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**CHINA MENGNIU DAIRY COMPANY LIMITED**

**中國蒙牛乳業有限公司\***

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

**(Stock Code: 2319)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

**HIGHLIGHTS**

- In 2022, outdoor consumption and consumer traffic in stores were impacted by external factors. The dairy industry also experienced a challenging operating environment and cost pressure from the global rise in inflation and raw material costs. Committed to the strategy of “Creating a new Mengniu” and the pursuit of high-quality growth, the Group proactively confronted the external challenges and demonstrated strong growth resilience in its core businesses. Innovative businesses achieved significant breakthroughs. This has resulted in enhanced brand power and steady, high-quality business growth.
- For the year ended 31 December 2022, the revenue of the Group amounted to RMB92,593.3 million (2021: RMB88,141.5 million), representing a year-on-year increase of 5.1%. Attributable to various measures to reduce cost and enhance efficiency, operating profit of the Group amounted to RMB5,423.2 million (2021: RMB4,861.6 million), representing a year-on-year increase of 11.6%; operating profit margin was 5.9% (2021: 5.5%), representing a year-on-year increase of 40 basis points, and a significant year-on-year increase of 160 basis points in the second half of 2022. Profit attributable to owners of the Company increased by 5.5% year-on-year to RMB5,303.0 million (2021: RMB5,025.5 million).

- With industry-leading performance during the year, Mengniu’s global dairy ranking improved to 7th, and it is the youngest among the top 10 enterprises. The Group also insisted on pursuing a long-term brand strategy, continuing to maintain the legacy of the “born to excel” spirit and promoting Mengniu’s brand awareness and reputation through important sporting events such as the Winter Olympics, the Women’s Asian Cup and the FIFA World Cup, further strengthening the branding power and brand value. In the 2022 Kantar BrandZ™ ranking of the most valuable global brands, Mengniu’s brand value grew by 15% year-on-year, ranking first in China’s dairy industry in terms of brand value growth.
- During the year, the Group proactively confronted external challenges, and focused on promoting product innovation, brand upgrades and channel development. Revenue from liquid milk increased by 2.3% year-on-year to RMB78,269.3 million. In particular, *Milk Deluxe* and *Mengniu* pure milk as well as *Shiny Meadow* fresh milk maintained strong growth, and the chilled product business maintained its leading position in the market.
- During the year, the Group’s ice cream business recorded strong growth that outperformed the industry, with a revenue of RMB5,652.4 million, representing a significant year-on-year increase of 33.3%. The four major brands, namely *Suibian*, *Mood for Green*, *Deluxe* and *Ice+* focused on product innovation and upgrades, and successfully created crossover products such as “Moutai Ice Cream”, which was well received by consumers and became one of the hottest products in the market.
- The Group actively capitalized on the growth opportunities in the cheese industry, with a focus on developing children’s cheese sticks, casual cheese snacks, domestic table cheese, butter and specialty cheese products for professional catering. The Group also collaborated with Milkground, a leading cheese enterprise in China, to explore the high potential cheese market in China and globally.
- During the year, the Group remained committed to the culture of quality. Nine of its major product categories have met the EU standards and the factory of *Shiny Meadow* obtained the dual certifications of the Global Food Safety Initiative (GFSI), demonstrating the Group’s unwavering commitment to delivering world-class quality products to its consumers. In addition, the Group introduced the self-developed “aerospace bacteria strain (航天菌株)”, and further enhanced its technologies for improving grass cultivation, cow breeding and milk production. By implementing the “smart quality” digital management for the entire industry chain, Mengniu became the only enterprise in the industry to win the title of “National Quality Benchmark (全國質量標桿)” during the year.
- In 2022, Mengniu unveiled its “GREEN” sustainable development strategy and the dual-carbon strategic goal, committing to achieving the goal of “reaching carbon peak in 2030 and carbon neutrality in 2050”. Mengniu’s sustainable development strategy and practices received wide recognition during the year. Its MSCI ESG rating improved to an A grade, the highest rating in the Chinese food industry, and Mengniu was included as a constituent stock in major sustainable development indexes such as the Hang Seng Corporate Sustainability Index Series for the third consecutive year.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the year ended 31 December 2022, together with the comparative amounts.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2022

(Expressed in Renminbi (“RMB”))

	Notes	2022 RMB’000	2021 RMB’000
<b>Revenue</b>	4	<b>92,593,322</b>	88,141,475
Cost of sales		<u>(59,903,540)</u>	<u>(55,751,561)</u>
<b>Gross profit</b>		<b>32,689,782</b>	32,389,914
Other income and gains	4	2,139,649	1,617,656
Selling and distribution expenses		(22,347,316)	(23,487,674)
Administrative expenses		(4,441,844)	(3,524,302)
Impairment losses on financial and contract assets, net		(289,432)	(208,293)
Loss on derecognition of financial assets measured at amortised cost		(53,993)	(33,565)
Other expenses	5	(1,863,564)	(1,863,223)
Interest income		1,385,385	1,027,394
Finance costs	7	(1,125,263)	(743,072)
Share of profits and losses of:			
A joint venture		—	(34,905)
Associates		<u>408,949</u>	<u>728,238</u>
<b>Profit before taxation</b>	6	<b>6,502,353</b>	5,868,168
Income tax expense	8	<u>(1,317,549)</u>	<u>(904,510)</u>
<b>Profit for the year</b>		<b><u>5,184,804</u></b>	<b><u>4,963,658</u></b>
Attributable to:			
Owners of the Company		<u>5,302,972</u>	5,025,537
Non-controlling interests		<u>(118,168)</u>	<u>(61,879)</u>
		<b><u>5,184,804</u></b>	<b><u>4,963,658</u></b>
<b>Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)</b>	10		
Basic		<u>1.342</u>	1.274
Diluted		<u>1.336</u>	<u>1.267</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

(Expressed in RMB)

	2022 RMB'000	2021 RMB'000
<b>Profit for the year</b>	<b>5,184,804</b>	4,963,658
<b>Other comprehensive income</b>		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(410,782)	(607,784)
Effective portion of changes in fair value of hedging instruments arising during the year:		
— Total hedging loss recognised in other comprehensive income (excluding exchange differences)	753,048	15,634
— Amount reclassified from other comprehensive income to profit or loss	(298,971)	(6,078)
Share of other comprehensive income of associates	(6,977)	(72,824)
<b>Net other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>	<b>36,318</b>	(671,052)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation	(915,068)	135,546
Equity investments designated at fair value through other comprehensive income:		
— Changes in fair value	680	(74,800)
<b>Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>	<b>(914,388)</b>	60,746
<b>Other comprehensive income, net of tax</b>	<b>(878,070)</b>	(610,306)
<b>Total comprehensive income for the year</b>	<b>4,306,734</b>	4,353,352
Attributable to:		
Owners of the Company	4,414,370	4,467,823
Non-controlling interests	(107,636)	(114,471)
	<b>4,306,734</b>	4,353,352

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

(Expressed in RMB)

	Notes	2022 RMB'000	2021 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		19,652,598	17,335,240
Construction in progress		4,111,176	2,619,402
Investment properties		61,067	62,508
Right-of-use assets		2,783,177	2,142,140
Goodwill		8,887,830	4,857,687
Other intangible assets		12,374,368	7,999,443
Investments in associates		10,396,345	15,793,874
Deferred tax assets		1,600,692	1,561,308
Derivative financial instruments		475,625	11,119
Other financial assets		20,240,280	14,235,644
Long term prepayments		452,973	463,038
		<u>81,036,131</u>	<u>67,081,403</u>
Total non-current assets			
<b>Current assets</b>			
Other financial assets		6,827,398	4,666,980
Derivative financial instruments		4,716	1,901
Inventories		8,073,377	6,485,485
Trade and bills receivables	11	3,660,242	4,159,688
Prepayments, other receivables and other assets		4,639,624	4,285,875
Pledged deposits		284,213	203,151
Cash and bank balances		12,765,829	11,216,861
Assets held for sale		521,675	—
		<u>36,777,074</u>	<u>31,019,941</u>
Total current assets			
<b>Current liabilities</b>			
Trade and bills payables	12	10,200,635	8,803,902
Other payables and accruals		13,581,433	14,576,417
Interest-bearing bank and other borrowings		9,094,719	4,265,484
Derivative financial instruments		25,769	1,239
Income tax payable		226,846	221,206
Other financial liabilities		—	1,203,800
Liabilities held for sale		23,850	—
		<u>33,153,252</u>	<u>29,072,048</u>
Total current liabilities			
<b>Net current assets</b>		<u>3,623,822</u>	<u>1,947,893</u>
<b>Total assets less current liabilities</b>		<u>84,659,953</u>	<u>69,029,296</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(continued)*  
*at 31 December 2022*  
*(Expressed in RMB)*

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Non-current liabilities</b>		
Interest-bearing bank and other borrowings	<b>26,106,255</b>	18,786,328
Convertible bonds	<b>3,907,631</b>	3,981,115
Deferred income	<b>572,132</b>	477,833
Deferred tax liabilities	<b>3,926,470</b>	2,456,217
Derivative financial instruments	<b>10,708</b>	36,305
Other financial liabilities	<b>84,959</b>	1,292,066
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>34,608,155</b>	27,029,864
	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>50,051,798</b>	41,999,432
	<hr/>	<hr/>
<b>EQUITY</b>		
Equity attributable to owners of the Company		
Share capital	<b>359,948</b>	359,774
Treasury shares held under share award scheme	<b>(175,701)</b>	(29,244)
Other reserves	<b>10,466,418</b>	12,057,667
Retained earnings	<b>29,447,875</b>	24,437,587
	<hr/>	<hr/>
	<b>40,098,540</b>	36,825,784
Non-controlling interests	<b>9,953,258</b>	5,173,648
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>50,051,798</b>	41,999,432
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## NOTES

*(Expressed in RMB unless otherwise indicated)*

### 1 CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is P.O. Box 309, Umland House, Grand Cayman KY1-1104, Cayman Islands. The Company is an investment holding company. The Group is engaged in the manufacture and distribution of dairy products.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term include all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the applicable International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). They have been prepared under the historical cost convention except for share options, certain financial assets, derivative financial instruments, certain other financial liabilities and certain other borrowings which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### ***Basis of consolidation (continued)***

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

### 2.2 Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts-cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.



### 3 OPERATING SEGMENT INFORMATION

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

- Liquid milk products segment — manufacture and distribution of ultra-high temperature milk (“UHT milk”), milk beverages, yogurt and fresh milk;
- Ice cream products segment — manufacture and distribution of dairy-based ice cream;
- Milk powder products segment — manufacture and distribution of milk powder; and
- Others segment — principally the Group’s cheese business, manufacture of raw materials for dairy products and trading business.

#### (a) Segment results, assets, and liabilities

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

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

Segment liabilities exclude liabilities of a disposal group classified as held for sale and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

### 3 OPERATING SEGMENT INFORMATION (continued)

#### (a) Segment results, assets, and liabilities (continued)

Year ended 31 December 2022

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue (Note 4):</b>					
Sales to external customers	78,269,313	5,652,422	3,861,991	4,809,596	92,593,322
Intersegment sales	986,238	50,745	154,283	964,448	2,155,714
	<u>79,255,551</u>	<u>5,703,167</u>	<u>4,016,274</u>	<u>5,774,044</u>	<u>94,749,036</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(2,155,714)</u>
Revenue					<u>92,593,322</u>
<b>Segment results</b>	<b>5,721,334</b>	<b>25,794</b>	<b>(1,498,661)</b>	<b>96,115</b>	<b>4,344,582</b>
<i>Reconciliation:</i>					
Interest income					1,385,385
Finance costs (other than interest on lease liabilities)					(1,093,887)
Share of profits of associates					408,949
Corporate and other unallocated income					<u>1,457,324</u>
Profit before tax					6,502,353
Income tax expense					<u>(1,317,549)</u>
Profit for the year					<u>5,184,804</u>
<b>Segment assets</b>	<b>66,318,779</b>	<b>5,803,247</b>	<b>16,289,640</b>	<b>18,887,274</b>	<b>107,298,940</b>
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(31,449,137)
Corporate and other unallocated assets					31,045,382
Investments in associates					10,396,345
Assets held for sale					<u>521,675</u>
Total assets					<u>117,813,205</u>
<b>Segment liabilities</b>	<b>30,420,394</b>	<b>4,291,169</b>	<b>6,821,665</b>	<b>5,675,922</b>	<b>47,209,150</b>
<i>Reconciliation:</i>					
Elimination of intersegment payables					(31,449,137)
Corporate and other unallocated liabilities					51,977,544
Liabilities held for sale					<u>23,850</u>
Total liabilities					<u>67,761,407</u>

### 3 OPERATING SEGMENT INFORMATION (continued)

#### (a) Segment results, assets, and liabilities (continued)

Year ended 31 December 2022 (continued)

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
<b>Other segment information:</b>					
Depreciation and amortisation	2,235,222	223,456	137,146	210,279	2,806,103
Unallocated amounts					72,145
Total depreciation and amortisation					<u>2,878,248</u>
Capital expenditure	3,663,569	440,494	227,239	524,565	4,855,867
Unallocated amounts					1,421,731
Total capital expenditure*					<u>6,277,598</u>
Impairment losses and write-down of inventories recognised in the consolidated statement of profit or loss	302,905	44,473	990,544	21,812	1,359,734
Impairment losses and write-down of inventories reversed in the consolidated statement of profit or loss	(73,318)	(4,694)	(5,019)	(6,785)	(89,816)
Impairment losses and write-down of inventories recognised in the consolidated statement of profit or loss, net	<u>229,587</u>	<u>39,779</u>	<u>985,525</u>	<u>15,027</u>	<u>1,269,918</u>
Expense relating to share-based payment component of the convertible bonds, share option scheme, share award scheme and reversal of restricted shares expenses of a subsidiary	219,388	41,723	9,843	(45,061)	225,893
Unallocated amounts					460,970
Total non-cash expenses relating to share-based payment component of the convertible bonds, share option scheme, share award scheme and reversal of restricted shares expenses of a subsidiary					<u>686,863</u>

### 3 OPERATING SEGMENT INFORMATION (continued)

#### (a) Segment results, assets, and liabilities (continued)

Year ended 31 December 2021

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue (Note 4):</b>					
Sales to external customers	76,514,364	4,240,151	4,949,127	2,437,833	88,141,475
Intersegment sales	543,045	46,172	14,415	1,428,142	2,031,774
	<u>77,057,409</u>	<u>4,286,323</u>	<u>4,963,542</u>	<u>3,865,975</u>	<u>90,173,249</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(2,031,774)</u>
Revenue					<u>88,141,475</u>
<b>Segment results</b>	5,089,893	37,633	(1,113,768)	(93,106)	3,920,652
<i>Reconciliation:</i>					
Interest income					1,027,394
Finance costs (other than interest on lease liabilities)					(717,610)
Share of loss of a joint venture					(34,905)
Share of profits of associates					728,238
Corporate and other unallocated income					<u>944,399</u>
Profit before tax					5,868,168
Income tax expense					<u>(904,510)</u>
Profit for the year					<u>4,963,658</u>
<b>Segment assets</b>	59,412,030	4,848,683	17,249,238	2,837,561	84,347,512
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(27,915,033)
Corporate and other unallocated assets					25,874,991
Investments in associates					<u>15,793,874</u>
Total assets					<u>98,101,344</u>
<b>Segment liabilities</b>	29,102,521	3,563,863	6,170,274	2,338,336	41,174,994
<i>Reconciliation:</i>					
Elimination of intersegment payables					(27,915,033)
Corporate and other unallocated liabilities					<u>42,841,951</u>
Total liabilities					<u>56,101,912</u>

### 3 OPERATING SEGMENT INFORMATION (continued)

#### (a) Segment results, assets, and liabilities (continued)

Year ended 31 December 2021 (continued)

	Liquid milk products RMB'000	Ice cream products RMB'000	Milk powder products RMB'000	Others RMB'000	Total RMB'000
<b>Other segment information:</b>					
Depreciation and amortisation	1,844,755	228,420	195,105	30,059	2,298,339
Unallocated amounts					<u>98,099</u>
Total depreciation and amortisation					<u><u>2,396,438</u></u>
Capital expenditure	5,688,670	664,314	232,808	346,909	6,932,701
Unallocated amounts					<u>5,201,905</u>
Total capital expenditure*					<u><u>12,134,606</u></u>
Impairment losses and write-down of inventories recognised in the consolidated statement of profit or loss	150,077	128,502	990,107	27,355	1,296,041
Impairment losses and write-down of inventories reversed in the consolidated statement of profit or loss	<u>(15,208)</u>	<u>(51,675)</u>	<u>(5,798)</u>	<u>(5,991)</u>	<u>(78,672)</u>
Impairment losses and write-down of inventories recognised in the consolidated statement of profit or loss, net	<u>134,869</u>	<u>76,827</u>	<u>984,309</u>	<u>21,364</u>	<u>1,217,369</u>
Non-cash expense relating to share-based payment component of the convertible bonds, share option scheme and share award scheme	116,330	15,277	1,033	7,323	139,963
Unallocated amounts					<u>94,230</u>
Total non-cash expenses relating to share-based payment component of the convertible bonds, share option scheme and share award scheme					<u><u>234,193</u></u>

\* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, intangible assets, land use rights, equity interests in subsidiaries, associates and other equity investments.

### 3 OPERATING SEGMENT INFORMATION *(continued)*

#### (b) Geographical information

##### (i) Revenue from external customers

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
The Chinese Mainland	87,997,985	85,067,981
Overseas	<u>4,595,337</u>	<u>3,073,494</u>
	<u><u>92,593,322</u></u>	<u><u>88,141,475</u></u>

The revenue information above is based on the locations of the customers.

##### (ii) Non-current assets

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
The Chinese Mainland	47,923,295	41,704,711
Overseas	<u>10,796,239</u>	<u>9,568,621</u>
	<u><u>58,719,534</u></u>	<u><u>51,273,332</u></u>

The non-current asset information above is based on the locations of non-current assets, excluding derivative financial instruments, other financial assets and deferred tax assets.

#### (c) Information about major customers

There were no sales to a single customer which accounted for 10% or more of the Group's revenue for the year ended 31 December 2022.

### 4 REVENUE, OTHER INCOME AND GAINS

#### (a) Revenue

An analysis of the revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Revenue from contracts with customer:</b>		
Sale of goods	92,592,407	88,133,815
Consignment processing services	<u>915</u>	<u>7,660</u>
	<u><u>92,593,322</u></u>	<u><u>88,141,475</u></u>

4 REVENUE, OTHER INCOME AND GAINS (continued)

(b) Other income and gains

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government grants related to		
— assets	95,505	90,274
— compensation for expenses	397,194	241,442
Gain on disposal of a subsidiary	241,460	—
Gain on disposal of an associate	—	54,198
Gain on disposal of business of Arla Foods amba	55,750	—
Gross rental income	74,733	89,587
Foreign exchange gain, net	—	19
Net fair value gain on forward currency contracts	—	2,140
Net fair value gain on exchangeable bonds	113,817	200,732
Net fair value gain on a convertible promissory note	—	2,629
Net fair value gain on unlisted equity investment at fair value through profit or loss	1,271	—
Net fair value gain on other financial liabilities	861,710	632,700
Gain on deemed disposal of partial interests in an associate	—	79,041
Net gain on disposal of property, plant and equipment, other intangible assets and right-of-use assets	22,179	—
Others	276,030	224,894
	<u>2,139,649</u>	<u>1,617,656</u>

## 5 OTHER EXPENSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Donations	106,728	45,845
Net loss on disposal of items of property, plant and equipment	—	59,463
Impairment of goodwill	742,437	621,230
Impairment of other intangible assets	—	204,306
Foreign exchange loss, net	45,676	—
Write-down of inventories to net realisable value	238,049	183,540
Other taxes and surcharges	477,439	516,374
Net fair value loss on forward currency contracts	31,754	—
Net fair value loss on unlisted equity investment at fair value through profit or loss	—	1,326
Net fair value loss on unlisted equity investment in Jilin Province Guangze Dairy Technology Co, Ltd. with put options	9,083	3,350
Loss on re-measurement of investment in an associate upon a business combination	12,639	—
Loss on re-measurement of investment in a joint venture upon a business combination	—	38,092
Loss on partial disposal of equity interests in an associate	—	10,584
Others	199,759	179,113
	<u>1,863,564</u>	<u>1,863,223</u>



## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of inventories sold	59,902,799	55,745,991
Cost of consigned processing services	<u>741</u>	<u>5,570</u>
Cost of sales	<u><u>59,903,540</u></u>	<u><u>55,751,561</u></u>
Employee benefit expense (including directors' and chief executive's remuneration)		
— Wages, salaries, housing benefits and other allowances	7,257,310	6,636,083
— Retirement benefit contributions	713,357	605,832
— Fair value amortisation of share-based payment component of the convertible bonds	566,155	51,901
— Share option scheme expense	58,844	8,519
— Share award scheme expense	131,932	173,773
— Reversal of restricted shares expense of a subsidiary	<u>(70,068)</u>	<u>—</u>
	<u><u>8,657,530</u></u>	<u><u>7,476,108</u></u>
Impairment of trade receivables, net	279,109	198,086
Impairment of financial assets included in prepayments, other receivables and other assets, net	<u>10,323</u>	<u>10,207</u>
Impairment of financial and contract assets, net	<u><u>289,432</u></u>	<u><u>208,293</u></u>
Write-down of inventories to net realisable value	238,049	183,540
Impairment of goodwill	742,437	621,230
Impairment of other intangible assets	—	204,306
Depreciation of property, plant and equipment	2,456,658	2,014,184
Depreciation of right-of-use assets	315,886	293,762
Depreciation of investment properties	1,510	4,567
Amortisation of other intangible assets	104,194	83,925
Research and development costs	411,647	355,507
Outsourcing expense ( <i>Note (a)</i> )	178,836	202,904
Lease payments not included in the measurement of lease liabilities ( <i>Note (b)</i> )	281,530	173,972
Auditor's remuneration ( <i>Note (c)</i> )	<u><u>11,565</u></u>	<u><u>15,200</u></u>

## 6 PROFIT BEFORE TAXATION (continued)

Notes:

- (a) For the purpose of promoting operation efficiency, the Group outsourced the production of certain products. The amounts represent the total amount paid by the Group for purchasing outsourcing services.
- (b) The Group recognised rental expenses from short-term leases of RMB155,137,000 (2021: RMB134,446,000), leases of low-value assets of RMB39,023,000 (2021: RMB5,023,000) and variable lease payments not based on index or rates of RMB87,370,000 (2021: RMB34,503,000) for the year ended 31 December 2022.
- (c) In addition to the above fees paid or payable to the auditors, Yashili, a subsidiary of the Company listed on the Main Board of the Stock Exchange of Hong Kong Limited, had an amount of RMB3,980,000 paid/payable as auditor's remuneration for the year ended 31 December 2022 (2021: RMB3,116,000).

## 7 FINANCE COSTS

	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
Interest on bank loans	<b>320,202</b>	206,862
Interest on other borrowings (excluding lease liabilities)	<b>773,685</b>	510,748
Interest on lease liabilities	<b>31,376</b>	25,462
	<b>1,125,263</b>	743,072

## 8 INCOME TAX EXPENSE

### (a) Taxation in the consolidated statement of profit or loss represents:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Current income tax</b>		
Current charge for the year	888,921	833,357
Adjustments in relation to prior years	52,433	15,741
<b>Deferred income tax</b>	<u>376,195</u>	<u>55,412</u>
	<u><b>1,317,549</b></u>	<u><b>904,510</b></u>

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before tax		<u><b>6,502,353</b></u>	<u><b>5,868,168</b></u>
At tax rate of 25% (2021: 25%)	<i>(i)</i>	<b>1,625,588</b>	1,467,042
Non-deductible items and others, net		<b>67,632</b>	66,790
Tax effect of super deduction on research and development expenses	<i>(i)</i>	<b>(83,412)</b>	(74,216)
Impairment of goodwill and trademarks with indefinite useful lives		<b>187,350</b>	236,369
Adjustment in relation to prior years		<b>52,433</b>	15,741
Effect of different tax rates	<i>(ii)/(iii)/(iv)</i>	<b>(308,985)</b>	(382,840)
Effect of tax concessions	<i>(v)/(vi)</i>	<b>(672,384)</b>	(565,527)
Tax effect of share of results of associates and a joint venture		<b>(102,237)</b>	(173,333)
Tax losses and deductible temporary differences utilised from previous periods		<b>(86,112)</b>	(99,059)
Tax losses and deductible temporary differences not recognised		<b>409,692</b>	410,725
Effect of withholding tax at 5%/10% on the distributable profits of the Group's certain PRC subsidiaries		<u><b>227,984</b></u>	<u>2,818</u>
Income tax		<u><b>1,317,549</b></u>	<u><b>904,510</b></u>

## 8 INCOME TAX EXPENSE (continued)

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

Notes:

- (i) The provision for the income tax is based on the statutory rate of 25% (2021: 25%) on the estimated taxable profits determined in accordance with the Law of the People's Republic of China on Corporate Income Tax ("PRC CIT Law"), except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies or certain subsidiaries in other jurisdictions.
- (ii) Pursuant to the income tax rules and regulations of Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to income tax in Cayman Islands and the BVI.
- (iii) The provision for Hong Kong Profits Tax is calculated by applying at 16.5% (2021: 16.5%) of the estimated assessable profits for the year ended 31 December 2022.
- (iv) The provision for Australia, New Zealand and Indonesia Profit Tax is calculated by applying at 30%, 28% and 25%, respectively (2021: 30%, 28% and 25%, respectively), of the estimated assessable profits for the year ended 31 December 2022.
- (v) Certain subsidiaries were granted lower tax rates by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and "The notice of tax policies relating to the implementation of the Western China development strategy".
- (vi) Certain subsidiaries were granted tax exemptions in accordance with the policy of "The notice of preferential tax policy for preliminary processing of agriculture products".

## 9 DIVIDENDS

	Notes	2022 RMB'000	2021 RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares		<u>1,506,669</u>	<u>1,071,002</u>
Proposed for approval at the Annual General Meeting (the "AGM")			
Equity dividends on ordinary shares:			
Proposed final — RMB0.402 (2021: RMB0.381) per ordinary share	(a)/(b)	<u>1,589,989</u>	<u>1,506,161</u>

Notes:

- (a) The proposed final dividend for the year ended 31 December 2022 is subject to the approval of the Company's shareholders at the forthcoming AGM.
- (b) This dividend was not recognised as a liability in the consolidated financial statements for the year ended 31 December 2022.

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

### (a) Basic earnings per share

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

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

	<b>2022</b>	2021
	<i>Number of</i>	<i>Number of</i>
	<i>shares</i>	<i>shares</i>
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at 1 January	3,953,179	3,948,108
Effect of share options exercised	1,203	1,581
Effect of shares purchased under share award scheme	<u>(3,119)</u>	<u>(5,179)</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u><u>3,951,263</u></u>	<u><u>3,944,510</u></u>

### (b) Diluted earnings per share

The diluted earnings per share amounts is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

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

	<b>2022</b>	2021
	<i>Number of</i>	<i>Number of</i>
	<i>shares</i>	<i>shares</i>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,951,263	3,944,510
Effect of dilution — Weighted average number of ordinary shares:		
Outstanding share options	10,519	12,860
Outstanding share awards	<u>7,300</u>	<u>10,526</u>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u><u>3,969,082</u></u>	<u><u>3,967,896</u></u>

## 11 TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bills receivable	133,536	97,398
Trade receivables	3,674,910	4,182,414
Loss allowance	<u>(148,204)</u>	<u>(120,124)</u>
	<u><b>3,660,242</b></u>	<u><b>4,159,688</b></u>

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

The Group sold non-recourse trade receivables to third parties for cash proceeds. These trade receivables have been derecognised from the consolidated statement of financial position, because the Group transfers substantially all of the risks and rewards, primarily credit risk.

Based on the Group's accounting policy of financial assets, the Group measured bills receivable at fair value through other comprehensive income as at 31 December 2022.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Less than 1 year	3,574,016	4,108,722
1 to 2 years	68,377	34,305
2 to 3 years	2,747	15,907
Over 3 years	<u>15,102</u>	<u>754</u>
	<u><b>3,660,242</b></u>	<u><b>4,159,688</b></u>

## 12 TRADE AND BILLS PAYABLES

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

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 3 months	<b>8,756,459</b>	7,734,901
4 to 6 months	<b>1,263,731</b>	701,704
7 to 12 months	<b>87,887</b>	91,239
Over 1 year	<b>92,558</b>	276,058
	<b><u>10,200,635</u></b>	<u>8,803,902</u>

The Group's trade and bills payables are unsecured except as noted below, non-interest-bearing and payable on demand.

Included in the above balances, bills payable with an aggregate balance of approximately RMB654,421,000 (2021: RMB318,774,000) were secured by the pledge of certain of the Group's deposits amounting to approximately RMB162,321,000 (2021: RMB112,797,000). Except for the above, bills payables were unsecured, non-interest-bearing and payable when due within 3 to 6 months.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2022, the challenges from the macro environment adversely impacted outdoor consumption and sales channel operations in China with declining consumer traffic in stores and reduced logistics efficiency. Total retail sales of consumer goods in China across all industries amounted to RMB43.97 trillion, a slight decline of 0.2% year-on-year. Sales of dairy products were not immune from this downward trend. Meanwhile, the dairy industry also faced cost pressure from the global rise in inflation and raw material costs.

With the strong advocacy of the Chinese central government and various government departments, Chinese consumers' awareness of milk consumption continues to increase, driving continuous growth in dairy consumption. During the year, the National Health Commission released the Dietary Guidelines for Chinese Residents (2022), which recommended increasing the daily per capita intake of dairy products from 300 grams to between 300 and 500 grams. In addition, the State Council and the Ministry of Agriculture and Rural Affairs have promulgated national policies such as the Plan to Promote the Modernization of Agriculture and the Initiative to Improve Competitiveness of The Dairy Industry under "The 14th Five-Year Plan". These policies aim to promote the high-quality development of the Chinese dairy industry by strengthening the construction of dairy bases, optimizing the product structure of dairy products, guiding the dairy industrial chain and supporting the improvement of dairy product processing, among other aspects of policy support and guidance.

During the year, Mengniu actively responded to the challenging external environment by strengthening its business fundamentals. The Group implemented measures to reduce cost and enhance efficiency. In addition, the Group capitalized on opportunities to promote consumption upgrade and focused on product innovation, marketing innovation, service upgrade and channel expansion. The Group consistently enhanced its products, branding, services and channels, resulting in steady business growth. In particular, the Group's room temperature pure milk brands, including *Milk Deluxe* and *Mengniu*, maintained robust growth, while the chilled yogurt business remained the market leader. The fresh milk business division outperformed the industry in terms of annual sales growth, with *Shiny Meadow* achieving rapid growth that far exceeded the market level. The ice cream business also grew sales at a rate far higher than the overall industry.



In response to the impact of external challenges on offline channels and the trend of channel transformation, Mengniu has taken steps to expand its omni-channel operations and accelerated the development of new retail channels such as O2O delivery to meet consumer demand for convenient shopping through multiple channels. With its comprehensive supply chain and extensive sales channels, Mengniu took the lead in initiating the new business mode of community group purchase and secured an uninterrupted supply of fresh milk, satisfying the milk demand of Shanghai families as a main supplier in Shanghai in the first half of the year. This initiative significantly enhanced Mengniu's brand popularity and reputation in the East China regional market.

Mengniu insists on pursuing a long-term brand strategy, maintaining the legacy of Mengniu's brand IP assets and the "born to excel" spirit. During the year, Mengniu promoted its brand awareness, reputation and global influence by focusing on China's aerospace development and major international sporting events such as the Winter Olympics, the Women's Asian Cup and the FIFA World Cup, as well as by making use of digitization, diverse and creative content and resource integration in its innovative brand communication and marketing activities. In the 2022 Kantar BrandZ™ ranking of the most valuable global brands, Mengniu's brand value grew by 15% year-on-year, ranking first in China's dairy industry in terms of brand value growth. In the Global Dairy Top 20 published by ABN AMRO Bank, Mengniu rose two places and ranked 7th, distinguishing itself as the only Chinese dairy enterprise to achieve an improved ranking.

## **Business Division Performance**

### ***Liquid Milk Business***

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

In 2022, despite the impacts on outdoor consumption, store channel and logistics efficiency caused by the challenges from the macro environment, room temperature pure milk demonstrated strong demand resilience and maintained satisfactory sales growth as public awareness of nutrition, health and immunity continued to increase during the year.

In 2022, *Milk Deluxe* continued to strengthen the brand's "better" proposition and enhanced its brand value through continuous efforts in product innovation, brand promotion and communication with consumers. During the year, the overall market share of the *Milk Deluxe* brand and the market share of *Milk Deluxe* organic pure milk continued to increase. *Milk Deluxe* organic pure milk took the lead in terms of market share, solidifying the position of *Milk Deluxe* as a high-end brand.

*Just Yoghurt* focused on breakthroughs in differentiation and meeting the growing demand of consumers for “pure” and “additive-free” products. The Group developed a new generation of healthy yogurt products characterized by low sugar and low calories and offering “low-calorie and delicious taste”, leading the trend of room temperature healthy yogurt products. *Just Yoghurt*’s sales performance of new products was further boosted by the implementation of new marketing approaches, including online precision marketing, aiming to enhance the product value, attract target customers and expand the brand assets. In addition, the Company enriched its yogurt offerings by introducing a new generation of yogurt snack under the brand *Just Yoghurt Yummy Yoghurt*, which became best-sellers on various e-commerce platforms.

In 2022, *Fruit Milk Drink* focused on the launch of red grapefruit Sijichun (四季春) with smiley packaging and promoted the slogan “milk becomes more delicious with tea aroma and fruit pulp” to support the continuous growth of new products. Moreover, in line with the market trend of milk beverage and to more effectively meet the needs of consumers in lower-tier markets, the basic series was upgraded thoroughly by improving the promotion of health attributes on product packaging and increasing the amount of fruit pulp, providing consumers with products of higher quality and better value. To expand its consumer base and market coverage, *Fruit Milk Drink* upgraded the PET Floral and Fruit series and launched new milkshake yogurt beverages, including neroli pomelo with aloe vera and jasmine with green grape in December 2022, to attract young Generation-Z consumers with an enhanced product experience.

During the FIFA World Cup, the room temperature product business division carried out a variety of innovative World Cup-themed online and offline marketing activities, which helped drive the growth in brand influence and product sales of the Mengniu and *Milk Deluxe* brands. A range of World Cup-themed products were launched, including limited-edition packaging featuring the 32 qualified World Cup teams and the customized FIFA edition *Milk Deluxe* “DreamCap™”. These products were well-received by customers, with one million boxes sold. In terms of online marketing, content marketing was used to strengthen interaction and communication with consumers. These efforts have enhanced the brand strengths and sales of the Group’s room temperature liquid milk products, leading them to capture the top positions in both online sales and overall market share.

As a result of the external challenges posed to offline channels and the growing trend of online shopping, the Group continued to expand its new online channels during the year. The Group’s room temperature liquid milk products secured the largest market share for room temperature liquid milk in the e-commerce market. The total number of online members recorded a break-through growth from over 30 million at the end of 2021.

The Group also continued to promote the RTM strategy, optimize channel structure, expand market coverage and strengthen channel management. Moreover, the Company promoted cooperation with distributors leveraging the “Penetration into Towns and Villages” platform to develop village-level markets and seize opportunities for business development in lower-tier markets. During the year, the room temperature business unit developed business with over 780,000 outlets through the “Penetration into Towns and Villages” platform.

### *Chilled Product Business*

During the year, despite the sluggish overall performance of the chilled yogurt industry due to significant external challenges, the Group continued to enhance the nutrition and health attributes of its chilled products, and a number of the Group’s leading brands and products ranked first in the chilled product industry in terms of market share for the 18th consecutive year. During the year, the chilled product business division focused on optimizing its operations and enhancing supply chain efficiency, resulting in a significant improvement in profitability.

During the year, *Yoyi C* upgraded its packaging and adopted proprietary probiotics developed in China for all products. *Champion’s* Every day’s Fresh Yogurt and the Zero Sucrose Yogurt series achieved double-digit sales growth with increasing market shares. In terms of new products, during the year the Group launched the first healthcare yogurt in China, the *Champion* Jianzihao (健字號) immune booster series, to address consumers’ growing concerns about immunity. The newly launched *Yoyi C* zero sucrose product series has been well received by consumers. In response to the environmental protection policy and in line with its commitment to achieving the dual-carbon objectives, the Group also introduced its first label-free products, the *Yoyi C* zero sucrose product series with ecofriendly packaging.

In terms of brand marketing, the *Yoyi C* brand positioned itself as “probiotics tailor-made for Chinese people”, launching the brand promotion theme of “China is red” and the documentary “A Journey of Probiotics Discovery” to promote its brand value and further enhance its brand awareness and popularity. Leveraging the Olympics season, the Group appointed Eileen Gu as the spokesperson of Mengniu’s Zero Sucrose Yogurt series. The Group also executed both online and offline promotions through new media platforms during the FIFA World Cup, resulting in significant brand attention and an expanded customer base.

### *Fresh Milk Business*

In 2022, Mengniu’s fresh milk business continued to lead the market in terms of business growth. Its high-end brand, *Shiny Meadow*, achieved rapid growth far above the market level and maintained the top market share in the high-end fresh milk market.

To cater to female consumers' demand for low-fat products, a 4.0 low-fat fresh milk under *Shiny Meadow* was launched in March. Furthermore, in June, we launched a sub-brand, *Xiaoxianyu* (小鮮語), targeting youngsters with its unique selling point of yummy light fresh milk, mainly sold in convenience stores. The newly launched products exhibited exceptional growth in sales and market shares. In our effort to explore "Fresh Milk +" opportunities, the Group collaborated with Ovaltine, launching cocoa malt milk beverage, and developed new business models through specialty channels such as tea houses and cafes to expand the consumer base. Moreover, as the global official high-end fresh milk brand of the 2022 FIFA World Cup, we launched limited edition products with jersey numbers of football stars printed on the packaging, resulting in significant year-on-year growth in e-commerce sales during the period. We also continued to promote the *Modern Meadow* brand with the images of stars, namely Lionel Messi and Kylian Mbappé.

With our accelerated expansion and development of omni-channel operations, the fresh milk business performed well in various channels, ranking first in China in terms of sales share in the systems of Sam's Club, Hema, Yonghui Superstores and Aeon. Sales on leading e-commerce platforms such as JD.com, as well as new retail channels such as Pinduoduo and Meituan, also achieved rapid growth year-on-year and maintained a leading market share.

### ***Milk Formula Business***

In 2022, the difficulties arising from external environment, combined with the declining birth rate in China, intensified the challenges faced by the infant milk formula industry. Nonetheless, high-end organic milk formula and infant complementary foods and snacks still showed structural growth opportunities.

The new national standards for infant milk formula issued by the National Health Commission in 2021 were officially implemented on 22 February 2023. Under the recipe re-registration system, the first batch of infant milk formula products that passed the formula registration in 2017 were required to submit new applications in 2022. Meanwhile, the transformation from the production of infant milk formula to the production of full-life-cycle professional nutrition has become the general trend of the future development of the milk formula industry. Catering to the growing awareness of nutrition and local parents' increasing concerns about the nutrition and health of children over 3 years old, major brands have launched milk formula products for children over 3 years old in order to capture the extensive consumption demand and extend the product life cycle. Additionally, in line with the trend of aging population, milk formula for the middle-aged and the elderly is expected to become the major driving force for the development of the adult formula industry.

## *Milk Formula Business of Yashili*

The milk formula business of Yashili International Holdings Ltd. (“Yashili”, stock code: 1230.HK, together with its subsidiaries, the “Yashili Group”), in which Mengniu held approximately 51% equity interest during the year ended 31 December 2022, achieved revenue of RMB3,738.2 million in 2022.

In 2022, Yashili remained committed to the development of its two major product categories, namely infant milk formula and nutritional products. In terms of infant milk formula, *Reeborne* Enzhi (恩至) infant milk formula, the world’s first product using MLCT and new OPO structural lipids, and *Reeborne* Jingzhi (菁至) infant milk formula, the world’s first product using desert organic raw milk, have both obtained the approval for formula registration. During the year, Yashili became the first<sup>1</sup> milk formula company in China to have its products assessed and certified under EU food standards (SGS)<sup>2</sup>. In terms of nutritional products, Yashili continued to offer Yourui, M8 children’s milk formula, 1.88M children’s growth formula milk powder (一米八八兒童成長配方奶粉), Huicongming (慧聰明) and other products, catering to the nutritional needs of the middle-aged and the elderly, children and students.

Yashili continued to strengthen its sales channels for infant milk formula and nutrition products. It advanced channel development by enhancing the channel coverage and extending channels in lower-tier markets, and collaborated with renowned domestic mother-and-baby chain stores and regional chain stores, with a focus on the key provinces of Anhui and Henan. Additionally, Yashili concentrated on deep channel cultivation and established premium stores to consolidate its channel foundation. To stabilize sales orders and boost channel confidence, the Group introduced in-can codes for offline stores. Yashili also implemented community marketing, pop-up events and livestream e-commerce at stores to enhance digitization and innovative marketing.

### *Notes:*

- 1 Refers to the Yashili Group.
- 2 In compliance with: (EC) No 1881/2006, (EC) No 2073/2005 (Only for items involving modified milk formula).

### *Bellamy's Business*

*Bellamy's* has adhered to its “Pursuing Organic, Naturally Organic” brand positioning and actively expanded its portfolio of high-end organic products. In 2022, despite the pressure on its sales, *Bellamy's* steadily promoted its strategic measures. During the year, *Bellamy's* launched three milk powder products. To cater to the nutritional needs of children over 3 years old, *Bellamy's* launched the Chinese labelled and the English labelled version of organic kids milk powder, with a focus on improving immunity and promoting bone growth. In addition, *Bellamy's* launched the new GOLD+ high-end infant formula, formulated with the unique Di-GeniX synbiotic blend which can help improve the intestinal immunity of infants, further promoting the high-end transformation of the brand.

*Bellamy's* has also developed local supply chains for complementary foods. During the year, *Bellamy's* launched organic rice cereal featuring water-soluble ferrous iron, which is recommended by the WHO, to promote better absorption of iron by infants and toddlers. *Bellamy's* also launched three new complementary foods product series, namely organic 2.5cm baby noodles, organic milk rusks and organic puffs, forming a comprehensive product portfolio of complementary foods.

### *Ice Cream Business*

In 2022, the Group's four major ice cream brands, namely *Suibian*, *Mood for Green*, *Deluxe* and *Ice+*, achieved rapid growth that outperformed the industry by focusing on product innovation and upgrades. During the year, *Suibian* capitalized on the trend of milk tea, popular desserts and chocolate ganache, promoting sales growth through new products including the “Qisiqiaoxiang • Redianfengwei (奇思巧想 • 熱點風味)”, “Qiaobingyingshili • Tainpincuitong (巧冰硬實力 • 甜品脆筒)” and “Pinzhisiqiao • Ruanxin (品質思巧 • 軟芯)” series. During the year, *Mood for Green* focused on product matrix development and introduced the low-sugar red bean flavored ice cream with condensed milk, as well as the new plant-based ice cream “Zhiqing (植輕)”, featuring flavors such as basil and apple and lemon mate tea, further expanding the brand portfolio. *Deluxe*, taking advantage of the latest trend in Chinese culture and oriental ingredients, launched a variety of new products including the “Zhushijin (朱柿錦)” persimmon and pumpkin ice cream, in order to create the “national brand (國字號)” of high-end ice cream. *Ice+* introduced taurine-flavored ice frost, a functional product specially developed to cater to the national fitness trend, which further promoted product innovation.

In addition, the ice cream business division introduced various popular crossover ice cream products during the year. The Group collaborated with Moutai Group to launch “Moutai Ice Cream”, a perfect combination of Moutai and milk. The “Moutai Ice Cream” was well-received by the market and became one of the most popular crossover ice cream products. Based on its strategic collaboration with the Shanghai Disney Resort, the Group introduced a custom-made IP product, LinaBell-themed ice cream, which received positive market feedback.

In terms of brand promotion and development, the Group launched a World Cup-themed ice cream series under the “*Suibian*” brand during the 2022 FIFA World Cup in Qatar. These were the only ice cream products sold at World Cup venues, which significantly enhanced the brand image and product sales. Moreover, by collaborating with the famous game IP “Genshin Impact”, “*Suibian*” provided an innovative, immersive and cross-dimensional experience to deliver delicious taste and fun, thereby driving sales growth.

The ice cream business division continued to strengthen the development and expansion of both online and offline channels, with a focus on enhancing market coverage and channel efficiency. Rapid sales growth was recorded on e-commerce platforms. Efforts were also made to expand into corporate group buying, catering, scenic spots and other scenarios. In addition, the instant home delivery business was further developed to boost sales and raise market share on O2O platforms.

### *Cheese Business*

In 2022, the State Administration for Market Regulation promulgated the “New National Standard” for processed cheese and cheese products, creating a new path for the innovation of cheese products in China that meet international standards, and resulting in a stage of rapid growth.

In 2022, based on the new brand positioning of “Mengniu Cheese — Excellent Cheese made with Excellent Milk” (蒙牛奶酪——好牛奶·好奶酪), the Group upgraded the packaging of all product lines to provide consumers with more professional and valuable cheese products.

The Group enriched its selection of innovative cheese products by introducing additive-free children’s cheese sticks with no artificial flavors. The Group targeted young consumers with the casual cheese series “*Zhishifenzi (芝士分子)*”, and strengthened the trendy and youthful image of the casual cheese snack series by leveraging the popularity of Eileen Gu.

Benefiting from the rising trend of home baking, the sales of domestic table cheese and butter products of the Group grew steadily. As the sales volume of Mengniu’s signature 愛氏晨曦 (*Ai Shi Chen Xi*) series of domestically produced butter products continued to increase, the Group made efforts to develop specialty products for professional catering under the 愛氏晨曦 (*Ai Shi Chen Xi*) series to expand application scenarios such as baking, tea beverages and Western cuisine.

As for channels, the cheese business division actively expanded into new retail channels such as O2O home delivery, community group marketing and live streaming during the year. It leveraged on Mengniu’s channel advantage in room temperature business to develop sales channels for cheese in lower-tier markets and expand the coverage of terminal point of sales.

At the end of November 2022, Shanghai Milkground Food Tech Co., Ltd. (600882.SH) (“Milkground”) announced the completion of the tender offer by Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (“Inner Mongolia Mengniu”), following which Inner Mongolia Mengniu held a total of approximately 181 million shares in Milkground, representing 35.01% of the then total shares of Milkground. Milkground was included in the consolidated statements of Mengniu from 30 November 2022 onwards.

Milkground is a leading cheese company in China, with the premier research and development team and the largest production capacity in the country. At present, its cheese products and children’s cheese stick rank first in terms of market share in China. Through cooperation and the sharing of resources, both the Group and Milkground will be able to fully utilize their respective advantages. Together with Milkground, the Group aims to expand its business into the domestic and global cheese market, which has enormous potential.

### ***Quality Management***

In 2022, the Group continued to implement its three-year plan for quality management under the core concept of “consumers are at the heart of all our decisions”, and enhanced the Quality Management System 3.0 by emphasizing quality culture, quality design, consistent systems, standard management as well as the optimization and improvement of key processes.

During the year, the Group successfully secured seven system certifications, including ISO9001, HACCP, GMP, FSSC22000, BRC, IFS and SQF, for 60 factories with a 100% passing rate. The Group paid particular attention to acquiring two system certifications, namely BRC and IFS, for five factories in the fresh milk business division. The Group also obtained post-sales service system certification for the room temperature business and basic system certification for two factories, and continued to push forward the certification process for student milk products and 14 organic products. With the goal of producing world-class quality milk, the Group aimed to develop “EU benchmark products” by upgrading nine of its major product categories, including pasteurized milk, fermented milk, sterilized milk, formulated milk, beverages, milk powder, infant formula, cheese, and chilled drinks, to meet the EU standards.

Mengniu remains committed to the culture of quality. The Group established and implemented the “1332” quality culture strategy, which aims to achieve sustained excellence in quality culture by strengthening awareness, reinforcing behaviors, and deepening systems based on quality culture positioning, organizational support, and incentive support. The strategy is built upon the foundation of the Group’s corporate culture and the 4Q quality system. In 2022, Mengniu achieved an overall A+ rating in the BRCGS Culture Excellence Assessment, continuing to lead the industry with the highest international rating.



## ***Milk Source Management***

In 2022, the Group collaborated with its upstream milk source partners to strengthen the foundation of the dairy industry. With its continuous commitment to the “deployment of business layout and sharing of value chain”, Mengniu facilitated the “precise, efficient and green” development of China’s dairy industry in terms of “technical upgrade, digital innovation, feed cost reduction, procurement integration, financial support and synchronized growth”, striving to achieve the strategic goal of “Creating a new Mengniu”.

With the support of the *Nine Policies and Measures for Promoting the Revitalization of the Dairy Industry* (《推進奶業振興九條政策措施》) in Inner Mongolia Autonomous Region, the Group devised the “10,000-tonne milk” plan and accelerated the establishment of its milk source bases in accordance with the development of the dairy industry park project of China. The primary focus was on the whole chain development “from grass to milk”.

The Group has always been committed to incorporating social responsibility into its business foundation and integrating sustainable development into its corporate DNA. As part of its green sustainable development, the Group has executed numerous innovative initiatives. The Group introduced the Arla Garden advanced dairy farm management system, which established a professional quality and safety management system for dairy farms that adheres to international and local laws, regulations and standards for livestock breeding. Additionally, the Group developed an admission system for dairy farms consisting of a multi-layered and multi-dimensional management mechanism to standardize milk source management through stringent requirements for legal regulations, dairy farm construction and dairy cow breeding.

In addition, the Group issued guidelines for dairy farms to enhance their carbon emissions management, animal welfare and animal drug management. Through online training and on-site guidance, the Group helped dairy farms adopt green and low-carbon farming practices, utilize manure and eliminate equipment with high energy consumption, high emissions and high pollution. During the year, dairy farms also received guidance on the replacement of coal-fired boilers, the adoption of water-saving measures, and the use of clean energy to reduce carbon emissions.

## ***Corporate Digital Strategy***

2022 marked a crucial year in the Group's digital transformation. In line with the high-level digital transformation blueprint, each business unit formulated a "consumer-oriented and data-based" core strategy, and implemented strategies in four aspects, namely "Consumers Going Online, Channels Going Online, Supply Chain Going Online and Management Going Online", so as to further facilitate the implementation of the digital strategy.

With respect to "Consumers Going Online", aiming to maximize customer lifetime value ("CLV") for the omni-channels of all its brands and products, Mengniu strived to establish a customer-oriented digital operation system, which covers the entire customer life cycle. In response to the individual needs of members as well as the overall needs of families, a membership system covering all online users was basically formed, resulting in over 2 billion customer interactions during the year.

Regarding "Channels Going Online", the Group developed the Qilin Platform to support the digitization of the ice cream business division and improve the terminal business management performance during the year. Furthermore, the Group introduced an e-commerce enterprise resource planning system ("ERP") and digital tools to strengthen terminal sales business management and execution, supporting refined operation management of different channels and sales growth.

In terms of "Supply Chain Going Online", the Group developed a customized fence monitoring and positioning data analysis system for the transportation of room temperature products, which facilitated the monitoring of the whole transportation process and intelligent industrial park management. Smart warehouses were established, allowing for the monitoring, control and traceability of all business processes including inventory receipt, delivery and product storage. This has enabled the integration of warehousing and transportation, further enhancing the operating procedures. Mengniu has also expedited the development of digital production and promoted the digitalization of factories across its five major business divisions, namely room temperature, chilled products, fresh milk, ice cream and cheese products. The room temperature Ningxia Factory, in particular, was established as a pilot project to fulfill the World Economic Forum's "Lighthouse Factory" standards. This project has achieved breakthroughs in Mengniu's digital and intelligent production efforts, setting a new benchmark for smart production in the dairy industry.

With respect to "Management Going Online", the Group established a smart talent system for human resources management, and developed a human resource system with digital functions to support employee growth and business development while meeting diverse management requirements, thereby further enhancing the Group's digital and intelligent human resource management. Regarding legal affairs management, the Group utilized new generation information technologies such as artificial intelligence and big data to promote the integration and implementation of smart compliance, internal control and legal risk management.

## FINANCIAL REVIEW

### Revenue

The sales channel operations were impacted by factors including the decreasing demand for outdoor consumption, declining consumer traffic in stores and reduced logistics efficiency. However, as consumers' health awareness continued to increase, and the Group proactively explored various online and offline channels, the revenue of the Group amounted to RMB92,593.3 million for the year ended 31 December 2022 (2021: RMB88,141.5 million), representing a year-on-year increase of 5.1%.

### Gross Profit

Due to the decline in milk formula and milk beverages businesses, increase in the average price of raw materials and the increase in depreciation expenses arising from the addition of factories and production equipment, the Group's gross profit for the year amounted to RMB32,689.8 million (2021: RMB32,389.9 million), and the gross profit margin decreased by 1.4 percentage points to 35.3% as compared with last year (2021: 36.7%).

### Operating Expenses and Operating Profit

As the Group focused on cost reduction and efficiency enhancement during the year, the selling and distribution expenses decreased by 4.9% to RMB22,347.3 million (2021: RMB23,487.6 million), accounting for 24.1% of the Group's revenue (2021: 26.6%). Product and brand marketing expenses during the year decreased by 23.8% to RMB5,495.1 million (2021: RMB7,207.9 million), accounting for 5.9% of the Group's revenue (2021: 8.2%). The decrease was mainly due to the decrease in offline marketing and promotion activities in the midst of market challenges.

Administrative expenses increased by 26.0% to RMB4,441.9 million (2021: RMB3,524.3 million), accounting for 4.8% (2021: 4.0%) of the Group's revenue, up by 0.8 percentage points, which was mainly due to fair value amortisation of share-based payment component of the convertible bonds issued under the specific mandate in November 2021 which is non-cash nature. Other taxes and surcharges included in other expenses amounted to RMB477.4 million (2021: RMB516.4 million), representing a year-on-year decrease of 7.6%.

During the year, total business operating expenses, including selling and distribution expenses, administrative expenses and other taxes and surcharges, amounted to RMB27,266.6 million (2021: RMB27,528.3 million), representing a year-on-year decrease of 1.0 percentage point. Attributable to various measures to reduce cost and enhance efficiency, operating profit (gross profit less business operating expenses) amounted to RMB5,423.2 million (2021: RMB4,861.6 million), representing a year-on-year increase of 11.6%; operating profit margin was 5.9% (2021: 5.5%), representing a year-on-year increase of 0.4 percentage point.

## **EBITDA and Net Profit**

During the year, due to the increase in the overall revenue of the Group and increase in operating efficiency, the Group's earnings before interest, taxes, depreciation, and amortization ("EBITDA") improved by 14.3% to RMB9,120.5 million (2021: RMB7,980.3 million) with EBITDA margin at 9.9% (2021: 9.1%).

Profit attributable to owners of the Company increased by 5.5% year-on-year to RMB5,303.0 million (2021: RMB5,025.5 million). Basic earnings per share were RMB1.342 (2021: RMB1.274), up by 5.3% year-on-year.

## **Income Tax Expenses**

For the year ended 31 December 2022, income tax expenses of the Group totaled RMB1,317.5 million (2021: RMB904.5 million), representing a 45.7% increase year-on-year. The effective income tax rate was 20.3% (2021: 15.4%), up by 4.9 percentage points year-on-year, which was mainly due to the withholding taxes of RMB228.0 million arising from the planned distribution made by domestic subsidiaries.

## **Capital Expenditure**

For the year ended 31 December 2022, the capital expenditure of the Group (net of cash inflows of RMB1,204.1 million from acquisition of Milkground) amounted to RMB5,073.5 million (2021: RMB12,134.6 million), representing a decrease of 58.2% year-on-year. Of the total, RMB5,064.5 million was spent on building new production facilities and modifying existing ones as well as related investments, and the investment in equities amounted to RMB9.0 million.

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

For the year ended 31 December 2022, the Group recorded net cash inflow from operating activities of RMB8,333.1 million (2021: RMB7,544.7 million), representing an increase of 10.4% as compared with last year, which was mainly due to the increase in sales income and operating profit.

As of 31 December 2022, outstanding interest-bearing bank and other borrowings of the Group increased to RMB39,108.6 million (31 December 2021: RMB27,033.0 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB9,094.7 million (31 December 2021: RMB4,265.5 million). More than 90% of the interest-bearing bank and other borrowings were bearing interest at fixed rates. The increase in interest-bearing bank and other borrowings was mainly due to the strategic financing and the reserves for repayment of foreign currency debt due in the future, which resulted in an increase in other financial assets.

Net borrowings (total amount of interest-bearing bank and other borrowings net of cash and bank balances) of the Group as of 31 December 2022 were RMB26,342.8 million (31 December 2021: RMB15,816.1 million).

The Group's total equity as of 31 December 2022 amounted to RMB50,051.8 million (31 December 2021: RMB41,999.4 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 78.1% (31 December 2021: 64.4%).

Finance costs of the Group were RMB1,125.3 million (2021: RMB743.1 million), or approximately 1.2% when expressed as a percentage of revenue (2021: 0.8%), representing an increase of 0.4 percentage point year-on-year.

## PRODUCTS

Leveraging its rich resources and international-leading technologies, Mengniu continued to innovate around product differentiation and premiumization, leading the industry with superior products and driving sales volume growth. Mengniu put forward and adopted the DTV (Design to Value) concept, which is a consumer-centric product development concept that aims to design products that meet the needs of consumers, while simplifying product complexity to reveal the true value of its products, driving Mengniu's sustainable development. The principal businesses of the Group are liquid milk, ice cream, milk formula, and cheese products, with their performance during the year outlined as below:

### Liquid milk

Revenue amounted to RMB78,269.3 million (2021: RMB76,514.4 million), accounting for 84.5% of Mengniu's total revenue (2021: 86.8%).

### *UHT milk*

The *Milk Deluxe* 3.0 era began following the launch of its products in upgraded "DreamCap™" packaging in 2019. In May and June 2020, the upgraded organic pure milk and pure milk of "DreamCap™" containing 3.8g of natural high quality milk protein and 125mg of natural calcium per 100ml were launched. Satisfying the health needs of consumers, the *Milk Deluxe* organic pure milk has been awarded dual certifications for organic products from China and the European Union. Such achievements further reinforced the premium position of the *Milk Deluxe* brand. In 2021, *Milk Deluxe* launched the "Better Organic" desert organic pure milk and CBP high-calcium pure milk. The "Better Organic" desert organic pure milk uses limited raw milk from Ulan Buh Desert oasis and contains 3.8g of protein per 100ml. The CBP high-calcium pure milk contains 135mg of calcium from high-quality milk source per 100ml and has rich Vitamin D that can promote better absorption of calcium. In January 2022, *Milk Deluxe* launched 4.0g desert organic pure milk which contains 4.0g protein per 100ml of milk, bringing a new nutrition upgrade to our product.

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

Key Products:

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

### ***Room Temperature Yogurt***

In 2022, *Just Yoghurt* focused on breakthroughs in differentiation and meeting the growing demand of consumers for “pure” and “additive-free” products. The Group developed a new generation of healthy yogurt products characterized by low sugar and low calories and offering “low calorie and delicious taste”. During the year, the Group launched a new product, namely the PET bottled *Just Yoghurt* with blueberry flavor. At the same time, the Group enriched the product portfolio of Yummy Yoghurt, offering a new generation of spoon-eating yogurt with a range of fun and delicious flavors in new packaging.

Key Products:

- *Just Yoghurt light flavor yogurt*
- *Just Yoghurt fruit pulp flavor yogurt*
- *Just Yoghurt Yummy Yoghurt*
- *Just Yoghurt Just Yoghurt*

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

In 2022, *Fruit Milk Drink* focused on the launch of red grapefruit Sijichun (四季春) with smiley packaging. The slogan “milk becomes more delicious with tea aroma and fruit pulp” was promoted to highlight the milk’s characteristics and support the continuous growth of new products. Moreover, in line with the market trend, and to meet the needs of consumers in lower-tier markets, the Group thoroughly upgraded the basic series by improving the promotion of health attributes on product packaging and increasing the amount of fruit pulp, providing consumers with products of higher quality and better value. New products such as *Fruit flower* flavored yogurt drink and *Suan Suan Ru* yogurt-flavored drink were also launched.

Key Products:

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

### ***Chilled Yogurt***

To continuously support the “Three Reduction and Three Health (三減三健)” campaigns launched by the Chinese government and to fulfill the increasing demand for lower sugar intake among consumers, Mengniu further expanded its line of zero sucrose and low-sugar yogurt products in 2022. During the year, the Group launched xylitol yogurt with zero sucrose, made with 100% raw milk source, and containing high quality protein, high calcium and 10 million probiotics per 100 grams. These ingredients are beneficial in regulating the digestive system. In addition, *Champion* launched Jianzihao advanced immunity bottle products, leveraging the functions of “regulating intestinal flora and enhancing immunity” to gain a competitive advantage.

Key Products:

- *Champion*
- *Mengniu Zero Sucrose Yogurt*

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

The Group’s new series of *Yoyi C* zero sucrose products stand out in their product category for their refreshing taste. *Yoyi C* also launched a new 300ml probiotic sparkling drink product in May 2022 to meet the growing demand for sparkling water among target consumers. In addition, the Group launched a zero sucrose *Yoyi C* product with ecofriendly packaging, which is Mengniu’s first label-free product in line with its environmental protection policy and represents the Group’s commitment to achieving the dual-carbon objectives. Advanced green technology was employed to reduce the usage of plastics and ink while improving the packaging structure for easier recycling.

Key Products:

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

## ***Fresh Milk***

To capture the opportunities arising from female customers' pursuit of beauty and demand for low-fat products, *Shiny Meadow* expanded its 4.0 series product portfolio with the launch of 4.0 low-fat fresh milk. It also established a sub-brand called *Xiaoxianyu* (小鮮語) to fulfil the needs of teenage customers looking for “affordable nutrition”, and enrich the “lite” milk product offering in convenience stores. In addition, the Group explored “Fresh Milk +” opportunities by developing new beverage products. In particular, the Group collaborated with Ovaltine to successfully launch a cocoa malt milk beverage.

Key Products:

- *Shiny Meadow fresh milk*
- *Xiaoxianyu fresh milk* (小鮮語鮮牛奶)
- *Modern Meadow fresh milk*

## **Ice Cream**

Revenue from the ice cream business amounted to RMB5,652.4 million (2021: RMB4,240.2 million), accounting for 6.1% of Mengniu's total revenue (2021: 4.8%).

*Suibian* made significant breakthroughs in developing a new generation of chocolate ice cream products based on insights into popular milk tea trends, breaking away from the traditional layered structure to introduce cocoa and milk tea ice cream with a classic shape. In addition, *Suibian* introduced a new range of dessert products by combining popular dessert flavors into its ice cream products, with dessert crispy cones as one of its major series. During the year, other major *Suibian* products included the soft ice cream series made with chocolate ganache, and the cross-over ice cream with crispy coating and jam series, tailor-made for the “Genshin Impact” IP.

*Mood for Green* strengthened its brand proposition of “A Bite of Nature (一口大自然)” by fully upgrading and launching a low-sugar formula for condensed milk and red bean flavored products. It also expanded to the high-end market with the “Zhiqing (植輕)” ice cream series, offering new natural flavors such as basil and apple, and lemon mate tea.

As a new generation high-end ice cream brand, *Deluxe* upgraded and transformed its brand during the year by introducing a “national brand (國字號)” of high-end ice cream products. The Group collaborated with Moutai Group to launch “Moutai ice cream”, made with pure raw milk and Moutai-flavor liquors, which has become one of the best-selling products in the market. The Group also started a strategic cooperation with Disney and produced customized IP products for the LinaBell character.



## Key Products:

- *Suibian*
- *Deluxe*
- *Mood for Green*
- *Mengniu Ice+*

## Milk Formula

Revenue from the milk formula business amounted to RMB3,862.0 million (2021: RMB4,949.1 million), accounting for 4.2% of Mengniu's total revenue (2021: 5.6%). The revenue of the milk formula business mainly included the revenue from Yashili and *Bellamy's*.

### *Yashili*

Yashili's products are classified into two categories, namely infant milk formula and nutritional products. Its milk powder, organic milk powder, and goat milk powder comprehensively cover the super high-end, high-end and mid-end markets.

*Reeborne* is a high-end infant formula brand of Yashili. Its products include *Reeborne* Enzhi (恩至) and *Reeborne* Jingzhi (菁至), which were among the first batch of products in the Chinese dairy industry to pass the New National Standards. The *Reeborne* Enzhi (恩至) series is the first *Reeborne* product that contains innovative MLCT structured lipids and a new OPO component. The related research results addressed the issue of the Chinese infant formula industry's long-term reliance on foreign imports of fat core materials. The *Reeborne* Jingzhi (菁至) series is the first *Reeborne* product produced using high quality organic raw milk from desert areas. Its milk source, organic OPO and products have obtained dual certifications from China and the European Union. *Reeborne* also offers a range of other products. Its signature product, *Reeborne* Kieember, is manufactured in Yashili's New Zealand factory and imported directly from New Zealand. *Reeborne* organic milk powder has passed the WIT organic certification, while *Reeborne* TruYn goat milk powder selects high-quality small molecule goat milk protein.

Yashili has also launched Yourui (悠瑞) based on the physical characteristics and nutritional supplement needs of the middle-aged and the elderly, M8 children's milk formula (M8兒童配方乳粉) targeting the nutritional needs of children over 3 years old, Huicongming (慧聰明) milk powder for students, Zhengwei Mofang (正味魔方) designed for young women's beauty and skin care needs, and fruit oatmeal which aims to meet the nutritional needs of women aged 18 to 35.

## ***Bellamy's***

In 2022, *Bellamy's* launched three new milk powder products, including the Chinese labelled and the English labelled version of organic kids milk powder for the nutritional needs of children aged over 3 and the brand new *Bellamy's* GOLD+ high-end infant milk formula. The organic kids milk powder of *Bellamy's* uses 1% rare organic milk source and is designed with a special formula of “three key ingredients for growth”, namely “active” lactoferrin, FOS prebiotics and high  $\beta$ -glucans content to help pre-school children stimulate self-protection and promote healthy growth. Specially designed for children in the critical period of growth, *Bellamy's* organic kids milk powder is supplemented with a nutritional combination of “high calcium + vitamin D + high quality protein” to help children strengthen their physique.

*Bellamy's* also introduced the first Chinese-labelled organic milk rusks with a formula containing organic wheat as an innovative nutritional element, enriching the selection of products for babies during the teething process. Moreover, *Bellamy's* launched the first Chinese-labelled organic sprouted rice puff, with organic wheat content reaching 95% for the first time.

### Key Products:

- *Reeborne*
- *Yourui*
- *M8 children's milk formula (M8兒童配方奶粉)*
- *1.88M children's growth formula milk powder (一米八八兒童成長配方奶粉)*
- *Bellamy's organic milk powder*
- *Bellamy's organic baby rice*

### Other Products

Revenue from other products amounted to RMB4,809.6 million (2021: RMB2,437.8 million), accounting for 5.2% of Mengniu's total revenue (2021: 2.8%).

### ***Cheese***

Based on the new brand positioning of “Mengniu Cheese— Excellent Cheese made with Excellent Milk” (蒙牛奶酪——好牛奶·好奶酪), the packaging of all product lines was upgraded. The Group enriched its selection of innovative cheese products by introducing additive-free children's cheese sticks. Other key products include the *Zhishifenzi* (芝士分子) casual cheese series targeting young consumers and Ai Shi Chen Xi (愛氏晨曦) butter for catering.

Key products:

- *Mengniu high calcium cheese stick*
- *Ai Shi Chen Xi (愛氏晨曦) children’s cheese stick*
- *Ai Shi Chen Xi (愛氏晨曦) shredded mozzarella*
- *Zhishifenzi (芝式分子) casual cheese*

## **PRODUCTION**

Mengniu deploys its production capacity according to the potential of relevant markets and its product strategy. As of 31 December 2022, Mengniu had 41 production bases in China, two production bases in Indonesia, two production bases in Australia and one production base in New Zealand, respectively. It had a total annual production capacity of 12.91 million tons (December 2021: 11.66 million tons).

## **SUSTAINABLE DEVELOPMENT**

In 2022, in alignment with the United Nations sustainable development goals and the “Creating a new Mengniu by 2025” strategy, Mengniu unveiled its “GREEN” sustainable development strategy and the dual-carbon strategic goal. Mengniu is committed to “reaching carbon peak in 2030 and carbon neutrality in 2050”, and has put forward specific and industry-leading stage-by-stage goals for reducing the carbon emissions intensity per ton of dairy products. To steadily progress towards carbon neutrality throughout the entire industrial chain, 15 specific carbon reduction measures will be adopted in six major aspects, namely production, raw milk, packaging, transportation, products, and carbon offset.

During the year, the Group continued to promote the implementation of its sustainable development strategy. The Group built a responsible supply chain that meets international standards and became the first dairy company to join the responsible business platform Sedex. Mengniu’s Supplier Code of Conduct (《蒙牛供應商行為準則》) was refined to optimize the raw material sources management system and improve suppliers’ carbon management.

In addition, the Group made efforts to obtain sustainability certifications, with three factories obtaining the German TÜV Rheinland landfill-free waste management system certification and two factories applying for the AWS international sustainable water management standard certification. One factory has passed the group standards of “Evaluation Standards for Zero Carbon Factory” (《「零碳工廠評價規範」團體標準》), and the packaging of two products has obtained the certification for easy-to-collect and easy-to-recycle plastic product designs.

The Group also continued to enhance its ESG management work by establishing an office to promote sustainable development work, setting up a specialized ESG key issue work group, and organizing regular ESG training for senior management and employees to enhance the consensus on sustainable development.

In 2022, Mengniu’s sustainable development strategy and practices received wide recognition. Its MSCI ESG rating improved to an A grade, the highest rating in the Chinese food industry, and Mengniu was included as a constituent stock in sustainable development indexes such as the Hang Seng Corporate Sustainability Index Series. The Group ranked among the top 30 Hong Kong stocks in terms of ESG performance, and ranked first in the “ESG Vanguard 50 Index” (央企ESG•先鋒50指數).

## **HUMAN RESOURCES**

As of 31 December 2022, the Group had a total of approximately 47,329 employees (2021: 44,629 employees) in the Chinese Mainland, Hong Kong, Oceania, and Southeast Asia. During the year, the total cost of employees (including the salaries of directors and senior management personnel) amounted to approximately RMB8,657.5 million (2021: RMB7,476.1 million).

In 2022, the Group continued to implement its strategic blueprint for “Creating a new Mengniu”. To ensure the efficient implementation of its strategies, the Group focused on developing core organizational capabilities. This included building a talent development system to accelerate the establishment of a future-oriented team in six aspects, including building a team of leading management talents, cultivating operational professional talents, developing top-notch young talents, introducing scarce high-end talents, stimulating breakthrough innovative talents and retaining international management talents, with the objective of achieving the “FIRST” mission. Furthermore, the Group strengthened the digitization of talent management during the year. A smart talent system was set up to provide strong support for talent recruitment and development. The Group also upgraded its job grading system, expanded career development channels for employees and provided employees with training to enhance their core skills based on the Company’s development needs. Additionally, the Group released its employer value proposition (EVP), “Come on! Let’s be awesome together” (「來！一起牛」), aimed at reshaping its employer brand and highlighting Mengniu’s young, open and innovative employer brand image to attract talents from the global dairy industry.

In order to promote its five-year strategic goals, the Company has developed a comprehensive remuneration system that links business performance with a people-oriented approach, emphasizing the co-development of the enterprise and employees. The Company adjusted its salary strategies, optimized incentive policies and upgraded the “Mengniu Life” (牛Life) welfare system to cover the entire employee life cycle, with the goal of continuously improving employee satisfaction. In 2022, 5,533,245 restricted shares and 44,977,913 share options were granted to employees participating in the Company’s share award scheme and share option scheme, respectively.

Moreover, as the first enterprise in China’s dairy industry to qualify for vocational skill level self-certification, Mengniu proactively implemented skilled personnel improvement plans to build a team of skilled personnel to drive the quality development of the dairy industry. Adhering to our mission of building a high-quality personnel ecosystem for the dairy industry, our global dairy industry talent training center provided high-quality training covering the entire industrial chain of the Chinese dairy industry, focusing on popular topics such as digitalization and application of smart technologies, the dual-carbon strategy and the development trend of the dairy industry. A total of 800,000 talents participated in the trainings.

## **EVENTS AFTER THE REPORTING PERIOD**

Reference is made to (1) the announcement dated 6 May 2022 (the “**3.5 Announcement**”) jointly issued by the Company, Star Future Investment Company Limited (the “**Offeror**”) and Yashili, and (2) the announcement dated 9 March 2023 (the “**Fulfilment of Scheme Pre-Conditions Announcement**”) jointly issued by the Company, the Offeror and Yashili.

As disclosed in the 3.5 Announcement, on 6 May 2022, the Group entered into a series of agreements with certain subsidiaries of Danone S.A. (together referred to as “**Danone**”). Pursuant to which, Danone will dispose 20% interest in all chilled business companies jointly held by Danone and the Group to the Group (the “**Chilled Business JVs Acquisition**”), the Group will dispose 100% equity interest in Dumex Baby Food Co., Ltd. (“**Dumex China**”) to Danone (the “**Dumex China Disposal**”), and Danone will dispose 25% equity interest of Yashili to the Company (the “**25% Yashili Acquisition**”).

The Dumex China Disposal was completed on 2 March 2023. Upon the completion of the Dumex China Disposal, the Company and Yashili had ceased to hold any interest in Dumex China and Dumex China had ceased to be a subsidiary of the Company and Yashili. Accordingly, the financial results of Dumex China will no longer be consolidated into the consolidated financial statements of the Group and the Yashili Group. Following the completion of the Dumex China Disposal, Inner Mongolia Mengniu Dairy (Group) Co., Ltd. had paid RMB200 million to Danone in accordance with the relevant master equity transfer agreement for the Chilled Business JVs Acquisition.

The completion of the 25% Yashili Acquisition took place on 9 March 2023. As a result, as of the date of this announcement, the Company holds an approximately 76.04% interest in Yashili.

As further disclosed in the 3.5 Announcement, the Company has proposed that, subject to the satisfaction of the pre-conditions as set out in the 3.5 Announcement, it will, through the Offeror, put forward a proposal to the holders of shares of Yashili in issue (other than those held by the Company directly or indirectly) for the privatization of Yashili (the “**Privatisation Proposal**”) by way of a scheme of arrangement under section 86 of the Companies Act of the Cayman Islands (the “**Scheme**”), on the terms and subject to the conditions as described in the 3.5 Announcement and as amended in the announcement of the Company, Yashili and the Offeror dated 16 August 2022.

As disclosed in the Fulfilment of Scheme Pre-Conditions Announcement, all pre-conditions to the making of the Privatisation Proposal and implementation of the Scheme had become fulfilled on 9 March 2023. With all the pre-conditions having been fulfilled, the implementation of the Privatisation Proposal is subject only to the satisfaction (or where applicable, waiver) of the conditions to the Privatisation Proposal.

## **PROSPECTS**

In 2022, the Group continued to comprehensively implement the five-year strategy of “Creating a new Mengniu” initiated in 2021, and maintained steady growth by proactively responding to unfavorable external factors. 2023 is a critical year for the achievement of the Group’s five-year strategy. The Group will remain committed to its strategy and continue to strengthen its core competitive strengths, including by enhancing its brand, fostering continuous development of R&D innovation capabilities, promoting channel expansion and penetration, on-going digitalization, strengthening milk source management, improving post-investment integration management and enhancing organizational security. The Group strives to become a “FIRST Mengniu”, one that is beloved by consumers, more international, socially responsible, culturally strong, and digitally transformed.

Consumption and offline sales have been on a path to recovery and the logistics efficiency continued to improve following the continuous improvement in the macro environment. The Chinese government’s policies to boost domestic demand and consumption are expected to further improve consumption levels. In addition, given the heightened public health awareness, demand for dairy products will continue to expand and the upgrade and transformation of the dairy industry will accelerate. Additionally, consumers’ increased demand for dairy products rich in nutrition and taste has facilitated the rapid emergence of new product categories. Other important market trends include the fusion of high-end, functional, snack, dairy and non-dairy products, as well as a craving for new flavors.

In response to consumers' needs, Mengniu will adhere to its values of ensuring "consumers are at the heart of all our decisions", carrying out swift product and technological innovation to meet the diversified needs of consumers, promoting Mengniu's value proposition and enabling the brand to be well-received by the consumer mass market, particularly the younger generation. In addition, the Group will capitalize on the silver economy by strengthening its product research and development efforts and investing in milk formula for the middle-aged and the elderly as well as adult nutritional products. Moreover, the Group will accelerate the innovation of foodservice and snack cheese products to seize the growth opportunities in the cheese market.

Looking ahead, the Group will continue to walk the path of quality sustainable development with steadfast strides, with a focus on the dairy industry and innovation. Based on its sound businesses, the Group will further strengthen new business drivers including fresh milk, ice cream, cheese, adult milk powder and global market expansion. Mengniu will seize the huge growth potential of the sector and lead the way on upgrade and transformation, contributing to the overall growth of China's dairy industry.

## **CORPORATE GOVERNANCE CODE**

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions of the CG Code during the year ended 31 December 2022.

## **SECURITIES TRANSACTIONS OF DIRECTORS**

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2022.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022, except that the trustee of the share award scheme of the Company adopted on 26 March 2013 (the "Share Award Scheme"), pursuant to the rules of the Share Award Scheme, purchased on the open market a total of 8,175,000 shares of the Company at a total consideration of approximately RMB253,946,000.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements for the year ended 31 December 2022.

## **SCOPE OF WORK OF KPMG**

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by KPMG on the preliminary announcement.

## **PROPOSED FINAL DIVIDEND**

The Board has recommended the payment of a final dividend of RMB0.402 (2021: RMB0.381) per ordinary share for the year ended 31 December 2022. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Wednesday, 21 June 2023 to shareholders whose names appear on the register of members of the Company on Monday, 12 June 2023.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed (i) from Thursday, 1 June 2023 to Tuesday, 6 June 2023, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Monday, 12 June 2023, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming AGM of the Company to be held on Tuesday, 6 June 2023, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 31 May 2023.



In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 9 June 2023.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

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

## **BOARD OF DIRECTORS**

As of the date of this announcement, the executive directors of the Company are Mr. Jeffrey, Minfang Lu, Ms. Wang Yan and Mr. Zhang Ping; the non-executive directors of the Company are Mr. Chen Lang, Mr. Wang Xi and Mr. Simon Dominic Stevens; and the independent non-executive directors of the Company are Mr. Yih Dieter (alias Yih Lai Tak, Dieter), Mr. Li Michael Hankin and Mr. Ge Jun.

## **APPRECIATION**

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

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

Hong Kong, 29 March 2023