karamay in Xinjiang to contribute their share to rural education.



On June 24, 2016, Jiao Liuyang, Olympic Champion of Swimming, was giving a physical education class to the children.

“ Dreams can be big and ordinary, and every dream is worth waiting for and being encouraged. During the event, I noticed a kid with speech impairment. For most of the time, he was just mumbling what people did not understand, but he has his own dream. I miss him dearly and other kids in the school. Destiny has brought us together and I wish them well. ”

Zhao Ruirui, Olympic Champion of Women's Volleyball



On April 15, 2016, Zhao Ruirui, Olympic Champion of Women's Volleyball, was giving a painting class to kids.



On May 19, 2016, Yang Wei, Olympic Champion of Gymnastics returned to his hometown Xian Tao to give a class

“ Today, as a person from Xiantao, I participated in Mengniu's event "I Return to My Hometown to Give a Lecture" and had so much fun with the kids. I also taught them how to protect themselves during the exercise. For me, the most exciting thing is that the kids beat themselves with my encouragement! ”

Yang Wei, Olympic Champion of Gymnastics

“ I've been teaching in Liulinhuang Primary School for nearly 26 years, accompanying the kids grow up and spend a happy time in primary school. In the past, the environment was particularly tough: there were no walls, cafeteria or playground. Mengniu helped us fix the walls and gate, build a kitchen and renovate the playground. Mengniu donated an extra RMB 200,000 to improve the school's environment. I am very grateful to Mengniu. I wish "I Return to My Hometown to Give a Lecture" can benefit more kids in poverty-stricken areas. ”

Wang Yongzhu, the Most Beautiful Rural Teacher



Public Health

Love Brings Passion and Warmth

- We have integrated health with public welfare by calling on runners to run for 10,000 steps to exchange a pair of gloves, passing on warmth with our consumers.
- We have cooperated with Codoon Platform to build H5 participation platform that counts steps offline and donates steps online and made donations livelier in the form of "pouring milk".
- The event covers 13 cities nationwide and attracts tens of thousands of college students. In 2016, runners has run a total of 49 million steps and exchanged 4,900 pairs of gloves for children living in mountainous regions.

Preventing AIDS from the Campus

College students are the target group of AIDS prevention and knowledge publicity. Mengniu actively supports and participates in "Red Ribbon, the Health Ambassador's Campus Tour" sponsored by China Health Education Center, Ministry of Education of the PRC and Chinese Association of STD and AIDS Prevention and Control. Red ribbon icons were lighted up as a way to enrich the events. By the end of 2016, the event has been conducted in 16 universities nationwide, benefiting more than 400,000 students.

Environmental Welfare

We have launched urban riding event "Green Ride-Enjoying a Pure Life". In Xi'an Daming Palace National Heritage Park, we publicize environmental protection ideas and promote green culture by riding.

We have organized voluntary tree-planting "Green Mengniu, Green Heart" to practice and spread environmental protection ideas. In 2016, 700 volunteers planted altogether 2,200 trees.



Community Care

We have strengthened community infrastructure construction by building 72 "love wells" in 156 regions in Inner Mongolia and taking actions to help the herdsmen get rid of the drought problems, benefiting a total of 200,000 people.

We have paid close attention to disaster-stricken areas and launched disaster relief mechanism to provide immediate assistance to the inflicted areas. In 2016, we donated 20,000 cartons of milk worth RMB 1 million to the disaster-stricken areas in Hubei.

We care for the vulnerable groups. We have donated milk, books and other items to orphanages and homes for the elderly in poverty-stricken regions in order to provide better nutrition for them. In 2016, we cooperated with China Environmental Protection Foundation to donate 1,000 cartons of Mengniu HuanQing milk to 120 old people at homes for the elderly.

Volunteer Work

Warm Winter Plan

We encourage and support employees to carry out volunteer events caring the left-behind children, impoverished children and orphans and help children in remote mountainous regions spend a warm time in winter. By the end of 2016, through "Warm Winter Plan", over 30,000 pieces of clothes, 200 pairs of shoes and 1,500 pieces of stationery were donated to more than 2,000 impoverished people in Guizhou, Tibet and other 8 regions.

Mengniu Staff Help Realize Dreams

We encourage our staff to help poor students realize their dreams of going to college. By the end of 2016, Mengniu employees have sponsored 65 students with over RMB 200,000.

Outlook

Looking forward into 2017, we will adhere to quality-based, innovation-led principles, focus on product category, brand resources and operational efficiency; unite the faith of Mengniu staff, corporate strength and global resources; develop potential energy, conduct "four non-compromise" in product, quality, values and execution; gather strength and the will of the people to realize the goal of being "Century-Old Mengniu, China's Pride".

We will focus on the quality. We will keep improving end-to-end quality management system to continuously upgrade product quality and management. We have always been committed to leading the sustainable development of the dairy industry with innovation and ingenuity; we draw on global vision and global resources, carefully manage every link in accordance with global standards, and strive to become a model of good quality to win the trust of every consumer.

We will unite strength. We will continue to launch Employee Well-being Program and safeguard the health and happiness of every individual and every family to make progress together with other partners in the ecosystem.

We will advocate green development. We will adhere to the concept of green and sustainable development, and build a new, balanced and sustainable mode of "green industry chain" from ranches, plants to dining tables in order to provide healthy and green products for consumers.

We will assume the responsibility of the times. Based on our own development, we will incorporate social responsibility into the whole industry chain, lead the development of the industry, regard corporate social responsibility as a relay of love and happiness, and demonstrate a sense of responsibility with special beauty.

We will continue to implement National Dairy Development Plan based on the 13th "Five-Year Plan", take measures on the supply side and the demand side, and accelerate the rejuvenation of the dairy industry and the construction of modern dairy industry to build a symbiotic dairy ecosystem. We will insist on the implementation of the "Nutrition Popularization Plan" to provide nutrition and health for the younger generation in China. We will also practice "The Belt and Road Initiative", and deepen the cooperation in the whole industry chain with New Zealand's dairy industry. We will work hard to realize the 2020 Development Goal of "becoming a world-class dairy enterprise".

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Factual Statement



Assurance Statement of Corporate Social Responsibility Report

TUV Asia Pacific Ltd. ('TUV NORD') has been commissioned by the management of China Mengniu Dairy Company limited ('Mengniu Company') to carry out an independent assurance of the Sustainable Report 2016 ('report') .

Mengniu Company is responsible for the collection, analysis, aggregation and presentation of information within the Report. TUV NORD's responsibility in performing this work (assurance of the report) is in accordance with terms of reference agreed in the scope of engagement with Mengniu. Mengniu is the intended users of this statement.

This statement is based on the assumption that the data and information provided in the report is complete and true. This report is the forth comprehensive Non-financial report for Mengniu Company, and it's the second time for Mengniu to invite the TUV NORD give independent assurance.

Assurance Scope

- The report revealed the accuracy and reliability for key performance, information and management system which happened during year 2016.
- Assurance address is in Floor 29, A block, international finance center, .A 8, Jianguomen Wai Avenue, Chaoyang district, Beijing. We visit Mengniu CSR department, and didn't visit Mengniu production base and other stakeholders.
- We evaluate the collection, analysis, aggregation of the information and data.
- Due to finance data had been audited by the third party, and published in Mengniu 2016 annual report, So the correctness of the financial data in the report is not in our assurance scope.

Assurance of the Report was done on 28-29.03.2017.

Assurance Methodology

Assurance process including following activities:

- Review the document information which provide by Mengniu Company;
- Interview the person who collected the report information;
- View the related websites and media reports, verify the data and information through sampling method;
- Refer to G4 on balance, comparability, accuracy, timeliness, clarity, reliability, and give evaluation;
- Refer to AA1000AS (2008) Assurance methodology, and ISO 26000 social responsibility standard.
- Assurance activity is based on TUV NORD CSR report assurance management system.

Assurance conclusion

Mengniu Company 2016 sustainable Report provide an appropriate and objective view of the sustainability & social programs and performances during year 2016. The data in report is reliable and objective, TUV NORD didn't find the system error or substantial error.

- The revealed information is clear, easy-understand and available;
- The report take "Fascination for Dedication" as theme, combine with the Strategies for Sustainable



- Development 2030, response the stakeholders expectation and requirement from four chapters, which is Nutrition and Health, Mutual Growth, Environment Friendly, You Are the Finishing Touch;
- Setting 'focus on ESG' special column, response to the Environmental, social and governance guidelines implement of Hong Kong Stock exchange.

Suggestion for improvement

Through assurance and evaluation, we had following improvement suggestion on CSR practice and management:

- Suggest reveal more environment information on product package, three wastes management, prepare for the further implementation of the key indicators of environmental, social and governance guidelines;
- Suggest setting practicable action plan of social responsibility practice in related business departments, evaluate and update regularly, persistently ;
- Suggest reveal more performance of subsidiaries and branch company, which can increase balance of report.

Special statement

This statement excluding:

- The activity outside information reveal;
- The position, idea, faith, object, future developing direction, and promise which stated by Mengniu Company.

Statement of Independence and Competence

TUV NORD Group is the world's leader in inspection, testing and verification, operating in more than 70 countries throughout the world and providing services which includes management systems and product certification; quality, environmental, social and ethical auditing and training; environmental; social responsibility and sustainability report assurance.

TUV Asia Pacific Ltd. affirms its' independence from Mengniu Company and confirms that there is no conflicts of interest with the organization or any of its subsidiaries and stakeholders when performing the assurance of the Report. TUV Asia Pacific Ltd. was not involved in any manner with Mengniu Company, when the latter was preparing the Report.

TUV Asia Pacific Ltd.

Team leader: Huangli

Date: 2017.3.29

Authorized person : Song Haining

Date : 2017.3.29

Please refer to the Chinese version upon the difference between English version and Chinese.

Expert Comments

China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2016) is the fourth comprehensive non-financial report released by Mengniu. This report reflects Mengniu's ambition in providing customers with dairy products of better quality and illustrates the latest achievements in Mengniu's sustainable management. The features come as follows:

First, the report reflects the core idea that "Quality is fundamental for Mengniu's sustainable development". As one of China's leading dairy companies, Mengniu has made advancements in products and services, cooperation, harmonious development and social contributions. Mengniu also adopts the innovative QVIP pattern and continues to promote the development of the industry by exploring and utilizing its own advantages and influence.

Second, Mengniu follows the global trend and bravely assumes global responsibility. Mengniu regards building a world-class enterprise as its goal and deems "global responsibility" as the primary concern for its operation and development. Mengniu has made Strategies for Sustainable Development 2030 in which it provides a specific plan for global sustainable development.

Third, Mengniu keeps exploring new paths for sustainable development. Mengniu explores and builds a think tank of sustainable development, improves the three interrelated systems (Commission of Sustainable Development, Sustainable Development Think Tank, and liaison staff of sustainable development of each department) and establishes expert and project database for sustainable development to provide a new path for the integration of the concept of sustainable development and production operation management.

Fourth, the report is a consumer-oriented one with substantial contents. Through questionnaires, interviews, and other means, Mengniu has recognized the demands of stakeholders, selected issues for disclosure, and made positive response to enhance the substantiality of the report.

—Deputy Director of China WTO Tribune



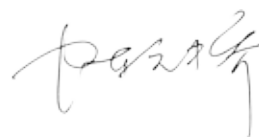
I'm deeply impressed after reading China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2016) not only because of Mengniu's aspiration, rich content and simple design of the report, but also QVIP pattern that goes through the whole report.

The report demonstrates Mengniu's sense of responsibility and courage as one of the world's leading dairy enterprises. The report disclosed strategy for Sustainable Development 2030 and set an example for Chinese companies to reach the goal of global sustainable development. Mengniu upholds "Nutrition Popularization" concept and implements charitable practices and passes happiness in every drop of milk onto the society. Meanwhile, Mengniu gives full play to its advantages in the dairy industry by actively involving itself in compiling and releasing Guidelines 3.0 on Social Responsibility Reporting in the Food Industry and Guidance on Social Responsibility of Dairy Industry to regulate food and dairy companies to disclose information on corporate social responsibility, to better fulfill their social responsibility and benefit more people.

The report, looking from the perspectives of consumers, begins each core issues with 12 quick Q&As, and goes into details in the body part, which demonstrates Mengniu's determination in assuming responsibilities and making contributions to society.

Focusing on hot topics and global trends and complying with international standards, the focus of disclosure in the report is based on 552 questionnaires by stakeholders such as shareholders, consumers, suppliers, distributors, as well as supply-side reforms, dairy safety, green development, innovation and other heated social topics. The report also adheres to ISO 26000 International Standard's requirement in basic principles of social responsibility, participation of stakeholders, core themes of social responsibility and etc., establishes Mengniu sustainable development database and incorporates the idea of sustainable development into its business operations.

—Senior Director Researcher of China National Institute of Standardization



Reader's Feedback Form

Respected readers,

We would like to extend our thanks to you for reading China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2016).

We value your opinions on the report, and please give us your comments and suggestions to facilitate our further improvements.

Add: 1 Section 1, Food Industry Park, Tongzhou District, Beijing, China

Tel: 010-61526998

Optional Questions: (Please mark your answer by putting a tick in the corresponding box)

1. What's your overall impression on the report?

Excellent Good Fair Poor Very poor

2. How do you comment on the quality of information on social responsibilities in the report?

Very High High Fair Poor Very poor

3. What do you think of the report structure?

Very Logical Logical Fair Poor Very poor

4. How do you like the format design and presentation form of the report?

Excellent Good Fair Poor Very poor

Open Questions:

We are open to your valuable comments and suggestions on the China Mengniu Dairy Company Limited Corporate Social Responsibility Report (2016):



Please scan the QR code above for video presentation of this report



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