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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

HIGHLIGHTS

- In the first half of 2023, with the gradual recovery of the consumer market, the overall domestic demand for dairy products and end-market sales steadily rebounded, as consumers attached greater importance to nutrition, health and immunity enhancement. During the period, focusing on the three key strategic approaches of “Greener, More Nutritious and Smarter”, the Group achieved stable and high-quality growth. Its core business demonstrated strong and resilient growth momentum while its innovation business made significant breakthroughs, bolstering the overall strengths of its brand.
- The revenue of the Group amounted to RMB51,118.5 million for the six months ended 30 June 2023 (2022: RMB47,722.3 million), representing a year-on-year increase of 7.1%. Benefiting from cost reduction, efficiency enhancement and product structure improvement, the Group’s operating profit increased by 29.9% year-on-year to RMB3,274.9 million (2022: RMB2,520.3 million), while its operating profit margin increased to 6.4% (2022: 5.3%), representing a significant year-on-year increase of 110 basis points.
- During the period, the Group actively promoted product innovation, brand upgrades, and channel cultivation, driving continuous high-quality development across all business segments. Among Mengniu’s products, *Milk Deluxe* and *Mengniu* pure milk were the leading products in the industry in terms of sales growth and ranked number one in terms of market share in the UHT milk market, with *Milk Deluxe* further expanding its dominant advantage in the high-end market. The chilled product business maintained the product value across different categories, leading the chilled yogurt products to resume their growth track. It has also ranked number one in terms of market share for 19 consecutive years. The fresh milk business sustained a rapid growth momentum, with the market share of *Shiny Meadow* continuing to rise and firmly establishing itself as the number one high-end fresh milk brand. Extensive innovative breakthroughs were made in the ice cream business, which has recorded double-digit growth over the past three years.

* For identification purposes only

- The Group also made efforts to develop and provide consumers with a diverse range of dairy and nutrition products that cover the entire lifecycle. It explored new fields in both dairy products and nutrition and health and cultivate new growth curves. The rare nutritional ingredient HMO developed by Mengniu passed the safety assessment of the Ministry of Agriculture and Rural Affairs of China and the technical review of the National Health Commission, making Mengniu the first domestic dairy company to successfully and independently develop an HMO. The HMO will be industrialized in the future. In February, Mengniu launched China's first liquid protein nutritional supplement, *M-ACTION* Sports Protein Drink, entering the field of sports nutrition.
- The Group further promoted the implementation of digitalization and upgrades, realising the digital connections along every link in the chain from a blade of grass to a glass of milk, and from the milk source to the consumer. In terms of supply, “Mengniu Ningxia Factory”, the world's first fully intelligent dairy factory, was officially completed and commenced operation in May. When fully operational, this factory will achieve the highest annual human efficiency ratio in the global dairy industry. In terms of consumption, Mengniu has introduced the world's first model in the nutrition and health field — MENGNIU.GPT and the “WOW Health+” platform, an important application that provides consumers with quality personalized nutrition and health services around the clock.
- The Group remained committed to promoting green transformation across the supply chain. Mengniu has announced its industry-leading carbon-neutral goals and joined the global initiative to grow restore and conserve one trillion trees (全球植萬億棵樹領軍者倡議) of the World Economic Forum (WEF), taking the lead in fulfilling the “Zero Deforestation” goal for the entire supply chain. In addition, it continued to develop green factories, zero carbon factories and zero carbon products.
- Mengniu pursues a long-term branding strategy, and has partnered with major sports events to convey its “born to excel” brand essence and philosophy. Mengniu continued to strategically invest in long-term sports Intellectual Property (IP) resources. Mengniu partnered with the Fédération Internationale de Football Association (FIFA) for the fourth time, enabling Mengniu to become an official global sponsor for the FIFA World Cup™ in 2026 and 2030, as well as the FIFA Women's World Cup™ in 2027. Coupled with Mengniu's other significant marketing resources such as its association with the China Space Foundation, this strategic move will comprehensively enhance its global brand awareness, reputation and influence. Mengniu secured a prominent position in the 2023 “Global Dairy Top 20” list published by Rabobank, ranking among the top eight and solidifying its status as the youngest company within the global dairy industry's top ten.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2023, together with the comparative amounts. The interim results and interim financial information have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2023 — unaudited

(Expressed in Renminbi (“RMB”))

	Notes	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
Revenue	4	51,118,523	47,722,296
Cost of sales		<u>(31,488,281)</u>	<u>(30,263,491)</u>
Gross profit		19,630,242	17,458,805
Other income and gains	5	502,614	1,475,218
Selling and distribution expenses		(13,906,192)	(12,710,172)
Administrative expenses		(2,184,456)	(1,980,819)
Impairment losses on trade receivables, net		(91,451)	(42,647)
Loss on derecognition of financial assets measured at amortised cost		(32,581)	(33,312)
Other expenses	6	(440,227)	(498,583)
Interest income		841,136	626,010
Finance costs		(727,129)	(518,424)
Share of profits and losses of associates		111,322	371,657
Profit before tax	7	3,703,278	4,147,733
Income tax expense	8	(644,290)	(504,634)
Profit for the period		<u>3,058,988</u>	<u>3,643,099</u>
Attributable to:			
Owners of the Company		3,020,476	3,751,401
Non-controlling interests		38,512	(108,302)
		<u>3,058,988</u>	<u>3,643,099</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	10		
Basic		0.765	0.949
Diluted		0.762	0.945

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2023 — unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	3,058,988	3,643,099
Other comprehensive income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(36,056)	(178,939)
Effective portion of changes in fair value of hedging instruments arising during the period		
— Total hedging loss recognised in other comprehensive income (excluding exchange differences)	107,786	398,768
— Amount reclassified from other comprehensive income to profit or loss	(87,562)	(7,989)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(15,832)	211,840
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation	(136,255)	(542,141)
Equity investments designated at fair value through other comprehensive income:		
— Changes in fair value	(11,753)	4,360
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	(148,008)	(537,781)
Other comprehensive income, net of tax	(163,840)	(325,941)
Total comprehensive income for the period	2,895,148	3,317,158
Attributable to:		
Owners of the Company	2,822,160	3,414,612
Non-controlling interests	72,988	(97,454)
	2,895,148	3,317,158

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 — unaudited

(Expressed in RMB)

	At 30 June 2023	At 31 December 2022
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	20,286,515	19,652,598
Construction in progress	3,122,048	4,111,176
Investment properties	60,244	61,067
Right-of-use assets	2,785,163	2,783,177
Goodwill	8,945,840	8,887,830
Other intangible assets	12,575,739	12,374,368
Investments in associates	10,637,129	10,396,345
Deferred tax assets	1,541,487	1,600,692
Derivative financial instruments	491,599	475,625
Other financial assets	21,818,179	20,240,280
Long-term prepayments	348,129	452,973
	82,612,072	81,036,131
CURRENT ASSETS		
Other financial assets	7,702,982	6,827,398
Derivative financial instruments	—	4,716
Inventories	6,684,466	8,073,377
Trade and bills receivables	11 4,528,982	3,660,242
Prepayments, other receivables and other assets	3,083,323	4,639,624
Pledged deposits	590,130	284,213
Time deposits	9,677,662	7,072,396
Cash and cash equivalents	8,614,119	5,693,433
Assets held for sale	—	521,675
	40,881,664	36,777,074

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2023 — unaudited
(Expressed in RMB)

		At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and bills payables	12	9,658,721	10,200,635
Other payables and accruals		12,175,883	13,581,433
Interest-bearing bank and other borrowings		12,021,807	9,094,719
Derivative financial instruments		2,497	25,769
Income tax payable		174,939	226,846
Other financial liabilities		62,095	—
Liabilities held for sale		—	23,850
		<u>34,095,942</u>	<u>33,153,252</u>
Total current liabilities			
		<u>34,095,942</u>	<u>33,153,252</u>
NET CURRENT ASSETS			
		<u>6,785,722</u>	<u>3,623,822</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>89,397,794</u>	<u>84,659,953</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		31,031,326	26,106,255
Convertible bonds		4,034,113	3,907,631
Deferred income		626,056	572,132
Deferred tax liabilities		3,551,801	3,926,470
Derivative financial instruments		9,428	10,708
Other financial liabilities		23,658	84,959
		<u>39,276,382</u>	<u>34,608,155</u>
Total non-current liabilities			
		<u>39,276,382</u>	<u>34,608,155</u>
NET ASSETS			
		<u>50,121,412</u>	<u>50,051,798</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2023 — unaudited
(Expressed in RMB)

	At	At
	30 June	31 December
	2023	2022
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY		
Equity attributable to owners of the Company		
Share capital	359,013	359,948
Treasury shares	(60,985)	(175,701)
Other reserves	9,144,644	10,466,418
Retained earnings	32,472,957	29,447,875
	41,915,629	40,098,540
Non-controlling interests	8,205,783	9,953,258
TOTAL EQUITY	<u>50,121,412</u>	<u>50,051,798</u>

NOTES

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

In prior years, China Mengniu Dairy Company Limited (the “Company”) prepared financial information in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term include all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations issued by the applicable International Accounting Standards Board (the “IASB”), and which has been included in the Company’s annual report. Separately, for the purpose of issuance of panda bond, the Company also prepared financial statements in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong.

To streamline the preparation of financial information, the directors of the Company has decided to expand the statement of compliance with IFRSs to assert dual compliance with HKFRSs in the current year. As such, the interim financial information of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2023 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with IAS 34, *Interim financial reporting*, issued by the IASB and HKAS 34, *Interim financial reporting*, issued by the HKICPA. It was authorised for issue on 30 August 2023.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies as required by accounting standards are set out in Note 2.

The preparation of an interim financial information in conformity with IAS 34 and HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRSs or HKFRSs.

The interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2022 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2023.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following new and amended IFRSs issued by the IASB to this interim financial information for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform — Pillar Two model rules*

The equivalent new and revised HKFRSs, consequently issued by the HKICPA as a result of these developments, have the same effective date as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB.

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

None of these developments has had a material effect on how to the Group's results and financial position for the current period have been prepared or presented in this interim financial information.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. During the reporting period, the Group has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change as follows:

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

Certain comparative amounts in the segment information have been adjusted to conform the current period’s presentation.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit/loss before tax except that interest income, non-lease-related finance costs, share of profits/losses of associates, 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)*

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

Six months ended 30 June 2023

	Liquid milk business RMB'000	Ice cream business RMB'000	Milk formula business RMB'000	Cheese business RMB'000	Others RMB'000	Total RMB'000
Segment revenue (Note 4):						
Sales to external customers	41,640,229	4,308,698	1,894,213	2,256,051	1,019,332	51,118,523
Intersegment sales	<u>572,536</u>	<u>24,974</u>	<u>16,639</u>	<u>16,850</u>	<u>491,620</u>	<u>1,122,619</u>
	42,212,765	4,333,672	1,910,852	2,272,901	1,510,952	52,241,142
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(1,122,619)</u>
Revenue						<u><u>51,118,523</u></u>
Segment results	2,818,627	716,223	(134,814)	75,666	5,379	3,481,081
<i>Reconciliation:</i>						
Interest income						841,136
Finance costs (other than interest on lease liabilities)						(705,735)
Share of profits of associates						111,322
Corporate and other unallocated expense						<u>(24,526)</u>
Profit before tax						3,703,278
Income tax expense						<u>(644,290)</u>
Profit for the period						<u><u>3,058,988</u></u>
At 30 June 2023						
Segment assets	66,275,645	6,498,417	16,752,228	16,662,077	2,047,341	108,235,708
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(34,736,940)
Corporate and other unallocated assets						39,357,839
Investments in associates						<u>10,637,129</u>
Total assets						<u><u>123,493,736</u></u>
Segment liabilities	28,357,875	4,081,512	7,040,721	3,795,937	1,553,681	44,829,726
<i>Reconciliation:</i>						
Elimination of intersegment payables						(34,736,940)
Corporate and other unallocated liabilities						<u>63,279,538</u>
Total liabilities						<u><u>73,372,324</u></u>

3 OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2022

	Liquid milk business RMB'000	Ice cream business RMB'000	Milk formula business RMB'000	Cheese business RMB'000	Others RMB'000	Total RMB'000
Segment revenue (Note 4):						
Sales to external customers	39,665,338	3,903,507	1,894,184	545,470	1,713,797	47,722,296
Intersegment sales	624,754	23,497	152,419	—	615,262	1,415,932
	40,290,092	3,927,004	2,046,603	545,470	2,329,059	49,138,228
<i>Reconciliation:</i>						
Elimination of intersegment sales						(1,415,932)
Revenue						<u>47,722,296</u>
Segment results	2,272,054	511,059	(369,297)	(45,381)	3,516	2,371,951
<i>Reconciliation:</i>						
Interest income						626,010
Finance costs (other than interest on lease liabilities)						(505,863)
Share of profits of associates						371,657
Corporate and other unallocated income						<u>1,283,978</u>
Profit before tax						4,147,733
Income tax expense						<u>(504,634)</u>
Profit for the period						<u><u>3,643,099</u></u>
At 31 December 2022						
Segment assets	66,318,779	5,803,247	16,289,640	17,056,021	1,831,253	107,298,940
<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><u>117,813,205</u></u>
Segment liabilities	30,420,394	4,291,169	6,821,665	4,154,342	1,521,580	47,209,150
<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><u>67,761,407</u></u>

4 REVENUE

An analyses of the revenue are as follows:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers:		
Sale of goods	51,104,118	47,722,296
Consignment processing services	14,405	—
	<u>51,118,523</u>	<u>47,722,296</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2023

Segments	Liquid milk business <i>RMB'000</i>	Ice cream business <i>RMB'000</i>	Milk formula business <i>RMB'000</i>	Cheese business <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods:						
Sale of products	41,640,229	4,308,698	1,879,808	2,256,051	1,019,332	51,104,118
Consignment processing services	—	—	14,405	—	—	14,405
	<u>41,640,229</u>	<u>4,308,698</u>	<u>1,894,213</u>	<u>2,256,051</u>	<u>1,019,332</u>	<u>51,118,523</u>
Total revenue from contracts with customers recognised at a point in time	<u>41,640,229</u>	<u>4,308,698</u>	<u>1,894,213</u>	<u>2,256,051</u>	<u>1,019,332</u>	<u>51,118,523</u>
Geographical markets:						
The Chinese Mainland	41,603,022	3,340,574	1,544,643	2,256,051	252,914	48,997,204
Overseas	37,207	968,124	349,570	—	766,418	2,121,319
	<u>41,640,229</u>	<u>4,308,698</u>	<u>1,894,213</u>	<u>2,256,051</u>	<u>1,019,332</u>	<u>51,118,523</u>
Total revenue from contracts with customers	<u>41,640,229</u>	<u>4,308,698</u>	<u>1,894,213</u>	<u>2,256,051</u>	<u>1,019,332</u>	<u>51,118,523</u>

4 REVENUE (continued)

Disaggregated revenue information for revenue from contracts with customers (continued)

For the six months ended 30 June 2022

Segments	Liquid milk business <i>RMB'000</i>	Ice cream business <i>RMB'000</i>	Milk formula business <i>RMB'000</i>	Cheese business <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods:						
Sale of products	<u>39,665,338</u>	<u>3,903,507</u>	<u>1,894,184</u>	<u>545,470</u>	<u>1,713,797</u>	<u>47,722,296</u>
Total revenue from contracts with customers recognised at a point in time	<u><u>39,665,338</u></u>	<u><u>3,903,507</u></u>	<u><u>1,894,184</u></u>	<u><u>545,470</u></u>	<u><u>1,713,797</u></u>	<u><u>47,722,296</u></u>
Geographical markets:						
The Chinese Mainland	<u>39,645,375</u>	<u>3,108,827</u>	<u>1,733,877</u>	<u>545,470</u>	<u>987,807</u>	<u>46,021,356</u>
Overseas	<u>19,963</u>	<u>794,680</u>	<u>160,307</u>	<u>—</u>	<u>725,990</u>	<u>1,700,940</u>
Total revenue from contracts with customers	<u><u>39,665,338</u></u>	<u><u>3,903,507</u></u>	<u><u>1,894,184</u></u>	<u><u>545,470</u></u>	<u><u>1,713,797</u></u>	<u><u>47,722,296</u></u>

5 OTHER INCOME AND GAINS

	Six months ended 30 June	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Government grants	259,305	210,344
Net fair value gain on other financial liabilities	—	773,945
Gain on disposal of a subsidiary	—	241,460
Gain on disposal of assets and liabilities held for sale	14,521	—
Gross rental income	32,648	35,926
Foreign exchange gains, net	15,852	—
Others	180,288	213,543
	<u>502,614</u>	<u>1,475,218</u>

6 OTHER EXPENSES

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Write-down of inventories to net realisable value	22,804	107,883
Donations	25,883	43,875
Educational surcharges, city construction tax, and other taxes	264,661	247,535
Foreign exchange losses, net	—	20,147
Net fair value loss on unlisted equity investment in Jilin Province Guangze Dairy Technology Co., Ltd. with put options	—	9,083
Others	126,879	70,060
	<u>440,227</u>	<u>498,583</u>

7 PROFIT BEFORE TAX

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

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold		31,476,438	30,263,491
Cost of consigned processing services		11,843	—
Impairment of trade receivables, net		91,451	42,647
Depreciation of property, plant and equipment		1,344,734	1,228,746
Depreciation of right-of-use assets		194,861	156,300
Depreciation of investment properties		2,258	2,258
Amortisation of other intangible assets		47,144	58,862
Outsourcing expenses	<i>(a)</i>	123,496	106,951
Other rental expenses		300,078	150,416
Display space fees		1,814,858	1,641,375
Employee benefit expense (including directors' and senior executive's emoluments)	<i>(b)</i>	<u>4,424,102</u>	<u>4,061,412</u>

Notes:

- (a) For the purpose of promoting operation efficiency, the Group outsourced the production of certain products. The amounts represent the total amounts paid by the Group for purchasing outsourcing services.
- (b) The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme ranging from 16% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement scheme at their normal retirement age.

7 PROFIT BEFORE TAX (continued)

The Group also operated a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. The mechanism have no material effect on how the Group’s results and financial position for the current period have been prepared or presented.

The Group has no further obligation for payment of other retirement benefits beyond the above contributions.

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB’000	RMB’000
Current income tax		
Current income tax charge	673,388	537,668
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	<u>(29,098)</u>	<u>(33,034)</u>
	<u>644,290</u>	<u>504,634</u>

Notes:

- (i) The provision for the income tax is based on the statutory rate of 25% (2022: 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% (2022: 16.5%) of the estimated assessable profits for the six months ended 30 June 2023.
- (iv) The provision for Australia, New Zealand and Indonesia Profit Tax is calculated by applying at 30%, 28% and 25%, respectively, (2022: 30%, 28% and 25%, respectively), of the estimated assessable profits for the six months ended 30 June 2023.

9 DIVIDENDS

(a) Dividends payable to equity shareholders of the Group attributable to the interim period

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

(b) Dividends payable to equity shareholders of the Group attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year of RMB0.402 (the corresponding period in 2022: RMB0.381 per share) per ordinary share	<u>1,588,015</u>	<u>1,506,669</u>

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

(a) Basic earnings per share

The basic earnings per share amounts for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the six months ended 30 June 2023.

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

	Six months ended 30 June	
	2023	2022
	Number of shares <i>(in thousand)</i>	Number of shares <i>(in thousand)</i>
Issued ordinary shares at 1 January	3,955,196	3,953,179
Effect of share options exercised	807	427
Effect of shares purchased	<u>(7,026)</u>	<u>(2,112)</u>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>3,948,977</u>	<u>3,951,494</u>

(b) Diluted earnings per share

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

10 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

(b) Diluted earnings per share *(continued)*

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

	Six months ended 30 June	
	2023	2022
	Number of	Number of
	shares	shares
	(in thousand)	<i>(in thousand)</i>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,948,977	3,951,494
Effect of dilution — Weighted average number of ordinary shares:		
Share options	6,143	10,966
Share awards	8,583	5,925
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>3,963,703</u>	<u>3,968,385</u>

11 TRADE AND BILLS RECEIVABLES

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

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.

11 TRADE AND BILLS RECEIVABLES (continued)

An ageing analyses 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:

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Less than 1 year	4,430,539	3,574,016
1 to 2 years	95,160	68,377
2 to 3 years	1,521	2,747
Over 3 years	1,762	15,102
	<u>4,528,982</u>	<u>3,660,242</u>

12 TRADE AND BILLS PAYABLES

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

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Within 3 months	7,779,065	8,756,459
4 to 6 months	1,571,234	1,263,731
7 to 12 months	232,429	87,887
Over 1 year	75,993	92,558
	<u>9,658,721</u>	<u>10,200,635</u>

13 EVENTS AFTER THE REPORTING PERIOD

According to the composite scheme document jointly issued by the Company, Star Future Investment Company Limited (the “Offeror”, a wholly-owned subsidiary of the Company) and Yashili International Holdings Ltd (“Yashili”) on 31 May 2023, in relation to, among other things, the proposal for the privatization of Yashili by the Offeror by way of a scheme of arrangement under section 86 of the Companies Act of Cayman Islands (the “Scheme”) and the proposed withdrawal of listing of Yashili.

On 29 June 2023, the Scheme was sanctioned (without modification) by the Grand Court of the Cayman Islands. Subsequently, all of the Scheme Conditions were fulfilled and the Scheme became effective on 4 July 2023. The listing of the Yashili Shares were withdrawn from the Stock Exchange on 5 July 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, as retail stores traffic and outdoor consumption scenarios gradually recovered, domestic consumer demand exhibited a progressive recovery trend, with sales of dairy products improving month by month.

The Chinese government has attached great importance to promoting dairy consumption and the quality development of the dairy industry. The “China Dietary Guidelines (2022)” issued by the National Health Commission raised the recommended daily intake of dairy products per person from 300 grams to a range of 300 to 500 grams. The State Council and the Ministry of Agriculture and Rural Affairs promulgated various 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 period, Mengniu remained committed to high-quality development based on the strategic approach of “Greener, More Nutritious and Smarter”. The Group made comprehensive efforts to adhere to low-carbon sustainable development, strengthen innovation in dairy products as well as nutritional and health-related technologies to expand the dairy product portfolio and promote the intelligent transformation of the entire industry value chain. Through these endeavors, together with its efforts to shore up its fundamental business foundation, Mengniu achieved steady revenue growth and a consistent improvement in operating profit margin. *Milk Deluxe* and *Mengniu* pure milk were the leading products in the industry in terms of sales growth, with *Milk Deluxe* expanding its share and securing a dominant advantage in the high-end milk market. The chilled product business maintained the product value across different categories, leading the chilled yogurt products to resume their growth track. It has also ranked number one in terms of market share for 19 consecutive years. Sales growth in the fresh milk business outpaced that of the industry, with *Shiny Meadow* continuing to have higher market share and rank number one among high-end fresh milk brands. Extensive innovative breakthroughs were made in the ice cream business, with double-digit growth recorded over the past three years.

Mengniu has maintained its leading position within China’s dairy industry by relying on top-quality dairy products. Mengniu has continued to pursue multi-faceted development in terms of innovation, brand strength, digitalization and sustainability. Through these concerted efforts, Mengniu aims to usher in a brighter future for the dairy industry and outline a pathway to guide the entire industry value chain towards the “net-zero carbon emission” target in a “greener” manner. Mengniu is also striving to develop and supply a diverse range of “more nutritious” dairy and nutritional products covering the full lifecycle of consumers. Furthermore, Mengniu is dedicated to implementing comprehensive digitalization across the entire industry value chain, from breeding and processing to reaching end consumers, thereby promoting a “smarter” industry transformation. In addition, Mengniu continues to expand and build its omni-channel operations. It retains well-established brand advantages in offline channels, while also capitalizing on channel transformation trends by deepening its presence in new retail channels. Through a multi-dimensional approach, Mengniu has achieved customer conversion to establish long-term relationships with consumers.

Mengniu insists on pursuing a long-term brand strategy based on its “born to excel” brand proposition. During the period, Mengniu continued to strategically invest in long-term sports Intellectual Property (IP) resources. Mengniu partnered with the Fédération Internationale de Football Association (FIFA) for the fourth time, enabling Mengniu to become an official global sponsor for the FIFA World Cup™ in 2026 and 2030, as well as the FIFA Women’s World Cup™ in 2027. Coupled with Mengniu’s other significant marketing resources such as its association with the China Space Foundation, this strategic move will comprehensively enhance its global brand awareness, reputation and influence. Mengniu secured a prominent position in the 2023 “Global Dairy Top 20” list published by Rabobank, ranking among the top eight and solidifying its status as the youngest company within the global dairy industry’s top ten.

Business Division Performance

Liquid Milk Business

Room Temperature Product Business

In the first half of 2023, as the consumer market gradually rebounded, the overall domestic demand for dairy products and end-market sales have recovered steadily. During the period, the room temperature business unit of Mengniu experienced steady growth, further increasing its market share in the room temperature liquid milk segment.

Driven by consumers' increasing concerns around nutritional health and immunity, the demand for room temperature pure milk remained resilient. Sales of *Milk Deluxe* and *Mengniu* pure milk continued to outpace industry growth, ranking number one in terms of market share in the UHT milk market. During the period, the room temperature business unit redefined premium organic milk by focusing on *Milk Deluxe* desert organic milk, which is "organic in the desert, a better organic", to drive the upgrade of the high-end milk industry. The room temperature business unit diligently advanced the *Milk Deluxe* brand's "better" proposition by focusing on product innovation, brand communication and consumer interaction. This strategy generated enhanced brand equity, drove *Milk Deluxe*'s leading market share expansion within the high-end milk sector, and secured its position as the number one player in the organic pure milk sub-category.

The gradual rebound in offline retail store traffic and outdoor consumption scenarios, coupled with the positive impact of newly introduced products under the *Fruit Milk Drink* and *Suan Suan Ru* brand, drove strong growth in the sales of room temperature milk beverages in the first half of the year, further consolidating our leadership in these product categories. *Just Yoghurt* remained committed to its brand differentiation strategy based on the brand proposition of "pure and authentic", emphasizing its selection of quality ingredients and minimalistic formulations and launching the new blueberry flavored PET bottle *Just Yoghurt* series.

The room temperature business unit continued to drive business growth through new retail channels during the period. Sales of room temperature liquid milk via new retail channels demonstrated steady growth in the first half of the year, solidifying the Group's position as the number one player in online sales within the room temperature product segment. During the "618 E-commerce Festival", the Group retained its top position for the eighth consecutive year in room temperature liquid milk sales on JD.com. In addition, the Group ranked first in room temperature liquid milk sales on the Tmall platform and consolidated its number one position in dairy product store sales on the Pinduoduo platform. Furthermore, Mengniu actively expanded its membership recruitment in new retail channels, with its number of online members exceeding 65 million as of the end of June 2023.

In terms of market expansion, the room temperature business unit has continued to penetrate rural markets. As of the end of June, the room temperature business has extended its presence to 26,000 townships, covering an extensive network of over 800,000 distribution points. This concerted effort has further increased its market penetration rate at the township level. The business unit has leveraged digital management tools to reinforce its control over township markets and enhance its regional marketing capabilities.

Chilled Product Business

In China, the per capita consumption of chilled yogurt is only one-third of that in developed countries, indicating enormous future potential. During the period, the chilled product business division of the Group focused on three segmented markets, and strengthened the product portfolio and product mix of functional, delicious and nutritious yogurt. Its market share ranked first in the market for the nineteenth consecutive year.

On the flavour front, the chilled product business rolled out a comprehensive plan with the launch of its high-end yogurt brand, *YO!FINE DIARY*, which is positioned as “spoon-licking good”. A series of products were introduced under *YO!FINE DIARY*, such as osmanthus and water chestnut yogurt and green grapefruit yogurt. The business also expanded its product line to include set yogurts and chunky premium fresh fruit pulp products. As for the nutritional product line, Mengniu launched the “Fresh Yogurt” (鮮酸奶) series, focusing on raw milk and live bacteria to enhance nutritional value. Furthermore, in response to the health-conscious trends in the industry, Mengniu strengthened its zero-sugar product line-up and launched a series of products. In terms of functional products, Mengniu consolidated its healthy yogurt brand, Champion, which is positioned as “China’s leading healthy yogurt”, and introduced products that enhance immunity. As for probiotic beverages, Mengniu introduced Yoyi C brand, which is advertised as “probiotics suitable for Chinese people”, with the debut of a new 50 billion probiotics composite product. Recently launched new products have received widespread recognition from both consumers and channels, especially in the high-growth new retail channels. In the future, the chilled product business will lead the chilled yogurt category back to a rapid growth track through the launch of a series of categories, brands and new products.

Fresh Milk Business

In the first half of 2023, the fresh milk industry experienced robust growth, with the mid-to-high-end fresh milk segment driving the increase. This trend has contributed to a continual enhancement in the consumption structure of the fresh milk industry. During the period, Mengniu’s fresh milk business continued to outpace the industry. Its high-end brand *Shiny Meadow* recorded double-digit growth, and its market share consistently improved, consolidating its position as the number one brand of high-end fresh milk.

Shiny Meadow is well-recognised for its “high-quality” and “high-end” brand image, maintaining its position as the number one well-known brand in its category. Following the launch of 4.0 low-fat fresh milk in March 2022, *Shiny Meadow* was fully upgraded to 4.0 fresh milk in April, using 1nm micro-membrane freshness-locking technology to lock in 4.0g of fresh milk protein and preserve more original nutrients. In conjunction with the upgrade and launch of 4.0 fresh milk, the Group targeted consumers in major cities in eastern, southern, central and southwest China to advertise the upgraded 4.0 fresh milk in order to cultivate a comprehensive brand image of quality milk with fresher and more nutritious ingredients. The *Shiny Meadow* sub-brand *Xiaoxianyu* is particularly popular among young people. In the first half of this year, its sales volume was already more than double that of the previous year.

The fresh milk business division has kept abreast of market demand and continued to introduce new products to meet the diversified needs of consumers. *Shiny Meadow* and Seasaw Coffee jointly launched a cold brew fresh coffee latte. A2 casein fresh milk products were launched under *Xiaoxianyu* as part of the Group’s effort to focus on developing its fresh milk product line. In terms of cross-category collaborative innovation, the fresh milk business division and the ice cream business division jointly launched Green Shasha flavored fresh milk, further expanding fresh milk consumption scenarios.

In terms of channel performance, the fresh milk division continued to focus on its home delivery service, maintaining its number one online market share and ranking number one on the JD.com platform. In high-growth new retail channels, it sustained its leading position, ranking number one on fresh food e-commerce platforms such as Meituan Grocery and Pupu Supermarket. As for offline channels, the fresh milk business saw a substantial year-on-year growth in its retail system and continued to rank number one in terms of market share in supermarkets like Sam’s Club, Yonghui and Walmart.

Milk Formula Business

The new national standards for infant milk formula were officially implemented on 22 February 2023, imposing more stringent and rigorous requirements on enterprises and products. During the period, leveraging its cutting-edge scientific research and innovation capabilities, extensive supply chain resources and other corporate strengths, Mengniu has registered six product lines under the new national standards. Out of these, five have been launched in the market, namely *Reeborne* Enzhi (恩至) series, Jingzhi (菁至) series, Qinyi (親益) series and Qinyou (親悠) series as well as Mengniu's Chuai Niuniu (初愛牛牛). These product lines offer both standard and organic milk powders, sourced from conventional milk sources and rare A2 milk sources, and include both domestically produced and imported products, catering to a variety of consumer demands. Except for the Jingzhi (菁至) organic series, all of Mengniu's products aligned with the new national standards contain MLCT structured lipids and a new OPO component. This cutting-edge technology addresses the long-standing challenges associated with core fat ingredients in formula milk powders, marking a global milestone in producing infant formula with fat ingredients closely mirroring natural breast milk.

In the first half of 2023, *Bellamy's* pushed forward its brand repositioning, striving to reinforce its leading position in organic baby food from Australia. In terms of products, *Bellamy's* Jingyue (菁躍) organic infant formula was the first organic infant milk powder from Australia and New Zealand to receive approval under the new national standards. In addition, *Bellamy's* launched a new organic walnut oil product, leading the way in the infant complementary food oil market. During the period, this product climbed the charts to rank among the top five for both best-selling and most highly-rated walnut oils on Tmall.

In terms of online sales, *Bellamy's* retained its position as the number one cross-border e-commerce brand for organic milk powder. In terms of offline sales, the number of major distributors and mother-and-baby retail chains selling the Chinese labelled products of *Bellamy's* saw a notable year-on-year increase. Over 4,000 consumer education events were held, driving rapid sales growth compared to the corresponding period of last year.

In terms of nutritional products, seizing the market opportunities presented by the aging population and the increasing demands for functional milk formula for older demographics, the formula and package of *Yourui* (悠瑞) milk formula for the middle-aged and the elderly was upgraded in the first half of 2023. This enhanced formula contains protein, calcium, selenium, magnesium and other nutrients catering to the needs of middle-aged and elderly consumers. Building upon this refined formula, *Yourui* introduced products that emphasize bone health and mobility of middle-aged and elderly consumers. The basic version focuses on promoting calcium intake and absorption for robust bone health, whereas the premium version is designed to address the skeletal, joint, and muscular needs of the middle-aged and the elderly. Through the inclusion of HMB, it aims to minimize muscle loss, stimulate muscle cell synthesis, reinforce muscle health, and mitigate the risk of falls.

Ice Cream Business

In the first half of 2023, as the ice cream market steadily expanded in China, and was characterized by high-end differentiation, seasonal variation, multi-scenario adaptability, health orientation and online sales channel integration. During the period, based on evolving consumer trends and demands, the ice cream business division continued to innovate and upgrade its brands, including *Suibian*, *Deluxe*, *Mood for Green* and *Ice+*, in terms of flavor profiles, consumption scenarios and consumption ways. This strategic approach has enabled the Group to innovate and explore novel consumption scenarios for its ice cream products.

To enhance the deliciousness, healthiness and sustainability of its ice cream products, Mengniu's ice cream business has proactively advanced product innovation to facilitate quality growth. Responding to consumer preferences, we introduced the Strawberry Soft Core Crispy Skin ice cream under the *Suibian* brand, and successfully developed the *Suibian* Cheese Flavor Ice Cream and Frozen Cheese Ice Cream products. The latter product series features enhanced cheese flavors, and its recipe design and product incubation outcomes were recognized with the "Innovative and Imaginative (異想天開)" award in the second Mengniu Innovation Contest. *Deluxe* placed greater emphasis on the development of natural and health-oriented products. It focused on a pure product line and introduced the new brand concept of "Simple Formula". *Deluxe* carefully selects premium ingredients, and all of the products are made of fresh milk without added water. *Deluxe* also achieved carbon neutrality for three *Deluxe* cup products, and obtained carbon footprint reports and carbon offset certificates from professional organizations attesting to this fact.

Following the creation of the iconic original, vanilla and plum wine flavors of Mengniu Maotai Ice Cream in May 2022, which garnered widespread acclaim both within and beyond the industry as a remarkably successful brand crossover, the Group upgraded the Maotai Ice Cream product line in March 2023 with innovative enhancements to the packaging and product lineup. This initiative resulted in the production and launch of three new cup-type products: Maotai Yogurt Ice Cream, Maotai Green Tea Ice Cream and Maotai Blueberry Sorbet.

The ice cream business division has continuously strengthened its online and offline distribution channels by focusing on enhancing channel infrastructure, reinforcing retail control in key urban markets and accelerating expansion into county and township markets. Through diversified marketing initiatives in outdoor channels including neighborhoods, wholesale outlets, campuses and shopping malls, we have strived to increase our end-market sales and create hot selling flagship products.

The overseas ice cream business continued to make breakthroughs, with Aice maintaining strong growth and recording a significant increase in profit margins. It ranked number one in market share in Indonesia and number two in the Philippines, and officially entered markets such as Vietnam, Thailand, Laos and Cambodia.

Cheese Business

According to third-party data, the per capita cheese consumption in China in 2021 was 0.2 kg, significantly trailing the global average of 2.3 kg¹. These figures suggest that the cheese industry and the cheese consumption market in China remain in the early stages of development and still have significant growth potential. With the gradual change in Chinese consumers' consumption habits, there has been an initial trend of structural upgrading from "milk drinking" to "milk eating", opening up a long-term development opportunity for cheese consumption.

Shanghai Milkground Food Tech Co., Ltd. (600882.SH) ("Milkground"), a leading cheese company in China, is included in the consolidated statements of Mengniu. *Milkground* continued to rank first in terms of domestic cheese market share. In addition to further developing children's cheese stick products during the period, *Milkground* also remained committed to expanding into new business areas including catering cheese, "cheese+" casual snacks and fresh cheese, further consolidating its leading position in the cheese segment.

¹ Euromonitor International, Global and China Cheese Industry Development Report, November 2022

Milkground deepened its product innovation efforts and continued to expand from “children’s snacks” to “adult snacks”, and from “snacking” to “catering” scenarios, creating a dual development model targeting both retail and enterprise customers. During the period, *Milkground* has solidified its number one market share in the cheese sticks segment and launched “Organic Cheese Sticks”, a new product which contains 66% organic cheese and 9.0 grams of quality milk protein, utilizing organic milk sources, organic processing and organic certification to drive the continuous development of China’s cheese industry. In addition, *Milkground* launched “Mousse Cup Cheese”, a new high-end casual product targeting urban white-collar workers, and “Hallo Honey Grilled Cheese” targeting families, aiming to achieve breakthroughs in addressing new consumption scenarios and consumer groups and create new growth drivers.

The Group’s self-operated cheese business adheres to the brand positioning of “Excellent Cheese made with Excellent Milk”. During the period, Mengniu launched “Fresh Milk Protein Cheese Stick”, its first cheese stick made of fresh milk in China which is endorsed by the China Space Foundation. It is made with raw milk which meets and exceeds EU standards and contains casein, α -lactalbumin, β -lactoglobulin and DHA. Meanwhile, “*Zhishifenzi*”, the cutting-edge cheese snack aimed at young consumers, has upgraded its entire product line, and leveraged sports marketing to achieve a better penetration rate among young consumers. In terms of home baking, the Group launched golden butter, which uses classic European fermentation technology with added lactic acid bacteria to achieve product differentiation.

Innovative Business

Under the guidance of the “Leadership Strategy”, the Group has been striving to realize the vision of “Better Nutrition” through life science and technology, and aims to provide its customers with “Three Good” milk products consisting of “Good Sources”, “Good Formulations” and “Good Personalized Choices”. These products meet the functional needs of different consumer sub-groups and the personalized needs of individual consumers throughout the life cycle, advancing the long-term goal of creating the “dairy products of the future”.

In fact, the Group has been cooperating with technical partners, industry leaders and industry chain partners for many years with the aim of making full use of the R&D resources related to nutrition and products which were accumulated by the Group in its core liquid milk business, systematic and digitalized production infrastructure and technologies, the competitive advantages in domestic and global channels, and the brand influence established through its international IP linkage and marketing efforts over the years. The Group has explored new fields within the dairy industry as well as in nutrition and health to cultivate new growth curves and refine its diversified product structure in order to secure the long-term, healthy and sustainable development of Mengniu’s overall business.

In terms of developing rare nutritional ingredients, the HMO developed by Mengniu has passed the safety assessment of the Ministry of Agriculture and Rural Affairs of China and the technical review of the National Health Commission, making Mengniu the first domestic dairy company to successfully develop an HMO and obtain an approval from the Chinese regulatory authority. The HMO will be industrialized in the future. HMO is the third largest solid component in breast milk, behind lactose and fat, but ahead of protein. It has important health effects, such as regulating immunity, helping brain development and regulating intestinal flora. However, it is very scarce and is difficult to obtain from cow's milk or goat's milk.

In February 2023, Mengniu launched China's first liquid protein nutritional supplement, M-ACTION Sports Protein Drink, entering the field of sports nutrition. M-ACTION is a high-end professional brand of Mengniu focusing on Chinese sports nutrition. It aims to create a professional sports nutrition brand to help sports and fitness enthusiasts in China better achieve their sports and fitness goals. M-ACTION and Nankai University have established a joint laboratory to capitalize on the academic influence and technical leadership of the Research Institute of Public Health of Nankai University in the field of food nutrition in China, coupled with the R&D productivity and industrial capacity of Mengniu M-ACTION. The two parties will cooperate extensively in the field of nutrition and health, including by conducting intervention research on sports nutrition products and clinical verification research on other nutrition products, to create exclusive sports nutrition solutions for Chinese consumers.

M-ACTION has cooperated with the China Triathlon Association to provide protein nutritional supplements to the Chinese triathlon team. M-ACTION also supported the CrossFit China team to participate in the Asian semi-finals of the CrossFit Games in Busan, South Korea, creating the competitive history of Chinese people in the CF Games. In addition, M-ACTION has become the official partner of Tsaigu, the top cross-country event in China, and the exclusive official sports nutrition product of the event.

Quality Management

In the first half of 2023, the Group continued to standardize, optimize and strengthen its Quality Management System 3.0. In the first half of the year, it focused on promoting quality culture, quality design, product optimization, risk response, system consistency, standard management, continuous improvement, process control upgrades and other projects.

In January 2023, the Group released the “Quality Culture Work Plan of China Mengniu Group for 2023”. During the “International Consumer Rights Day 315” campaign, Mengniu organized a series of activities with the theme of “Show Consumers World-class Quality”, including a short video competition and the CEO’s Kitchen. Mengniu also held its first “Factory Manager Reception Day” during the period, and opened more than 30 factories to the public on “International Consumer Rights Day 315”. Factory managers personally received consumers and helped them understand Mengniu’s world-class quality. Through the above-mentioned online and offline interactive activities in different fields, we have put our core value of “consumers are at the heart of all our decisions” into action, and showcased our outstanding quality culture enriched by Mengniu’s unique characteristics for the world to see and hear.

In terms of factory certification, the Group continued to hold seven system certifications, including ISO9001, HACCP, GMP, FSSC22000, BRC, IFS and SQF, covering 63 factories with a 100% passing rate. So far, the coverage rate of ISO9001 factory certification is 100%; the coverage rate of HACCP factory certification is 92%; the coverage rate of FSSC22000 factory certification is 44%; and the coverage rate of GMP factory certification is 38%. Five factories of the fresh milk business division acquired two system certifications, namely BRC and IFS, in 2022.

In terms of product certification, the Group continued to promote and maintain the use of the student milk product label license, which covers three major categories, namely sterilized milk, formulated milk and fermented milk. In terms of organic product certification, the Group continued to maintain valid organic certificates for 14 products. In terms of EU product certification, the Group launched a project to improve the internal control standards for its products, while engaging third parties to carry out EU product standard certification to maintain the validity of its certificates and prove that its products meet EU standards. These efforts cover the product categories of sterilized milk, formulated milk, fermented milk, chilled drinks, beverages, processed cheese, infant formula and formulated milk powder.

Milk Source Management

In the first half of 2023, the Group's Milk Source Division further advanced the implementation of the "2025 Value Sharing" strategy within the dairy industry ecosystem. This strategic initiative aims to establish a complete dairy industry value chain, encompassing the entire process from a blade of grass to a glass of milk. At the agricultural production level, efforts were concentrated on fostering the creation of the world's largest livestock conglomerate. In addition, at the forage supply level, the Group has strived to facilitate the development of leading forage suppliers. At the industrial platform level, the Group has established an autonomous cattle breeding system within the breeding segment. At the platform level, the Group has established a shared platform for the global dairy industry. At the financial level, the Group has set up an extensive financial service system catering to the upstream industry chain. Such initiatives synergistically contribute to propelling China's raw milk industry towards a trajectory of "precise, efficient and green" development.

The Group strives to integrate the principles of sustainable development into its milk source management efforts. With regards to supplier management, the Group has established a comprehensive ranch quality management system and a food safety risk prevention management system in line with legal and regulatory frameworks and the Danish "Garden Style" advanced farm management system. During the period, all ranches within the Group's network strictly adhered to the "Mengniu Ranch Quality and Safety Management System (《蒙牛牧場質量安全管理制度》)", thereby subjecting themselves to stringent access controls. The Group is actively advancing green operations in various areas, such as carbon emission management among ranch suppliers, animal welfare and veterinary drug management. Specific measures include compliant manure discharge, low-carbon animal husbandry practices, enhancements to dairy cattle living environments and regulated use of veterinary drugs.

In terms of external collaborations, the Group has cooperated with China Agricultural University and the National Dairy Industry Technology System (國家奶牛產業技術體系) to carry out the "Precision Nutrition Project", engaging renowned domestic experts to provide complimentary raw material testing and other services to ranches.

In respect of ranch management digitalization, the "Smart Ranch Management Platform" adopted by the Group covers the entire lifecycle of dairy cattle. By leveraging technologies such as cloud computing, the Internet of Things and AIoT (Artificial Intelligence of Things), the platform enables the granular management model of dairy cattle.

Corporate Digital Strategy

Digital intelligence has always been one of the core pillars of Mengniu's strategy. In 2023, the Group formulated a "consumer-oriented and data-based" core strategy in line with the high-level digital transformation blueprint, and continued to implement its digital transformation and upgrades.

In May 2023, "Mengniu Ningxia Factory", the world's first fully intelligent dairy factory, was officially completed and commenced operation. This factory is the product of the Group's accumulated achievements in the fields of automation, digitization and intelligence over the years. This factory enables 100 people to produce an annual output of 1 million tons with a value of RMB10 billion, which represents the highest annual human efficiency ratio in the global dairy industry and a major step forward for the quality development of China's dairy industry. The opening of the factory has created momentum for the digital and intelligent development of the global dairy industry, making it the first lighthouse factory in the industry.

At the beginning of August 2023, Mengniu cooperated with several major domestic technology companies to release the AI-driven digital intelligence dual flywheel strategy, marking a new milestone in Mengniu's digital transformation. The AI-driven supply-side and consumption-side dual flywheels are Mengniu's smart brain, representing Mengniu's new vision in its digital intelligence strategy. By harnessing the AI-driven double flywheel with the synergies with AI technologies, the Group has upgraded the digital intelligence capabilities of the upstream and downstream industrial chains. From the supply side to the consumption side, and from refined production to personalized services, the business has been innovatively upgraded in an all-round way, bringing Mengniu into stage 3.0 of its digital intelligence strategy and laying a solid foundation for its long-term growth.

Leveraging digital intelligence to drive nutrition and health, Mengniu introduced the world's first model in the nutrition and health field - MENGNIU.GPT. This model is a major breakthrough in the traditional nutrition and health service model. Through AI empowerment, it provides families with quality and personalized nutrition and health services around the clock, improving each family's overall health experience. An important application of MENGNIU.GPT is the "WOW Health+" platform, an integrated platform for nutrition and health services driven by AI technology, aiming to provide Chinese families with personalized, long-term health services for the entire family. Mengniu's AI nutritionist provides consumers with inclusive nutrition and health services, greatly enhancing the convenience and technological sophistication of their health management efforts. This innovative AI-driven approach can solve the problems caused by the shortage of nutritionists in China and the high cost of family health services. This series of new initiatives has created digital connections along every link in the chain from a blade of grass to a glass of milk, and from the milk source to the consumer, which will further consolidate Mengniu's leading position in the field of nutrition and health.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the section headed “Events after the Reporting Period” in the annual report of the Company for the financial year ended 31 December 2022 and issued on 26 April 2023, and the composite scheme document (the “Scheme Document”) jointly issued by the Company, Star Future Investment Company Limited (the “Offeror”, a wholly-owned subsidiary of the Company) and Yashili International Holdings Ltd (“Yashili”) on 31 May 2023, in relation to, among other things, the proposal for the privatization of Yashili by the Offeror by way of a scheme of arrangement under section 86 of the Companies Act of Cayman Islands (the “Scheme”) and the proposed withdrawal of listing of Yashili. Unless otherwise specified, capitalized terms used in this announcement shall have the same meanings as those defined in the Scheme Document.

As disclosed in the announcements of the Company dated 23 June 2023, 30 June 2023 and 5 July 2023, on 23 June 2023, the Scheme was approved at the Court Meeting and the Scheme EGM of Yashili by the relevant Scheme Shareholders and shareholders of Yashili respectively. On 29 June 2023 (Cayman Islands time), the Scheme was sanctioned (without modification) by the Grand Court of the Cayman Islands. Subsequently, all of the Scheme Conditions were fulfilled and the Scheme became effective on 4 July 2023 (Cayman Islands time). The listing of the Yashili Shares were withdrawn from the Stock Exchange on 5 July 2023. After completion of the Scheme, Yashili continues to be a subsidiary of the Company.

FINANCIAL REVIEW

Revenue

During the period, due to the Group’s efforts in product innovation and upgrades, as well as its active exploration of various online and offline channels which led to a continuous increase in market and product coverage, the revenue of the Group amounted to RMB51,118.5 million for the six months ended 30 June 2023 (2022: RMB47,722.3 million), representing a year-on-year increase of 7.1%.

Gross Profit

The Group’s gross profit for the period increased to RMB19,630.2 million (2022: RMB17,458.8 million), due to a year-on-year decrease in raw milk prices and a year-on-year improvement in product structure during the period. Gross profit margin increased by 1.8 percentage points to 38.4% as compared with the same period last year (2022: 36.6%).

Operating Expenses and Operating Profit

As the Group actively adopted channel sales expansion and marketing execution strategies during the period in response to the resurgence of outdoor consumption, the selling and distribution expenses increased by 9.4% to RMB13,906.2 million (2022: RMB12,710.2 million), representing an increase to 27.2% (2022: 26.6%) when expressed as a percentage of the Group's revenue. Product and brand marketing expenses during the period increased by 13.4% to RMB5,119.7 million (2022: RMB4,515.5 million), accounting for 10.0% of the Group's revenue (2022: 9.5%). The increase was mainly due to an increase in offline sales and marketing activities.

Administrative expenses increased by 10.3% to RMB2,184.5 million (2022: RMB1,980.8 million), accounting for 4.3% (2022: 4.2%) of the Group's revenue, which was mainly due to the consolidation of the account of *Milkground* at the end of last year. Other taxes and surcharges included in other expenses amounted to RMB264.6 million (2022: RMB247.5 million), representing a year-on-year increase of 6.9%.

Total business operating expenses, including selling and distribution expenses, administrative expenses and other taxes and surcharges, increased by 9.5% to RMB16,355.3 million (2022: RMB14,938.5 million), accounting for 32.0% of the Group's revenue (2022: 31.3%). Attributable to the significant increase in gross profit margin, operating profit (gross profit less business operating expenses) amounted to RMB3,274.9 million (2022: RMB2,520.3 million), representing a year-on-year increase of 29.9%; operating profit margin was 6.4% (2022: 5.3%), representing a year-on-year increase of 1.1 percentage points.

EBITDA and Net Profit

During the period, the Group's earnings before interest, taxes, depreciation, and amortization ("EBITDA") decreased by 5.6% to RMB5,178.3 million (2022: RMB5,486.3 million) with EBITDA margin at 10.1% (2022: 11.5%), representing a year-on-year decrease of 1.4 percentage points. The decrease was mainly due to the fact that gains attributable to associates decreased during the period and the Group recorded the fair value gain on other financial liabilities of RMB773.9 million and the gain on disposal of a subsidiary of RMB241.5 million during the same period last year, while no such gains were recorded during the period.

Profit attributable to owners of the Company decreased by 19.5% year-on-year to RMB3,020.5 million (2022: RMB3,751.4 million). The decrease was mainly due to the reasons mentioned above and the increase in income tax. Basic earnings per share were RMB0.765 (2022: RMB0.949), representing a year-on-year decrease of 19.4%.

Income Tax Expenses

For the six months ended 30 June 2023, income tax expenses of the Group totaled RMB644.3 million (2022: RMB504.6 million), representing a 27.7% increase year-on-year. The effective income tax rate was 17.4% (2022: 12.2%), representing an increase of 5.2 percentage points year-on-year, which was mainly due to the fair value gain on other financial liabilities of RMB773.9 million, tax exempted, recorded during the same period last year, while no such gains were recording during the period, as well as the withholding taxes of RMB84.3 million arising from the distribution made by domestic subsidiaries during the period.

Capital Expenditure

For the six months ended 30 June 2023, the capital expenditure of the Group amounted to RMB1,887.2 million (2022: RMB2,220.5 million), representing a decrease of 15.0% year-on-year. Of the total, RMB1,851.2 million was mainly spent on building new production facilities and modifying existing ones as well as related investments.

Working Capital, Financial Resources, and Capital Structure

For the six months ended 30 June 2023, the Group recorded net cash inflow from operating activities of RMB3,450.6 million (2022: RMB1,754.1 million), representing an increase of 96.7% year-on-year, which was mainly due to the increase in income and operating profit.

As of 30 June 2023, outstanding interest-bearing bank and other borrowings of the Group increased to RMB47,087.2 million (31 December 2022: RMB39,108.6 million), of which interest-bearing bank and other borrowings repayable within one year amounted to RMB12,021.8 million (31 December 2022: RMB9,094.7 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 short-term time deposits and cash and cash equivalents) of the Group as of 30 June 2023 were RMB28,795.4 million (31 December 2022: RMB26,342.8 million).

The Group's total equity as of 30 June 2023 amounted to RMB50,121.4 million (31 December 2022: RMB50,051.8 million). Its debt-to-equity ratio (total amount of interest-bearing bank and other borrowings over total equity) was 93.9% (31 December 2022: 78.1%).

Finance costs of the Group were RMB727.1 million (2022: RMB518.4 million), or approximately 1.4% when expressed as a percentage of revenue (2022: 1.1%), representing an increase of 0.3 percentage points year-on-year.

PRODUCTS

Adhering to the DTV (Design to Value) concept, Mengniu takes a customer-orientated approach to product development, resulting in designs that are more closely aligned with consumers' preferences. Based on the "Leading Strategy", Mengniu envisions "Better Nutritional" outcomes through the realization of "Good Sources", "Good combinations" and "Good Personalized Choices". By leveraging its global resource advantage and pioneering international technologies, Mengniu has continuously strengthened its research and development capabilities. It endeavors to develop rare ingredients and achieve their commercialization, aiming to lead the industry with exceptional, premium and differentiated products. Mengniu also optimizes its diverse product matrix to span the entire lifecycle, catering to personalized demands of different consumer segments.

The Group's principal businesses are divided into liquid milk, ice cream, milk formula and cheese products, with the following performance during the period:

Liquid milk

Revenue amounted to RMB41,640.2 million (2022: RMB39,665.3 million), accounting for 81.5% of Mengniu's total revenue (2022: 83.1%).

UHT milk

Based on its concept of "organic in the desert, a better organic", *Milk Deluxe* introduced the "Dream Cap" upgraded packaging product in 2019, heralding the *Milk Deluxe* 3.0 era. The organic pure milk products under this brand have received dual certification under the organic standards of both China and the European Union. *Milk Deluxe* Desert Organic Pure Milk, our key product, contains 4.0g of protein and 130mg of natural calcium per 100ml. The product is packaged with craft packaging materials and plant-based bottle caps, resulting in an 8% reduction in carbon emissions compared to conventional packaging, in keeping with the brand's environmentally friendly and sustainable principles.

Mengniu's UHT pure milk line includes *Mengniu* pure milk, high-calcium milk, low-fat high-calcium milk and skimmed milk. A highlight within this category is the *Selected Meadow* A2 β -Casein Pure Milk Dream Cap product. With 120mg of naturally occurring native calcium per 100ml, this product is sourced from premium and rare A2 raw milk and is endorsed by the Chinese National Geography.

Key Products:

Milk Deluxe 4.0g Desert Organic Pure Milk

Selected Meadow A2 β -Casein Pure Milk

Room Temperature Yogurt

Just Yoghurt focused on breakthroughs in differentiation and a return to “pure” and “additive-free” demands. Key products include *Just Yoghurt* Blueberry Flavored Yogurt in PET bottles. This product is made of high latitude (42 degrees north) cold climate blueberries and fresh milk from specific farms, delivering on the tagline “Just Yogurt, Just Ingredients, Truly Delicious”.

Yummy Yogurt extends the Group’s yogurt offerings, delivering playful and enjoyable yogurt snacks to the market. Key products include *Just Yoghurt* Yummy Yoghurt Mixed with Crunchy Almonds Flavored Fermented Milk Prepackaged Cups. This product features a fusion of four strains of flavored fermented milk, matched with popping candy, sea salted almonds imported from the United States, rich and creamy dairy, and freeze-dried red dragon fruit cubes. It seeks to capture market share in the emerging “yogurt + snack” product category.

Key Products:

Just Yoghurt Yummy Yoghurt

Just Yoghurt Just Yoghurt

Room Temperature Milk Beverage

Key products under the *Fruit Milk Drink* brand include the PET Blossom Fruit series, featuring innovative fruit flavors such as “Orange Blossom Honey Pomelo + Aloe Bits” and “Jasmine Flavored + Green Grape Bits” milk shake yogurt drinks. This series is fermented from premium raw milk with low-fat content, targeting the expanding population of young Generation-Z consumers.

The *Suan Suan Ru* Probiotic Fruit Tea, enriched with Swiss lactobacillus, combines premium grapefruit juice, lemon juice, and quality tea ingredients, creating a layered and tangy flavor profile.

Key Products:

Fruit Milk Drink PET Blossom Fruit Yogurt Smoothies

Suan Suan Ru Probiotic Fruit Tea

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 consumer demand for low-sugar products, the Group’s key chilled yogurt products include xylitol yogurt with zero sucrose, made with 100% raw milk source, and containing high quality protein, high calcium and 100 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. Our premium brand, *YO!FINE DIARY*, offers a multi-layered tasting experience to consumers through its delicious lactic acid yogurt.

Key Products:

Mengniu Xylitol Yogurt with Zero Sucrose

Champion Milk Immune Booster Bottle

YO!FINE DIARY

Chilled Milk Beverages

The key product in the chilled milk beverages segment is *Yoyi C* zero sucrose products, boasting a rich content of live probiotics that effectively promote intestinal motility. The products contain erythritol, maltitol syrup and sucralose as substitutes for sucrose, resulting in a low-calorie option. Distinguished by their refreshing taste, the products stand out in their category. Furthermore, the eco-friendly packaging represents Mengniu’s first label-free product, aligning with environmental policies and embodying our commitment to the dual-carbon objective. In addition, the Group has introduced *Yoyi C* Active Probiotic Drinks with Young Coconut and Guava flavors. These variants feature premium red pomegranate pulp and freshly pressed coconut milk from Sumatra. They maintain a zero-fat, zero-sucrose composition, meeting consumer expectations for both delectable taste and light indulgence.

Key Products:

Yoyi C Zero Sucrose

Yoyi C Zero Sucrose Plain Probiotic Lactic Acid Bacteria (Eco Bottle)

Yoyi C Active Probiotic Drink with Young Coconut and Guava Flavors

Fresh Milk

The key product of our high-end brand, *Shiny Meadow*, is 4.0 fresh milk, which uses 1nm micro-membrane freshness-locking technology to lock in 4.0g of fresh milk protein and preserve more original nutrients. Another blockbuster product is 4.0 Jersey fresh milk. This milk comes from rare Jersey cattle which accounts for only approximately 1% of the domestic stock, consolidating our high-end product line, and helping Chinese consumers upgrade their health and quality of life with rare and luxurious nutrition.

In addition, we expanded our products to light fresh milk, explored the youth market, and accelerated the product line development of our sub-brand, *Xiaoxianyu*. *Xiaoxianyu* A2 β -casein light fresh milk with A2 β -casein content $\geq 9.7\text{g/L}$, which is more nutritious and easier to digest, has been launched in the market.

Key Products:

Shiny Meadow 4.0 fresh milk

Shiny Meadow 4.0 Jersey fresh milk

Xiaoxianyu A2 β -casein light fresh milk

Mengniu Modern Meadow fresh milk

Ice Cream

Revenue from the ice cream business amounted to RMB4,308.7 million (2022: RMB3,903.5 million), accounting for 8.4% of Mengniu's total revenue (2022: 8.2%).

Suibian has introduced a range of new flavors, including Strawberry, Classic Vanilla, Crispy Oatmeal, and Creamy Chocolate. In particular, the Strawberry Chocolate Crunch Ice Cream features a jam-filled structure, offering a rich and satisfying taste experience.

In 2022, Mengniu's Maotai Ice Cream became a crossover hit in the ice cream industry. Following the launch of original, vanilla and plum wine flavors, Mengniu introduced Maotai Yogurt Ice Cream, Maotai Green Tea Ice Cream, and Maotai Blueberry Sorbet during the period. Maotai Yogurt Ice Cream and Maotai Green Tea Ice Cream are made from a premium selection of fresh milk, and contain 55% milk content. Maotai Yogurt Ice Cream employs a 100% full fermentation process and contains live lactic acid bacteria. Maotai Green Tea Ice Cream sources its core ingredient, Guizhou green tea, from high-altitude, low-latitude, and cloud-covered tea plantations. The green tea flavor and color are exclusively derived from green tea powder. Maotai Blueberry Juice Sorbet features quality concentrated blueberry juice, and contains over 12% juice content.

Key Products:

Suibian

Deluxe

Mood for Green

Ice+

Mengniu Maotai Ice Cream

Milk Formula

Revenue from the milk formula business amounted to RMB1,894.2 million (2022: RMB1,894.2 million), accounting for 3.7% of Mengniu's total revenue (2022: 4.0%).

Mengniu offers six series of milk formula products which have passed the new national standards. In particular, Mengniu's *Reeborne* Enzhi (恩至) series, Qinyi (親益) series, and Qinyou (親悠) series, as well as Mengniu's Chuai Niuniu (初愛牛牛) series aligned with the new national standards, contain MLCT structured lipids and a new OPO component. *Bellamy's* Jingyue (菁躍) organic infant formula was the first organic infant milk powder from Australia and New Zealand to receive approval under the new national standards.

In terms of nutritional supplements, the *Yourui* (悠瑞) Senior Milk Formula series has introduced products tailored to the middle-aged and the elderly. This enhanced formula contains protein, calcium, selenium, magnesium, and other nutrients catering to the needs of the middle-aged and the elderly. Building upon this refined formula, *Yourui* introduced products that emphasize bone health and mobility for the middle-aged and the elderly. The basic version focuses on promoting calcium intake and absorption for robust bone health, whereas the premium version is designed to meet the skeletal, joint, and muscular needs of the middle-aged and the elderly. With the inclusion of HMB, it aims to minimize muscle loss, stimulate muscle cell synthesis, reinforce muscle health, and mitigate the risk of falls.

Key Products:

Reeborne Jingzhi (菁至) organic series

Bellamy's Jingyue (菁躍) organic infant formula

Mengniu Yourui (悠瑞) bone strength formula

Cheese

Revenue from the cheese business amounted to RMB2,256.1 million (2022: RMB545.5 million), accounting for 4.4% of Mengniu's total revenue (2022: 1.1%).

Key products under the *Milkground* brand include Organic Cheese Sticks, which contains 66% organic cheese and 9.0 grams of quality milk protein, and utilizes organic milk sources, organic processing, and organic certification. In addition, *Milkground* has introduced a premium leisure product targeting urban white-collar professionals, the "Mousse Cheese Cup", with a cheese content exceeding 68%, containing 2.4 times protein and 2.6 times calcium compared to a cup of milk. For the catering sector, *Milkground* launched Extra Rich Whipping Cream, a new product suitable for Western cuisine, baking, tea beverages, industrial use, and Chinese cuisine.

For Mengniu’s self-operated cheese business, the key product is the Fresh Milk Protein Cheese Stick, the first cheese stick made of fresh milk in China which is endorsed by the China Space Foundation. It is made with raw milk which exceeds EU standards and contains casein, α -lactalbumin, β -lactoglobulin and DHA. In terms of home baking, the Group launched golden butter using classic European fermentation technology with added lactic acid bacteria, marking a pioneering effort among domestic dairy enterprises. Furthermore, catering to the growing demand in baking and beverage channels, Mengniu introduced *Ai Shi Chen Xi* (愛氏晨曦) Whipping Cream in a 1L pack.

Key Products:

Milkground organic cheese stick

Milkground Mousse Cheese Cup

Mengniu Fresh Milk Protein Cheese Stick

Mengniu Golden Butter

Ai Shi Chen Xi (愛氏晨曦) *Whipping Cream*

PRODUCTION

Mengniu deploys its production capacity according to the potential of relevant markets and its product strategy. As of 30 June 2023, Mengniu had 45 production bases in China, 2 production bases in Indonesia, 2 production bases in Australia and 1 production base in New Zealand, respectively. It had a total annual production capacity of 13.60 million tons (December 2022: 12.91 million tons).

SUSTAINABLE DEVELOPMENT

With the continuous implementation of its “GREEN” sustainable development strategy and the dual-carbon strategic goal released in 2022, and based on its commitment of “reaching carbon peak in 2030 and carbon neutrality in 2050”, Mengniu has adopted 15 specific carbon reduction measures covering six major aspects of the entire industrial chain, establishing a “leading strategy” for the green transformation of the dairy industry.

In the first half of the year, the Group released the “Mengniu Forest Protection Policy” (《蒙牛森林保護政策》), pursuant to which it will strive for the goal of “Zero Deforestation by 2030”, eliminate deforestation risks in the supply chain, and join the global initiative to grow, restore and conserve one trillion trees (全球植萬億棵樹領軍者倡議) of the World Economic Forum (WEF). So far, the Group has planted 97 million trees in the Ulan Buh Desert, turning over 200 square kilometers of desert into an oasis.

In respect of production and operations, the Group has a total of 27 factories that have been recognized as national-level green factories. Three factories have been awarded the TÜV Rheinland (德國萊茵TUV) landfill-free waste management system certification. The Qujing factory in Yunnan has become the first in China's dairy industry to receive both international and domestic zero carbon factory certifications. The Ningxia factory, which commenced operation during the period, is the world's first fully intelligent dairy factory and has been honored with the first U.S. Green Building Council LEED Gold certification for green buildings in the domestic dairy industry. This honor reflects the Ningxia factory's excellence in energy conservation, water-saving, carbon dioxide reduction, indoor living quality, and material use, as its energy consumption is 43% lower than conventional factories.

In respect of cooperative dairy farms, the Group has continued to promote its existing "Net Zero Carbon Emission" policy across the entire industry chain. Mengniu has reduced emissions in upstream farms through four major methods: optimizing herd structure, adjusting feed composition, enhancing manure management, and improving energy utilization efficiency. In 2022 alone, Mengniu achieved a reduction of 180,000 tons of CO₂e (carbon dioxide equivalent). Its main dairy source partners, such as Modern Dairy and Shengmu, have seen a decrease in their carbon emission intensity. The Group has also pioneered the establishment of desert organic farms, which integrate farming and breeding and recycle manure back into the fields to promote organic circulation. All of its cooperative farms have realized the successful re-utilization of manure.

In addition, the Group was included in the inaugural "Sustainability Yearbook (China Edition)" (《可持續發展年鑒(中國版)》) published by S&P Global and has been recognized as the "Most Improved Enterprise in the Industry", reflecting the continued high level of international recognition for the Group's sustainable development efforts.

HUMAN RESOURCES

As of 30 June 2023, the Group had a total of approximately 46,355 employees in the Chinese Mainland, Hong Kong, Oceania and Southeast Asia, including approximately 2,738 employees of *Milkground*. During the period, the total cost of employees (including the salaries of directors and senior management personnel) amounted to approximately RMB4,424.1 million (2022: RMB4,061.4 million).

In the first half of 2023, the Group persisted on its strategic objective of "Creating a new Mengniu" to promote the joint building of an open, inclusive, and resilient organization. In terms of establishing a management team, in the first half of 2023, the Talent Development Department continued to explore and accelerate the construction of five future-oriented talent teams, including building a team of leading management talents, cultivating a team of elite professional talents, developing a team of top-notch young talents, strategically retaining a team of international talents, and stimulating breakthroughs from a team of innovative talents.

In terms of employee training, the Group focused on its developmental needs, continued to promote the training of new employees, deepened the cultivation of core general capabilities in the workplace, strengthened the internal training team, and strongly supported key talent training projects. In the first half of 2023, Mengniu made remarkable achievements in the training of professional skilled personnel, and was approved to build a “national high-skilled personnel training base”. In terms of vocational skills certification, the Group, as the first enterprise in China’s dairy industry to obtain the qualification for self-certification of vocational skill levels, actively promotes the implementation of skills upgrading programs.

In terms of performance-based remuneration, the Group has developed a comprehensive remuneration system that links business performance with a people-oriented approach, and drives high-quality growth with competitive remuneration, differentiated performance, diversified incentives, and flexible benefits. In the first half of 2023, the Group granted 6,626,176 restricted shares to its employees.

Outlook

In the second half of 2023, the five-year “Creating a new Mengniu” strategy will reach its mid-point. The Group remains committed to executing this strategy, which is underpinned by the concept that “consumers are at the heart of all our decisions”. Focusing on the three key strategic approaches of “Greener, More Nutritious and Smarter”, the Group will pursue ongoing collaboration with both domestic and international industry chains to create a sustainable global dairy industry community that embraces green and low-carbon practices. Through international cooperation, Mengniu aims to achieve net-zero emissions. At the same time, greater emphasis will be placed on research investments for high-quality dairy and nutritional products. This strategic effort aims to consolidate Mengniu’s leadership position by strengthening a comprehensive product matrix that caters to various categories and consumer demands. In addition, the Group will harness AI to empower its digitalization efforts. This endeavor will facilitate the upgrade and transformation of factory operations, marketing and the entire industry. As a result, the Group will be able to build a “FIRST Mengniu” brand that is beloved by consumers, more international, socially responsible, culturally strong and digitally transformed.

The sustained improvement of the macroeconomic environment and the gradual recovery in domestic consumer demand, coupled with the Chinese government’s ongoing measures to stimulate consumption recovery and expansion, is expected to produce a favorable environment for the consumer goods industry in the second half of the year and for the foreseeable future. In recent years, Chinese consumers have become increasingly health-conscious, with growing preferences for low sugar and additive-free products, as well as products that meet functional needs like immune system enhancement. These factors have emerged as growth drivers for dairy and nutritional product consumption. The Group is poised to align with these consumption upgrade trends, and will continue to drive innovation in its core liquid milk products and production technologies and process to maintain market leadership. In addition, the Group aims to strengthen its portfolio of premium organic infant formula products, seize the growth opportunities presented by an aging population with adult nutrition products and accelerate the expansion of Mengniu’s influence and market share in new segments such as ice cream, cheese and liquid protein nutritional supplements. This strategic approach seeks to provide a comprehensive range of dairy and nutritional products spanning multiple categories and covering the entire lifecycle, catering to the nutritional and functional needs of various consumer groups.

The Group will maintain its ongoing efforts to optimize operational strategies. Leveraging the further expansion, diversification and enhancement of its product matrix, Mengniu will continue to cultivate its global brand influence. This will encompass targeted engagement with international events, such as the Olympic Games and the FIFA World Cup, while leveraging other premium IP resources to promote its brand concept of “born to excel”. Guided by a brand philosophy centered on health and happiness, Mengniu is set to lead the high-quality development of China’s dairy industry. Its aim is to establish itself as the preferred dairy product brand for Chinese consumers while aspiring to become a world-class national dairy enterprise, channeling its endeavors towards the improvement of human health and well-being.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Part 2 of Appendix 14 to the Listing Rules as its own code of corporate governance practices.

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2023.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2023.

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

During the six months ended 30 June 2023, the Company repurchased on the open market a total of 13,074,000 shares of the Company at a total consideration (excluding relevant expenses) of HK\$419,334,350, in which 12,824,000 shares were cancelled during the six months ended 30 June 2023, and the remaining shares were subsequently cancelled.

Particulars of the shares repurchased on the open market during the reporting period are as follows:

Month of repurchases	Total number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate amount paid (excluding relevant expenses) (HK\$)
February 2023	2,750,000	36.50	35.30	99,069,300
April 2023	700,000	32.00	31.15	22,138,270
May 2023	3,988,000	33.50	29.85	127,505,289
June 2023	<u>5,636,000</u>	31.70	28.85	<u>170,621,491</u>
	<u>13,074,000</u>			<u>419,334,350</u>

Subsequent to the reporting period and up to the date of this announcement, the Company repurchased on the open market a total of 4,565,000 shares of the Company at a total consideration (excluding relevant expenses) of HK\$129,194,697. Such repurchases were subsequently cancelled. The number of issued shares of the Company as at the date of this announcement is 3,939,963,068 shares.

Particulars of the shares repurchased on the open market subsequent to the reporting period and up to the date of this announcement are as follows:

Month of repurchases	Total number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate amount paid (excluding relevant expenses) (HK\$)
July 2023	<u>4,565,000</u>	30.80	26.75	<u>129,194,697</u>

The Directors believe that the above repurchases are in the best interests of the Company and its shareholders.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Li Michael Hankin (chairman), Mr. Yih Dieter and Mr. Ge Jun.

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's unaudited interim financial information for the six months ended 30 June 2023.

SCOPE OF WORK OF KPMG

The interim financial information for the six months ended 30 June 2023 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of interim financial information performed by the independent auditor of the entity*", issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.mengniuir.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report of the Company will be despatched to shareholders and available at the aforesaid websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the executive Directors are Mr. Jeffrey, Minfang Lu, Ms. Wang Yan and Mr. Zhang Ping; the non-executive Directors are Mr. Chen Lang, Mr. Wang Xi and Mr. Simon Dominic Stevens; and the independent non-executive Directors 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, 30 August 2023