中國飛鶴有限公司
China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6186

ANNUAL REPORT 2019

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. LENG Youbin *(Chairman & Chief Executive Officer)*
Mr. LIU Hua
Mr. CAI Fangliang
Mr. LIU Shenghui
Ms. Judy Fong-Yee TU
Mr. CHEUNG Kwok Wah

Non-executive Directors
Mr. GAO Yu
Mr. Kingsley Kwok King CHAN

Independent Non-executive Directors
Ms. LIU Jinping
Mr. SONG Jianwu
Mr. FAN Yonghong
Mr. Jacques Maurice LAFORGE

AUDIT COMMITTEE
Mr. FAN Yonghong *(Chairman)*
Mr. GAO Yu
Mr. Jacques Maurice LAFORGE

REMUNERATION COMMITTEE
Ms. LIU Jinping *(Chairman)*
Mr. LIU Hua
Mr. Jacques Maurice LAFORGE

NOMINATION COMMITTEE
Mr. LENG Youbin *(Chairman)*
Ms. LIU Jinping
Mr. SONG Jianwu

JOINT COMPANY SECRETARIES
Ms. Judy Fong-Yee TU
Ms. CHAN Wai Ling

AUDITORS
Ernst & Young

AUTHORISED REPRESENTATIVES
Mr. LIU Hua
Ms. Judy Fong-Yee TU

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HONG KONG BRANCH SHARE REGISTRAR
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STOCK CODE
6186

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

RESULTS

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**13,721,509**	10,391,917	5,887,260	3,724,381	3,615,391
Gross profit	**9,609,591**	7,019,090	3,790,460	2,033,960	1,999,867
Profit before tax	**5,682,676**	3,188,571	1,651,061	594,947	644,860
Profit for the year	**3,934,577**	2,242,254	1,160,226	406,152	381,634
Profit for the year attributable to owners of the parent	**3,934,577**	2,242,254	1,160,226	416,988	411,880
Profit for the year attributable to non-controlling interests	**–**	–	–	(10,836)	(30,246)

ASSETS AND LIABILITIES

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total asset	**23,003,749**	11,857,435	7,013,558	4,694,947	4,679,126
Total liability	**(9,974,171)**	(6,069,951)	(3,428,545)	(2,318,007)	(2,695,025)
Total equity	**13,029,578**	5,787,484	3,585,013	2,376,940	1,984,101
Non-current assets	**5,715,172**	4,562,710	2,590,938	1,680,723	1,544,135
Current assets	**17,288,577**	7,294,725	4,422,620	3,014,224	3,134,991
Current liabilities	**(7,438,500)**	(4,860,234)	(3,089,477)	(2,039,201)	(2,396,029)
Net current assets	**9,850,077**	2,434,491	1,333,143	975,023	738,962
Non-current liabilities	**(2,535,671)**	(1,209,717)	(339,068)	(278,806)	(298,996)
Total Equity	**13,029,578**	5,787,484	3,585,013	2,376,940	1,984,101

Chairman's Statement

Dear Shareholders:

On behalf of the Board, I am pleased to present the annual report of the Company for the year ended 31 December 2019 and the future outlook for 2020 to our Shareholders.

In 2019, China's infant milk formula industry has been demonstrating signs of consumption upgrades and high levels of market concentration. The Company adhered to its value proposition of "More Suitable for Chinese Babies" and achieved its annual targets despite challenges such as declines in birth rates and intensified competition in the industry.

2019 REVIEW

Financial Performance

In 2019, the Company's results of operations sustained rapid growth as a result of the Company's strengths in various aspects including branding, research and development, channels and management system. From 2018 to 2019, the Company's revenue increased from RMB10,391.9 million to RMB13,721.5 million with a year-on-year growth of 32.0%, gross profit increased from RMB7,019.1 million to RMB9,609.6 million with a year-on-year growth of 36.9%, and net profit increased from RMB2,242.3 million to RMB3,934.6 million with a year-on-year growth of 75.5%.

Business Performance

With focus on infant milk formula products, China Feihe promoted product upgrading and new product R&D through continuous innovation and research to meet the high-end and personalized needs of consumers. We also devoted our efforts to multiple aspects such as branding, channels and services, which achieved fruitful results.

1. **Continuous Research and Innovation.** In 2019, the dairy engineering academician workstation of Heilongjiang Feihe Dairy Products Co., Ltd. conducted in-depth research on breast milk in various regions, and gradually controlled functional raw materials. It obtained the invention patent on phosphoric breast milk and made historic breakthroughs in core technologies related to brain development, further deepening our research on breast milk. It also published high quality SCI articles with average impact factor over 5. We established the Feihe Industry Chain Innovation Center for Infant Milk Formula (the "**Feihe Industry Chain Innovation Center for Infant Milk Formula**") jointly with the China Dairy Technology Innovation Union (國家奶業科技創新聯盟), so as to lift up the overall processing standards along the industry chain, consolidate the foundation of fresh product industries and accelerate the industry chain upgrades.

2. **World-Class Manufacturing and Quality Control.** On the one hand, our world-class manufacturing management continued to achieve results, and we continued to improve the efficiency of our production systems as well as our product quality through standardized and refined production processes. We won the 2019 Total Productive Maintenance (TPM) Award issued by the Japan Institute of Plant Maintenance (JIPM). On the other hand, all of our factories have established and implemented the ISO 9001 and FSSC 22000 management systems, so as to strictly perform corporate responsibility and further ensure food safety. We have formulated the Feihe quality and safety management system

covering dairy farms and suppliers, and extended to consumers, as well as the whole supply chain. Our laboratory test data and reports, which were accredited by China National Accreditation Service for Conformity Assessment (CNAS), were accepted by accreditation institutions from more than 100 countries and regions that are members of mutual recognition agreements between the International Laboratory Accreditation Cooperation Organization (ILAC), the International Accreditation Forum (IAF) and the Asia-Pacific Accreditation Cooperation Organization (APAC). In 2019, we participated in 52 capability verification tests organized by British Food Analysis Performance Assessment Scheme (FAPAS) and Laboratory of the Government Chemist (LGC), and all obtained satisfactory-level results, reflecting that our detection and analysis capabilities and technologies have met international requirements.

Relying on our strong capacities on production, research and quality control, we continued to produce high-quality products which are well-recognized by the market. In 2019, we won the Monde Selection Gold Award issued by the International Quality Institute for the fifth consecutive year, and were nominated for the World Dairy Innovation Awards for the third consecutive year. Feihe provides approximately 100 million cans of infant milk for Chinese mothers every year. Our premium and super-premium products have achieved excellent results, laying a solid foundation for our sustainable and stable growth in the future.

3. **Continuous Brand Building.** In cooperation with the Dairy Association of China and the China Dairy Industry Association, we created the "528 Chinese Baby Day", promoting "High-Quality Companionship", and produced the "New Parenting Concept" with total network broadcast volumes of over 512 million. We are committed to in-depth communication with customers on parenting concepts, and gradually expanded our presence in core consumer groups in the first and second tier cities. In addition, with a view to enhancing our image as a high-end brand through cross-industry cooperation and marketing events, we sponsored the fairytale town of China International Fashion Week, and made our presence on 5 landmark buildings such as the Oriental Pearl Tower on the Bund of Shanghai.

   Capitalizing on our high-quality products and strong brand influence, China Feihe has been named as "No.1 in China's Annual Brand Award (Infant Milk Industry)" and "China's Top Ten Infant Milk Formula", and was selected as the "Top 500 Asian Brand" and "Gold Award for Asian Premium Brands". We continued to expand our influence in Asia and the world as a Chinese brand.

4. **Accelerating Channel Integration.** With the aim to consolidate our presence in the mainstream market and the regional market, while continuing to expand traditional channels, we plan to continue our expansion into e-commerce and new retail channels to integrate offline supermarkets and maternal and infant stores with e-commerce channels. In addition, we accelerated our digital transformation, and carried out in-depth cooperation with Ali Cloud in the development of a data station. We applied digital technologies in all aspects of production, research and development, distribution and services, fully tapped the value of data to improve front-end business with data, and enhanced our operations for new and existing users, so as to empower the online and offline businesses and realize full life-cycle operations.

5. **Promoting Service Innovation.** At present, Feihe has taken the lead in creating a visualized and traceable product system, to provide consumers with the most comprehensive, convenient and secure traceable services in the industry. Meantime, we have actively integrated online and offline platforms and resources relying on our information technology, and provided Chinese expectant mothers and mothers with comprehensive feeding solutions through diversified online interactions including online classes, care hotlines and Wechat customer services as well as a total of about 500,000 events in China in 2019, which has further enhanced consumer recognition for domestic dairy products and greatly increased the trust of Chinese consumers in domestic brands.

FUTURE PROSPECT

In the future, we will maintain our efforts and focus on our principal business to further develop infant milk formula products. We will leverage our research and development efforts at the Dairy Engineering Academician Workstation and the Feihe Industry Chain Innovation Centre for Infant Milk Formula, maintain our passion for research and innovation, enhance our control over functional raw materials, and consolidate our industrial foundations, so as to lead the sustainable development of the Company with new technologies and products. Meanwhile, we will continue to improve ourselves and ride on the changes in intelligence and big data, and empower industrial innovations to create and promote an intelligent dairy industry ecosystem with intelligent manufacturing and logistics. We will make it our responsibility to provide high-quality products and strive to become the most trusted and respected infant nutrition expert, and bring hope and happiness to families by providing the freshest infant milk formula products that are more suitable for Chinese babies.

LENG Youbin
Chairman
23 March 2020

Management Discussion and Analysis

INDUSTRY OVERVIEW

China is the world's most populous country and one of the fastest growing infant milk formula markets in the world. With continued urbanization and the rise in the number of women in the workplace, an increasing number of mothers in China have grown to accept the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. Due to the decline in birth rates, the growth of the retail sales value of the infant milk formula market in China is anticipated to slow down in the future. However, China's infant milk formula market is expected to continue to grow, driven by the growth of the high-end market segment supported by positive factors such as an increasing focus on product quality and safety, appreciation for the nutrients of infant milk formulas, favorable industry policies, as well as growth in consumers' confidence in the quality of and increased preference for China's infant milk formula products. China has also implemented the "Universal Two-Child Policy". The following are key market drivers and trends of the infant milk formula market in China:

- Growth in consumers' confidence in the quality of and preference for China's infant milk formula products. With the enhancement in the quality management regime of China's dairy industry and the increased competitiveness of Chinese dairy brands, consumers' confidence in and consumption preference for China's infant milk formula products continued to increase. The growth in consumer demand for infant milk formula products will drive the production and sales of China's infant milk formula products, which could in turn better satisfy consumers' diversified and unique consumption needs.

- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products, particularly super-premium products, is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics' 2019 Statistical Report on National Economic and Social Development, China's total economic volume in 2019 is close to RMB100 trillion, with a per capita GDP of RMB70,892, exceeding US$10,000 (converted at the average exchange rate for the year), which will in turn increase the consumption momentum of China's high-end infant milk formula products.

- Increasing urbanization and rising disposable income. The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products, especially high-end products. Lower-tier cities as well as rural areas in China are becoming wealthier and more urbanized, and families in such regions are increasingly able to afford higher-quality infant milk formula products. In general, these regions have larger populations and therefore higher potential for consumption growth.

- Favorable industry policies by the PRC government:

  - The National Development and Reform Commission of China unveiled the Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) in May 2019, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.

  - The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder (嬰幼兒配方乳粉產品配方註冊管理辦法) (issued in June 2016 and became effective on 1 January 2018) limit each registered infant milk formula product manufacturer to the registration of up to three product series, resulting in a higher market concentration which would benefit major infant milk formula market players with a strong presence in small cities and rural areas in China.

- Low level of exclusive breastfeeding rate. The rate of infants that are fed exclusively with breast milk for the first six months after birth was 29% in 2018. The increasing resemblance of infant milk formula to breast milk, availability of infant milk formula and inconvenience of breastfeeding for working mothers are among the primary factors that have influenced a mother's choice of whether or not to breastfeed her baby. With China's continued economic growth and urbanization process, breastfeeding rates are forecasted to remain at low levels, creating more demand for infant milk formula products.

BUSINESS OVERVIEW

Our Dairy Products

The Group's infant milk formula products are designed to closely simulate the composition of the breast milk of Chinese mothers through in-house research and development formulations, with the aim of achieving an optimal balance of key ingredients for Chinese babies based on their biological physique. The Group offers a diversified portfolio of products which caters to a wide range of customer base at different prices. In addition to super-premium and premium, the Group also offers a portfolio of well-known brands spanning the regular infant milk formula series as well as other products such as dairy products for adults and students.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 1,800 offline customers with more than 109,000 retail points of sale as at 31 December 2019. The Group's offline customers are distributors who sell our products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 91.3% of its total revenue from dairy products for the year ended 31 December 2019.

To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, our products are also sold directly on some of the largest e-commerce platforms, such as Tmall, JD.com, and Suning.com, in addition to our own website and mobile applications, such as WeChat.

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 31 December 2019, the Group had six production facilities to manufacture its products with a designed annual production capacity of 126,800 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. In anticipation of the Group's continued robust growth and increasing demand for its products, the Group is expanding two of its existing production facilities and constructing two new production facilities.

Marketing

The Group is a pioneer in China's infant milk formula market by positioning its brand as "More Suitable for Chinese Babies" (更適合中國寶寶體質) and has an established strong brand association with this message. The Group's innovative online and offline marketing strategies have enabled Feihe to become one of the most widely recognized and reputable infant milk formula brands among Chinese consumers today. The Group's marketing strategy consists of three key components:

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. In 2019, more than 500,000 face-to-face seminars were held in total;

- Maximize online interactivity with consumers; and

- Targeted and results-driven exposure on media.

Vitamin World USA

While focusing on the principal business of production and sales of infant milk formula products, the Group has been actively seeking opportunities to diversify its businesses. The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA ("**Vitamin World USA**"). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated more than 120 specialty stores across the United States, mostly in malls and outlet centres, and employed over 600 people as at 31 December 2019. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms, such as Amazon, Tmall Global and JD.hk. Revenue generated from nutritional supplement products was RMB578 million, accounting for 4.2% of the Group's total revenue for the year ended 31 December 2019.

OPERATING RESULTS AND ANALYSIS

The table below sets forth the Group's consolidated statement of profit or loss and other comprehensive income in amounts and as a percentage of the Group's revenue for the years indicated, together with changes (expressed in percentages) from 2018 to 2019.

	Year Ended 31 December				Year-on-Year Change
	2019		2018		
	(In thousands of RMB, except percentages)				
Revenue	**13,721,509**	**100.0%**	10,391,917	100.0%	32.0%
Cost of sales	**(4,111,918)**	**(30.0)%**	(3,372,827)	(32.5)%	21.9%
Gross profit	**9,609,591**	**70.0%**	7,019,090	67.5%	36.9%
Other income and gains, net	**976,789**	**7.1%**	555,835	5.3%	75.7%
Selling and distribution expenses	**(3,847,985)**	**(28.0)%**	(3,661,314)	(35.2)%	5.1%
Administrative expenses	**(913,226)**	**(6.7)%**	(580,289)	(5.6)%	57.4%
Other expenses	**(69,800)**	**(0.5)%**	(86,076)	(0.8)%	(18.9)%
Finance costs	**(72,693)**	**(0.5)%**	(58,675)	(0.6)%	23.9%
Profit before tax	**5,682,676**	**41.4%**	3,188,571	30.6%	78.2%
Income tax expense	**(1,748,099)**	**(12.7)%**	(946,317)	(9.1)%	84.7%
Profit for the year	**3,934,577**	**28.7%**	2,242,254	21.5%	75.5%
Other comprehensive loss					
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**(30,187)**	**(0.2)%**	(46,191)	(0.4)%	(34.6)%
Total comprehensive income for the year	**3,904,390**	**28.5%**	2,196,063	21.1%	77.8%

Revenue

The Group's revenue increased by 32.0% from RMB10,391.9 million in 2018 to RMB13,721.5 million in 2019, primarily due to (i) an increase in revenue generated from the high-end infant formula product series primarily attributable to the increase in revenue from Super-premium Astrobaby and Super-premium Organic Zhenzhi product series, (ii) an increase in revenue generated from regular infant milk formula product series primarily attributable to the enhanced recognition of the Group's brand, and (iii) an increase in revenue generated from other dairy products, primarily from the increase in revenue from adult milk powder. The slight decrease in revenue from nutritional supplement products from 2018 to 2019 was primarily because the Group was in the process of integrating the sales and product resources of Vitamin World USA.

The following table sets forth a breakdown of the Group's revenue by product category for the years indicated.

	Year Ended 31 December				Year-on-Year Change
	2019		2018		
	(In thousands of RMB, except percentages)				
High-end infant milk formula product series	**9,411,461**	**68.6%**	6,657,636	64.1%	41.4%
Regular infant milk formula product series	**3,126,654**	**22.8%**	2,541,562	24.4%	23.0%
Other dairy products*	**605,169**	**4.4%**	550,383	5.3%	10.0%
Nutritional supplement products	**578,225**	**4.2%**	642,336	6.2%	(10.0)%
Total revenue	**13,721,509**	**100.0%**	10,391,917	100.0%	32.0%

* Our other dairy products include adult milk powder, liquid milk, goat milk infant formula, and a small amount of soybean powder, among others.

Cost of Sales

The Group's cost of sales increased by 21.9% from RMB3,372.8 million in 2018 to RMB4,111.9 million in 2019, primarily due to an increase in the costs of raw materials such as fresh milk, packaging materials and others in 2019, which was primarily caused by the higher sales volume of the Group's dairy products.

Gross Profit and Gross Profit Margin

The table below sets forth a breakdown of the Group's gross profit and gross profit margin by product category for the years indicated.

	Year Ended 31 December				Year-on-Year Change in Gross Profit
	2019		2018		
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	
	(In thousands of RMB, except percentages)				
High-end infant milk formula product series	**7,141,009**	**75.9%**	5,091,127	76.5%	40.3%
Regular infant milk formula product series	**1,939,586**	**62.0%**	1,593,051	62.7%	21.8%
Other dairy products	**210,240**	**34.7%**	104,275	18.9%	101.6%
Nutritional supplement products	**318,756**	**55.1%**	230,637	35.9%	38.2%
Gross profit	**9,609,591**	**70.0%**	7,019,090	67.5%	36.9%

As a result of the foregoing, the Group's gross profit increased by 36.9% from RMB7,019.1 million in 2018 to RMB9,609.6 million in 2019.

The Group's gross profit margin increased from 67.5% in 2018 to 70.0% in 2019, primarily due to the Group's high-end infant milk formula product series, which had a relatively high gross profit margin among its products, accounted for an increased portion of sales in 2019.

Other Income and Gains, Net

Our other income and gains, net increased by 75.7% from RMB555.8 million in 2018 to RMB976.8 million in 2019, primarily due to (i) an increase in bank interest income, and (ii) an increase in government grants.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 5.1% from RMB3,661.3 million in 2018 to RMB3,848.0 million in 2019, primarily due to (i) an increase in costs in relation to promotional activities, and (ii) an increase in staff costs in relation to sales and distribution.

Administrative Expenses

Our administrative expenses increased by 57.4% from RMB580.3 million in 2018 to RMB913.2 million in 2019, primarily due to (i) an increase in staff costs, and (ii) the recognition of IPO expenses for 2019.

Other Expenses

Our other expenses decreased by 18.9% from RMB86.1 million in 2018 to RMB69.8 million in 2019, primarily because of the donation of medical equipment to public hospitals, which was announced in 2017 and made in 2018, with no such donation in 2019. See note 7 to the consolidated financial statements.

Finance Costs

Our finance costs increased by 23.9% from RMB58.7 million in 2018 to RMB72.7 million in 2019, primarily due to an increase in our interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 78.2% from RMB3,188.6 million in 2018 to RMB5,682.7 million in 2019.

Income Tax Expense

Our income tax expense increased by 84.7% from RMB946.3 million in 2018 to RMB1,748.1 million in 2019 as a result of an increase in our assessable profit in 2019.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 29.7% in 2018 and 30.8% in 2019.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 75.5% from RMB2,242.3 million in 2018 to RMB3,934.6 million in 2019.

LIQUIDITY AND CAPITAL RESOURCES

In 2019, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from the global offering of the Company (the "**Global Offering**"). The Group monitors its bank balances on a daily basis and conduct monthly reviews of our cash flows. We also prepare a monthly cash flow plan and forecast, which is submitted for approval by our Chief Financial Officer and Vice President of Finance Department, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs. In addition, we also used cash to purchase structured deposits, which were wealth management products. The underlying financial assets of the wealth management products generally are a basket of assets with a combination of money market instruments such as money market funds, interbank lending and time deposits, debt, bonds and other assets such as assets in insurance, trust fund plans and letters of credit. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment. As at 31 December 2019, the Group had structured deposits of RMB5,390.2 million. See note 25 to the consolidated financial statements.

Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents of RMB7,377.5 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use. See note 26 to the consolidated financial statements.

Net Proceeds from the Global Offering

For net proceeds from the Global Offering, please see "Use of Net Proceeds".

Bank and Other Borrowings

As at 31 December 2019, the Group's interest-bearing bank and other borrowings were approximately RMB4,810.3 million. See note 29 to the consolidated financial statements.

CAPITAL STRUCTURE

As at 31 December 2019, the Group had net assets of RMB13,029.6 million, comprising current assets of RMB17,288.6 million, non-current assets of RMB5,715.2 million, current liabilities of RMB7,438.5 million and non-current liabilities of RMB2,535.7 million.

The Group's gearing ratio was calculated by net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statement of financial position less cash and bank balances, time deposits, restricted cash and pledged deposits. Total capital is calculated as equity holders' funds (i.e., total equity attributable to equity holder of the Company), as shown in the consolidated statement of financial position. The Group's gearing ratio increased from -0.65 as at 31 December 2018 to -0.49 as at 31 December 2019.

CASH FLOW

The Group's net cash flows from operating activities was RMB5,180.5 million in 2019, as compared with RMB3,121.2 million in 2018. The Group's net cash flows used in investing activities was RMB5,514.9 million in 2019, as compared with RMB3,272.4 million in 2018. The Group's net cash flows from financing activities was RMB4,123.0 million in 2019, as compared with net cash flows used in financing activities of RMB509.0 million.

INTEREST RATE RISK AND EXCHANGE RATE RISK

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the year ended 31 December 2019, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars, Hong Kong dollars and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which is made in Canadian dollars. During the year ended 31 December 2019, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

CAPITAL EXPENDITURE AND COMMITMENTS

For the year ended 31 December 2019, the capital expenditures incurred by the Group was approximately RMB1,441.9 million, primarily attributable to purchase of property, plant and equipment and right-of-use assets. As at 31 December 2019, the capital commitments of the Company was approximately RMB690.8 million, primarily attributable to construction and purchases of items of property, plant and equipment.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

PLEDGE OF THE GROUP'S ASSETS

The Group's pledged assets primarily represent construction in progress of RMB1,777.8 million and pledged deposits of RMB3,684.4 million. As at 31 December 2019, the total pledged group assets amounted to approximately RMB5,462.2 million, representing an increase of RMB3,796.2 million as compared to the beginning of 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any contingent liabilities.

SUBSEQUENT EVENTS

Since December 2019, a new strain of coronavirus has surfaced in Hubei Province and quickly spread across China (the "**Epidemic**"). China has taken a number of emergency public health measures (including travel restrictions, extension of the Chinese New Year holidays and other work-related restrictions) to curb the spread of the Epidemic. As a result, China's economy in the first quarter of 2020 has been negatively affected to some extent. The Group has been paying close attention and has responded swiftly to the development of the Epidemic by quickly establishing a special task force to minimize the impact of the Epidemic on the Group's production, logistics and sales. Meanwhile, the Group was also active in fulfilling its commitment to corporate and social responsibilities.

- **Fulfilling Social Responsibilities**

  Soon after the outbreak of the Epidemic, the Group donated RMB100 million to the Chinese Red Cross Foundation to establish the "Chinese Red Cross Foundation – Feihe Anti-COVID-19 Fund", which supported the medical workers as well as the purchase of materials and the construction of new hospitals. The Group then donated a further RMB100 million of nutritious foods to care for the medical workers, pregnant ladies and expectant mothers affected by the Epidemic. Such efforts reflected the Group's commitment to corporate and social responsibilities and earned praise and recognition from the public.

- **Production**

  The Group actively organised its employees to work safely and legally. After the outbreak of the Epidemic, all of the Group's factories continued to operate in order to fully satisfy the market demand. For the first two months of 2020, the products produced by the Group's factories increased by 40% as compared to the same period in 2019.

- **Supply of Raw Materials**

  The main raw material of the Group's products is fresh milk. The Group's fresh milk is primarily sourced from Heilongjiang province, which is far away from Hubei province, the center of the Epidemic. The Group has entered into a long-term strategic cooperation agreement with its major fresh milk supplier YuanShengTai Dairy Farm Limited to ensure the priority in obtaining sufficient high-quality fresh milk. The Group's consumption of raw milk for the first two months of 2020 increased by more than 40% compared to the same period in 2019. For other raw materials, such as demineralised whey powder, skimmed milk powder and lactose, the Group has also entered into long-term strategic agreements with suppliers to ensure its priority in obtaining the supplies. During the period, the Group has increased the order quantity, arranged shipment in advance and adjusted transportation methods to ensure the supply of raw materials. The stock of raw materials is currently sufficient.

- **Logistics and Distribution**

  The Group's logistics department has built a network covering China through the cooperation with multiple logistics companies, enabling it to mobilize various resources to ensure prompt delivery in the Epidemic. Leveraging the strong ability of its team and its channel control capabilities, the Group has mobilized all personnel at its points of sale and distributor partner stores to provide consumers with safe and contactless doorstep delivery services. In February 2020, the Group's product delivery rate reached 98%.

- **Online Marketing Activities**

  Soon after the outbreak of the Epidemic, the Group switched its consumer education activities from offline to online. The Group's marketing team continuously interacted and communicated with consumers through WeChat groups, initiated online live broadcasting in the industry, and invited experts to give public lectures to consumers. The number of online live streaming activities is more than twice that of offline activities in the same period. From the beginning of February 2020 to 15 March 2020, there were approximately 90,000 online live streaming interactive activities, covering more than 2.1 million consumers. The successful transition to online live broadcasting and community marketing has made these marketing initiatives the new marketing strengths of the Group.

- **Considerate Customer Service**

  During the Epidemic, the Group's customer service employees remained at their post, handling over 50,000 inbound calls via the customer service hotline and over 100,000 online inquiries, which achieved a customer satisfaction rate of 99.3%. At the same time, it offers Star Mom Class (星媽課堂), Daily Star Parenting (每日星育兒) and other programs, so as to provide professional advice that benefits mothers and infants during the Epidemic.

In conclusion, in the first quarter of 2020, the business operations of the Group, including raw material supply, production, logistics and distribution and sales, only experienced limited negative impact from the Epidemic. The Group's revenue continued to grow rapidly in the first two months of 2020 despite the outbreak of the Epidemic. The Group currently estimates that the revenue growth in the first quarter of 2020 will be no less than 30% and would not be significantly affected by the Epidemic. In addition, the infant milk formula products of the Group have constant and robust demand from consumers. Hence, the Group is confident in its business development in 2020.

Directors and Senior Management

DIRECTORS

Name	Age	Position	Date of appointment	Responsibilities
Mr. LENG Youbin (冷友斌)	51	Executive Director, Chairman, Chief Executive Officer	January 9, 2013	Responsible for the overall development strategies and business plans of the Group
Mr. LIU Hua (劉華)	47	Executive Director, Vice Chairman, Chief Financial Officer	June 26, 2013	Responsible for the audit, accounting and financial management of the Group
Mr. CAI Fangliang (蔡方良)	51	Executive Director, President	June 26, 2013	Responsible for the overall management and business development of the Group
Mr. LIU Shenghui (劉聖慧)	49	Executive Director, Vice President of Finance	June 26, 2013	Responsible for the internal audit and financial management of the Group
Ms. Judy Fong-Yee TU (涂芳而)	44	Executive Director, Vice President, Joint Company Secretary	June 26, 2013	Responsible for the international business development, capital market matters and legal affairs of the Group
Mr. CHEUNG Kwok Wah (張國華)	55	Executive Director, Chairman of Vitamin World International	April 28, 2019	Responsible for overseas sales and promotion of infant milk formula products, and global development strategies of Vitamin World International
Mr. GAO Yu (高煜)	46	Non-executive Director	June 26, 2013	Responsible for providing strategic advice on the business development of the Group
Mr. Kingsley Kwok King CHAN (陳國勁)	43	Non-executive Director	June 26, 2013	Responsible for providing strategic advice on the business development of the Group
Ms. LIU Jinping (劉晉萍)	48	Independent Non-executive Director	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. SONG Jianwu (宋建武)	56	Independent Non-executive Director	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. FAN Yonghong (范勇宏)	52	Independent Non-executive Director	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board
Mr. Jacques Maurice LAFORGE	64	Independent Non-executive Director	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board

Executive Directors

Mr. LENG Youbin (冷友斌), aged 51, is an executive Director, the Chairman of the Board and the Chief Executive Officer of the Company. He has over 30 years of experiences in the dairy industry. Mr. Leng has been a Director, the Chairman of the Board and the Chief Executive Officer of the Company since January 2013, and was re-designated as an executive Director in April 2017. Mr. Leng has been a director of Vitamin World USA since December 2017 and has been the executive director of Feihe Gannan since March 2006. He has served as the general manager and director of Feihe HLJ since August 1996, during which he concurrently served as the deputy head of Zhaoguang Farm from December 1999 to December 2001. Before that, he worked in Zhaoguang Dairy from March 1987 to May 1993.

Mr. Leng has received various honors and awards. He was awarded "National Labor Model" (全國勞動模範) and "Outstanding Entrepreneur" (傑出企業家) in the dairy industry in China in 2015 and "National May 1st Labor Medal" (全國五一勞動獎章) in 2012. He was also awarded as one of the "Top Ten Technology Figures of Dairy Industry in China" (中國乳品加工業十大傑出科技人物) and the "Outstanding Private Entrepreneurs of Heilongjiang" (黑龍江省傑出民營企業家) in 2015. In 2018, Mr. Leng was awarded "Person of the Year 2018 of Chinese Economy" (2018中國經濟年度人物) and one of the "Hundred Outstanding Private Entrepreneurs during Forty Years since Reform and Opening up" (改革 開放40年百名傑出民營企業家). Mr. Leng is a representative of the NPC of the thirteenth session. Mr. Leng currently serves as the vice chairman of the All-China Federation of Industry and Commerce (Non-governmental Commerce Chamber of China) (中華全國工商業聯合會(中國民間商會)) and the vice chairman of the Federation of Industry and Commerce of Heilongjiang Province (黑龍江省工商業聯合會).

He graduated from Northeast Agricultural University (東北農業大學) in Heilongjiang, China in July 1995 through correspondence course, and obtained an EMBA degree from the School of Economics of Peking University (北京大學經濟學院) in Beijing, China in July 2002 and an EMBA degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in Beijing, China in July 2007. Mr. Leng is a dairy engineer certified by the Personnel Bureau of Heilongjiang (黑龍江省人事廳) in September 1999.

Mr. LIU Hua (劉華), aged 47, is an executive Director, the Vice Chairman of the Board and the Chief Financial Officer of the Company. He joined Feihe HLJ in November 2000 and has been the chief financial officer of Feihe HLJ since then. He has been a Director, the Vice Chairman of the Board and the Chief Financial Officer of the Company since June 2013, and was re-designated as an executive Director in April 2017. Mr. Liu has been a director of Vitamin World USA since December 2017. Mr. Liu has been involved in the financing activities of the Group, including the quotation of Flying Crane U.S. on the OTCBB in 2003, the listing of Flying Crane U.S. on the NYSE in 2009, and the listing of the Company on the Stock Exchange in 2019.

Mr. Liu received an EMBA degree in finance from the Advanced Institute of Finance of Shanghai Jiao Tong University (上海交通大學高級金融學院) in Shanghai, China in December 2015.

Mr. CAI Fangliang (蔡方良), aged 51, is an executive Director and the President of the Company. He joined Feihe HLJ in November 2010 and has been the president of Feihe HLJ since then. He has been a Director and the President of the Company since June 2013, and was re-designated as an executive Director in April 2017. He has been a director of Vitamin World USA since December 2017. Mr. Cai has focused on the marketing management of the Group and the overall management and business development of the Company. Before joining the Group, Mr. Cai worked at Jiangxi Meilu Dairy Co., Ltd. (江西美廬乳業有限公司) from December 2008 to October 2010. Before that, Mr. Cai worked at Yashili Group Co., Ltd. (廣東雅士利集團有限公司).

Mr. LIU Shenghui (劉聖慧), aged 49, is an executive Director and the Vice President of Finance of the Company. He joined Feihe HLJ in August 1996 and has been the vice president of finance of Feihe HLJ since then. He has been a Director and the Vice President of Finance of the Company since June 2013, and was re-designated as an executive Director in April 2017.

Mr. Liu graduated from Northeast Agricultural University in Heilongjiang, China through correspondence course in July 1995.

Ms. Judy Fong-Yee TU (涂芳而), aged 44, is an executive Director, a Vice President and a Joint Company Secretary of the Company. She joined Feihe HLJ in October 2006 and has been a vice president of Feihe HLJ since then. She has been a Director and a Vice President of the Company since June 2013, a Joint Company Secretary of the Company since July 2017, and was re-designated as an executive Director in April 2017. Ms. Tu has been a director of Vitamin World USA since June 2018. Ms. Tu has been extensively involved in the international business development and capital market matters of the Group, including the listing of Flying Crane U.S. on the NYSE in 2009, the FCUS Privatization in 2013, the establishment of Feihe Nutrition Laboratory with Beth Israel Deaconess Medical Center of Harvard Medical School in 2014, the Group's expansion in Canada in 2015, the acquisition of the retail health care business of Vitamin World in 2018, and the listing of the Company on the Stock Exchange in 2019.

Ms. Tu obtained a bachelor's degree of arts in mass communications and political science with a minor in Asian studies from the University of California, Berkeley in the United States in May 1999, and a Juris Doctor degree from Loyola Law School in the United States in May 2006. She was admitted to the State Bar of California in December 2006 and is a licensed attorney in the State of California, the United States.

Mr. CHEUNG Kwok Wah (張國華), aged 55, is an executive Director of the Company. Since April 2019, he has been the Chairman of Vitamin World International and the Chairman of Vitamin World USA, and responsible for the development of the overseas infant nutrition market of the Group. Before joining the Group, Mr. Cheung held various senior positions within the Nestle Group from December 2012 to March 2018, including the global business head of Wyeth Infant Nutrition from October 2016 to March 2018, the chairman and chief executive officer of Nestle Greater China Region from May 2014 to September 2016, and a regional president of Wyeth Nutrition, Greater China Region from December 2012 to February 2014. Before that, Mr. Cheung also took the following positions within the Wyeth Nutrition, including the regional president of China and Hong Kong of Pfizer Nutritionals and the associate vice president of Wyeth Nutritional (China) Co., Ltd. Mr Cheung worked at the Shanghai and Hong Kong offices of Coca-Cola (listed on the New York Stock Exchange, Stock Code: KO) from October 1997 to December 2004 and was appointed as the vice president and director of Strategic Marketing of Coca-Cola in February 2000. Before that, Mr. Cheung worked in the marketing department of Procter & Gamble (listed on the New York Stock Exchange, Stock Code: PG) until 1996.

Mr. Cheung obtained an honours bachelor's degree of social science from the Chinese University of Hong Kong in December 1987, and an MBA degree from Kelley School of Business in Indiana University in the United States in August 1989.

Non-executive Directors

Mr. GAO Yu (高煜), aged 46, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. Mr. Gao has been working in the Morgan Stanley group of companies since August 2005 and is currently a managing director and the co-chief investment officer of the Private Credit & Equity Division of Morgan Stanley Asia Limited. He currently serves as an independent non-executive director of China Dongxiang (Group) Co., Ltd. (listed on the Hong Kong Stock Exchange, Stock Code: 3818) and an independent director of AMTD International Inc. (listed on the New York Stock Exchange, Stock Code: HKIB), a non-executive director of Sparkle Roll Group Limited (listed on the Hong Kong Stock Exchange, Stock Code: 0970) and a director of Shandong Buchang Pharmaceuticals Co., Ltd. (山東步長制藥股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 603858), and a non-executive director and chairman of the board of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1747) from November 2015 and from June 2019, respectively. Mr. Gao has a long history of working within the investment banking industry before joining Morgan Stanley Asia Limited.

Mr. Gao received a dual bachelor's degree in engineering and economics from the Department of Precision Instrument and Engineering (精密儀器及機械學系) and the School of Economics and Management (經濟管理學院), respectively, of Tsinghua University (清華大學) in Beijing, China in July 1997. He also obtained a master's degree in engineering-economic system and operations research from Stanford University in the United States in September 1999.

Mr. Kingsley Kwok King CHAN (陳國勁), aged 43, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. Mr. Chan has been working in the Morgan Stanley group of companies since May 2007 and is currently a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited. He currently holds directorship in various companies invested by Morgan Stanley as its representative and serves as a non-executive director of IVD Medical Holding Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1931), and a non-executive director of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code:1747) from 10 November 2015. He is at the same time a non-voting observer on the board of Yirendai Ltd. (宜人貸, listed on the New York Stock Exchange, NYSE: YRD). Before joining Morgan Stanley Asia Limited, Mr. Chan worked in Credit Suisse (Hong Kong) Limited from July 2004 to April 2007 and the Asia Investment Banking Department of Citigroup Global Markets Asia Limited from September 1999 to June 2004.

Mr. Chan obtained a bachelor's degree in business economics from the University of London in the United Kingdom in July 1998 and a master's degree in philosophy from the University of Cambridge in the United Kingdom in October 1999.

Independent Non-executive Directors

Ms. LIU Jinping (劉晉萍), aged 48, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. Ms. Liu is currently a deputy director of the Center of Extracorporeal Circulation and the director of the Department of Pediatric Extracorporeal Circulation of Fu Wai Hospital (阜外醫院). She has been a chief physician of the Department of Extracorporeal Circulation in anesthesiology of FuWai Hospital since September 2012. Before that, she served in several positions in the Department of Extracorporeal Circulation of Fu Wai Hospital, including an associate chief physician from September 2006 to September 2012, an attending physician from August 2001 to August 2005, and a resident physician from August 1995 to August 2001.

Ms. Liu received a bachelor's degree in medical science from Harbin Medical University (哈爾濱醫科大學) in Heilongjiang, China in September 1995, and a master's degree and then a doctorate degree in anesthesia from Peking Union Medical College (北京協和醫學院) in Beijing, China in September 2002 and 2014, respectively. She was admitted as a practicing physician in May 1999, and was certified as a physician and chief physician in November 2002 and July 2011, respectively, by the Ministry of Health of the PRC.

Mr. SONG Jianwu (宋建武), aged 56, was appointed as an independent non-executive Director since in June 2019, with effect from October 2019. Mr. Song has been a professor and doctoral supervisor of Renmin University of China (中國人民大學) since August 2015. Before that, he served in several positions in China University of Political Science and Law (中國政法大學), including the director of the School of Journalism and Communication from October 2008 to March 2013 and a deputy director of the School of Humanities from January 2006 to October 2008.

Mr. Song currently serves as an independent director of Shenzhen Topway Video Communication Co., Ltd. (深圳天威視訊有限公司, listed on the Shenzhen Stock Exchange, Stock Code: 002238) and Shanghai Orient Webcasting Co., Ltd. (上海東方網股份有限公司, listed on the National Equities Exchange & Quotations, NEEQ: 834678). He also served as an independent non-executive director of Beijing Media Corporation Limited (北青傳媒股份有限公司, listed on the Hong Kong Stock Exchange, Stock Code: 1000) from May 2012 to June 2016, an independent director of Mango Excellent Media Co., Ltd. (芒果超媒股份有限公司, listed on the Shenzhen Stock Exchange, Stock Code: 300413) from May 2011 to June 2017, and an independent director of Zhejiang Daily Media Group Co., Ltd. (浙報數字文化集團股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 600633) from September 2011 to September 2017. He is now an executive council member of Beijing Internet Association (首都互聯網協會).

Mr. Song received a bachelor's degree in journalism and a doctorate degree in communication from Renmin University of China in Beijing, China in July 1984 and June 2005, respectively. He obtained the qualification certificate of independent directors from the Shanghai Stock Exchange in August 2011.

Mr. FAN Yonghong (范勇宏, former name: 范永紅), aged 52, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. He has extensive experience in financial management. Mr. Fan has been an independent director and a member of the audit committee of Yintech Investment Holdings Limited (銀科投資控股有限公司, listed on the Nasdaq Stock Exchange, Stock Code: YIN) since May 2018 and is responsible for, among other things, reviewing the financial statements of Yintech Investment Holdings Limited. Mr. Fan used to serve as the general manager of Hongshi Capital Management Co., Ltd., (宏實資本管理有限公司) and is responsible for, among other things, overseeing the overall financial performance of the company since March 2016. He also held various management positions in China Construction Bank Corporation (中國建設銀行) and Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from 1988 to 1998. Mr. Fan served as the general manager of China Asset Management Co., Ltd. (華夏基金管理有限公司) and then the chairman of the board of China Asset (Hong Kong) Co., Ltd. (華夏基金(香港)有限公司) from 1998 to 2013. Mr. Fan served as the chief investment officer (首席投資執行官) of China Life Asset Management Company Limited (中國人壽資產管理有限公司) from December 2013 to April 2015. Mr. Fan has also accumulated extensive experience in financial management (including reviewing financial statements) during his work as the general manager of China Asset Management Co., Ltd. and the chief investment officer of China Life Asset Management Company Limited.

Mr. Fan served as the vice chairman of Asset Management Association of China (中國證券投資基金業協會) from 2007 to 2011 and a member of the third and fourth sessions of Issuance Examination Committee of China Securities Regulatory Commission (中國證券監督管理委員會發行審核委員會) from 1997 to 2001, where he was involved in the review of listing applications from all aspects (including financial) of PRC companies.

Mr. Fan graduated from the Postgraduate Department of Institute of Fiscal Finance under the Ministry of Finance (財政部財政科學研究所, renamed as Chinese Academy of Fiscal Sciences (中國財政科學研究院) in 2016) in July 1998 and obtained a doctor's degree in economics. Mr. Fan currently serves as an external postgraduate supervisor (外聘研究生導師) of Chinese Academy of Fiscal Sciences.

Mr. Jacques Maurice LAFORGE, aged 64, was appointed as an independent non-executive Director in June 2019, with effect from October 2019. He has extensive experience in Canadian dairy industry. He was the chief executive officer and commissioner with Canadian Dairy Commission from February 2012 to May 2018. Before that, he served in Dairy Farmers of Canada, a non-profit organization funded by dairy farmers from January 1989 to July 2011 at several positions, including a board member from January 1989 to August 1999, a member of executive committee from August 1999 to March 2001, the second vice president from March 2001 to August 2003, the first vice president from August 2003 to August 2004 and the president from August 2004 to July 2011. Mr. Laforge currently serves as the president of Laforge Environmental Inc. and Laforge Holsteins Ltd., a waste to energy facilities and mixed farming operation located in Canada.

Mr. Laforge obtained a high school diploma from Polyvalente Thomas Albert in June 1973. He was awarded the New Brunswick Innovation Recognition Award for Small Business and the Order of New Brunswick in October 2011, and the Queen Elizabeth II Diamond Jubilee Medal in 2012.

Save as disclosed in this annual report, no Directors or members of our senior management held any directorship positions in any other listed companies within the three years immediately preceding the Latest Practicable Date, and there is no other information relating to our Directors or members of our senior management that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Name	Age	Position	Date of joining the Group	Responsibilities
Mr. LENG Youbin (冷友斌)	51	Executive Director, Chairman, Chief Executive Officer	August 21, 1996	Responsible for the overall development strategies and business plans of the Group
Mr. LIU Hua (劉華)	47	Executive Director, Vice Chairman, Chief Financial Officer	November 6, 2000	Responsible for the audit, accounting and financial management of the Group
Mr. CAI Fangliang (蔡方良)	51	Executive Director, President	November 22, 2010	Responsible for the overall management and business development of the Group
Mr. LIU Shenghui (劉聖慧)	49	Executive Director, Vice President of Finance	August 21, 1996	Responsible for the internal audit and financial management of the Group
Ms. Judy Fong-Yee TU (涂芳而)	44	Executive Director, Vice President, Joint Company Secretary	October 1, 2006	Responsible for the international business development, capital market matters and legal affairs of the Group
Mr. CHEUNG Kwok Wah (張國華)	55	Executive Director, Chairman of Vitamin World International	April 2, 2019	Responsible for overseas sales and promotion of infant milk formula products, and global development strategies of Vitamin World International

For the biography of the senior management, please refer to "Directors" in this section.

JOINT COMPANY SECRETARIES

Ms. Judy Fong-Yee TU

For the biography of Ms. Judy Fong-Yee TU, please refer to "Directors" in this section.

Ms. CHAN Wai Ling

Ms. Chan Wai Ling (陳蕙玲), FCIS, FCS (PE), has been another Joint Company Secretary of the Company since July 2017.

Ms. Chan is a director of Corporate Services of Tricor Services Limited and a fellow member of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Chartered Governance Institute in the United Kingdom. Ms. Chan is a holder of the Practitioner's Endorsement from HKICS. Ms. Chan is currently the joint company secretary of IMAX China Holding, Inc. (HKSE Stock Code: 1970), Budweiser Brewing Company APAC Limited (HKSE Stock Code: 1876) and Razer Inc. (HKSE Stock Code: 1337) and a company secretary of Greenway Mining Group Limited (信盛礦業集團有限公司, formerly known as China Polymetallic Mining Limited (中國多金屬礦業有限公司), Stock Code: 2133). Ms. Chan was also a former company secretary of TCC International Holdings Limited (HKSE Stock Code: 1136, delisted on 20 November 2017), China Maple Leaf Educational Systems Limited (HKSE Stock Code: 1317, resigned on 27 August 2018) and Sun Art Retail Group Limited (HKSE Stock Code: 6808, resigned on 1 November 2019) as well as a former joint company secretary of SITC International Holdings Company Limited (HKSE Stock Code: 1308, resigned on 18 October 2019).

Ms. Chan's primary contact person at the Company is Ms. Judy Fong-Yee TU, an executive Director, a Vice President and a Joint Company Secretary of the Company

Report of the Directors

The Board is pleased to present this annual report and the audited financial statements of the Group for the year ended 31 December 2019.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 26 October 2012 as an exempted company with limited liability. The Shares were listed on the Main Board of the Stock Exchange on 13 November 2019 through the Global Offering. For details of the Global Offering, please refer to the Prospectus.

PRINCIPAL BUSINESSES AND ACTIVITIES

The Group primarily produces and sells a broad range of infant formula products, as well as other products to a lesser extent. The infant formula products are grouped into two main product categories, namely, high-end infant formulas and regular infant formulas. High-end infant formulas product series comprise super-premium Astrobaby, super-premium Organic Zhenzhi and premium product series. Regular infant formula products target a more cost-conscious consumer base and contain the essential nutrients for infant development. The Group also manufactures and sells a range of adult milk powders, liquid milk products, goat milk infant formula and soybean powder, among others. In early 2018, we acquired the retail health care business of Vitamin World in order to seek opportunities to diversify our businesses. There were no significant changes in the nature of Group's activities during the Reporting Period.

BUSINESS REVIEW AND PROSPECT

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" section. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided in the "Management Discussion and Analysis" section and note 43 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators and details of the capital structure of the Company are provided in the "Management Discussion and Analysis" section.

In addition, information of the Company's environmental policies and performance can be found in the section headed "Environmental Policies and Performance" of this report of the Directors. The Company's compliance with relevant laws and regulations which have a significant impact on the Group are provided in the section headed "Compliance with Laws and Regulations" of this report of the Directors. The description of possible risks and uncertainties facing the Group is set out in the section headed "Principal Risks and Uncertainties" of this report of the Directors. An account of the Company's relationship with its employees, customers, and suppliers is disclosed in the section headed "Relationship with Stakeholders" of this report of the Directors.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 66.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Group during the year are set out in Management Discussion and Analysis of this annual report on pages 7 to 17.

DIVIDEND POLICY

The Company intends to distribute to the Shareholders no less than 30% of the net profit for each financial year going forward after Listing, subject to the future investment plans of the Company. The Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the constitutional documents of the Company and the Companies Law. The Shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by the Board. In addition, the Directors may from time to time pay such interim dividends as the Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. The future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

Future dividend payments will also depend upon the availability of dividends received from the subsidiaries of the Company in the PRC. PRC laws require that dividends be paid only out of net profits calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from the subsidiaries of the Company in the PRC may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or the subsidiaries of the Company in the PRC may enter into in the future.

FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK$0.1943 per Share for the year ended 31 December 2019 (the "**2019 Final Dividend**") with an aggregate amount of approximately HK$1,735,747,962 (equalling approximately RMB1,573,830,800) to Shareholders whose names are listed on the Company's register of members as at 30 June 2020, subject to the approval by the Shareholders at the AGM. The 2019 Final Dividend is based on our dividend policy set out in the Prospectus, of intending to distribute no less than 30% plus an additional 10%, for a total of 40% of our profit for the year of 2019 in RMB denomination being converted into Hong Kong dollar denomination based on the average central parity rate of RMB to Hong Kong dollar as announced by the People's Bank of China for the five business days prior to 23 March 2020. The 2019 Final Dividend will be declared and paid in Hong Kong dollars. Once the relevant resolution is passed at the AGM, the 2019 Final Dividend is expected to be paid on or around 16 July 2020.

We intend to maintain our dividend policy of distributing no less than 30% of our total net profit each financial year to our shareholders going forward, subject to our future investments plans.

The Company was not aware of any Shareholders who had waived or agreed to waive any dividend arrangement during the Reporting Period.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on 22 June 2020, for considering, among other things, the 2019 Final Dividend. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules in due course. In order to ascertain Shareholders' entitlement to attend and vote at the AGM and to the proposed 2019 Final Dividend, the register of members of the Company will be closed from 17 June 2020 to 22 June 2020 (both days inclusive) and from 29 June 2020 to 30 June 2020 (both days inclusive) respectively, during which periods no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 June 2020. Shareholders whose names appear on the register of members of the Company on 22 June 2020 will be entitled to attend and vote at the AGM.

In order to qualify for the 2019 Final Dividend (subject to the approval by Shareholders at the AGM), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration no later than 4:30 p.m. on 26 June 2020. The 2019 Final Dividend will be paid to the Shareholders whose names are listed on the Company's register of members as at 30 June 2020.

SHARE CAPITAL

As at 31 December 2019, the authorised share capital of the Company was US$50,000, divided into 2,000,000,000,000 shares of US$0.000000025 each. Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 31 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, namely Mr. FAN Yonghong, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE. Mr. FAN Yonghong is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's 2019 annual results announcement, this annual report and the audited financial statements of the Group prepared in accordance with the IFRSs for the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in the note 44 to the consolidated financial statements and the consolidated statement of changes in equity on pages 153 and 70, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the amount of reserves available for distribution of the Company was approximately RMB8,275.3 million, of which RMB1,573.8 million has been proposed as final dividend for the year.

DONATIONS

During the year ended 31 December 2019, the Company and its subsidiaries made charitable donations of approximately RMB21,484,000.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2019 are set out in note 29 to the consolidated financial statements.

USE OF NET PROCEEDS

The Company was listed on the Stock Exchange on 13 November 2019 and the net proceeds raised from the Global Offering were approximately HK$6,554.7 million. During the Reporting Period, there was no change in the intended use of net proceeds as disclosed in the Prospectus.

As at 31 December 2019, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK$175.1 million being used for the payment of offshore debts; (ii) HK$39.2 million being used for the expansion of Vitamin World USA operations; and (iii) HK$43.4 million being used for the working capital and general corporate purposes. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for 43.8% of the Group's total purchases. In addition, purchases from the Group's single largest supplier accounted for 21.0% of the Group's total purchases during the same period.

For the year ended 31 December 2019, the Group's five largest customers accounted for 7.6% of the Group's total revenue. In addition, the revenue from the Group's single largest customer accounted for 2.9% of the Group's total revenue during the same period.

During the year ended 31 December 2019, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares of the Company) had interests in the five largest suppliers or customers of the Company.

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

Save as disclosed in this annual report, the Company did not have any other significant investment, acquisition and disposal for the year ended 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Company are set out in note 14 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

During the Reporting Period and up to the date of this annual report, the Board comprises twelve Directors in total. There are six members of senior management of the Company, including Mr. LENG Youbin, Mr. LIU Hua, Mr. CAI Fangliang, Mr. LIU Shenghui, Ms. Judy Fong-Yee TU and Mr. CHEUNG Kwok Wah. Information about the details of the Directors and senior management of the Company is set out in the section headed "Directors and Senior Management".

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

SERVICE CONTRACTS OF DIRECTORS

The Company has entered into a letter of appointment with each of the Directors for a term of three years following each Director's appointment date, which may be terminated pursuant to relevant terms of the respective letter of appointment.

None of the Directors has entered into any service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save for the letters of appointment, there were no other transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or its connected entities had, directly or indirectly, a material interest at any time during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

INTERESTS OF DIRECTORS IN BUSINESSES COMPETING WITH THE COMPANY

The Directors has confirmed that other than business of the Group, none of the Directors holds any interest in business which directly or indirectly competes or is likely to compete with the business of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Interest in Shares/derivative shares of the Company

Name of Director/ Chief Executive	Nature of interest	Capacity	Long position/ Short position	Number of Shares/ derivative shares	Approximate Percentage of shareholding in the Company [(1)]
Leng Youbin ("**Mr. Leng**")	Corporate interest	Interest of controlled corporation	Long	587,516,458 [(2)]	6.58%
	Other interest	Founder of a discretionary trust	Long	3,869,911,881 [(3)]	43.32%
Liu Hua	Corporate interest	Interest of controlled corporation	Long	587,516,458 [(4)]	6.58%
	Other interest	Founder of a discretionary trust	Long	345,681,920 [(5)]	3.87%
Liu Shenghui	Corporate interest	Interest of controlled corporation	Long	587,516,458 [(6)]	6.58%
	Other interest	Founder of a discretionary trust	Long	226,146,556 [(7)]	2.53%
Cai Fangliang	Corporate interest	Interest of controlled corporations	Long	101,647,734 [(8)]	1.14%
Judy Fong-Yee Tu	Other interest	Founder of a discretionary trust	Long	23,717,804 [(9)]	0.27%

Notes:

(1) The percentage has been computed based on the total number of Shares of the Company in issue as at December 31, 2019 (i.e. 8,933,340,000 Shares).

(2) 587,516,458 Shares were held by Mr. Leng through his controlled corporation – Dasheng Limited. 33.33% of the equity interests in Dasheng Limited were held directly by Mr. Leng.

(3) 3,869,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.

(4) 587,516,458 Shares were held by Mr. Liu Hua through his controlled corporation – Dasheng Limited. 33.33% of the equity interests in Dasheng Limited were held directly by Mr. Liu Hua.

(5) 345,681,920 Shares were held by Harneys Trustees Limited as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu Hua as the settlor and the only discretionary object.

(6) 587,516,458 Shares were held by Mr. Liu Shenghui through his controlled corporation – Dasheng Limited. 33.33% of the equity interests in Dasheng Limited were held directly by Mr. Liu Shenghui.

(7) 226,146,556 Shares were held by Harneys Trustees Limited as the trustee of Liu Family Trust, which in its capacity as trustee holds the entire issued share capital of LSH International Holding Limited, which in turn holds the entire issued share capital of LSH Investment Holding Limited, Liu Family Trust was established by Mr. Liu Shenghui as the settlor and the only discretionary object.

(8) 101,647,734 Shares were held by Mr. Cai Fangliang through his controlled corporation – Adroit Shipping Limited. Adroit Shipping Limited is directly wholly owned by Mr. Cai Fangliang.

(9) 23,717,804 Shares were held by Ms. Judy Fong-Yee Tu as the trustee of the J.T. Living Trust, which in its capacity as trustee holds the entire issued share capital of Oaktree Capital Investment Limited, the J.T. Living Trust was established by Ms. Judy Fong-Yee Tu as the settlor, trustee and the only discretionary object.

(ii) Interest in associated corporations

Name of Director/ Chief Executive	Nature of interest	Capacity	Associated corporation	Number of ordinary shares	Percentage of shareholding in the associated corporation
Cai Fangliang	Beneficial interest	Beneficial owner	Jilin Green Energy Ecological Livestock Co., Limited (1)	N/A (2)	7.66%

Notes:

(1) Jilin Green Energy Ecological Livestock Co., Limited is held as to 40% by the Company and therefore is an associated corporation of the Company under the SFO.

(2) Jilin Green Energy Ecological Livestock Co., Limited is a limited liability company incorporated in the PRC and does not issue any shares.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company have an interest in the Shares or debentures of the Company or any interests in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which: (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at 31 December 2019, neither the Directors nor chief executive of the Company have any short position in either the Shares or in the debentures of the Company, or in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO).

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2019, the following persons (other than the Directors and chief executive of the Company) had interest or short positions in the Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which will be required, pursuant to Section 336 of the SFO, to be recorded in the register kept by the Company:

Name of shareholder	Nature of interest	Long position/ Short position	Number of Shares /derivative shares	Percentage of shareholding in the Company[1]
Mr. Leng Youbin ("**Mr. Leng**")	Interest in a controlled corporation and founder of a discretionary trust	Long	4,457,428,339 [2]	49.90%
Harneys Trustees Limited	Trustee of a trust	Long	4,441,740,357 [3]	49.72%
LYB International Holding Limited	Interest in a controlled corporation	Long	3,869,911,881 [3]	43.32%
Garland Glory Holdings Limited	Beneficial owner	Long	3,869,911,881 [3]	43.32%
Morgan Stanley	Interest in a controlled corporation	Long	1,686,772,606 [5][6]	18.88%
MS Holdings Incorporated	Interest in a controlled corporation	Long	1,661,101,860 [5]	18.59%
Morgan Stanley Private Equity Asia III, Inc.	Interest in a controlled corporation	Long	1,661,101,860 [5]	18.59%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in a controlled corporation	Long	1,661,101,860 [5]	18.59%
North Haven Private Equity Asia III, L.P. (NH LP)	Interest in a controlled corporation	Long	1,661,101,860 [5]	18.59%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd (MSPEA III)	Interest in a controlled corporation	Long	1,661,101,860 [5]	18.59%
North Haven Private Equity Asia IMF Holding Limited (NHPEA)	Beneficial owner	Long	1,661,101,860 [5]	18.59%
Mr. Liu Hua	Interest in a controlled corporation and founder of a discretionary trust	Long	933,198,378 [7]	10.45%
Mr. Liu Shenghui	Interest in a controlled corporation and founder of a discretionary trust	Long	813,663,014 [8]	9.11%
Dasheng Limited	Beneficial owner	Long	587,516,458 [4]	6.58%

Notes:

(1) The percentage has been computed based on the total number of Shares of the Company in issue as at December 31, 2019 (i.e. 8,933,340,000 Shares).

(2) 4,457,428,339 Shares include 3,869,911,881 Shares held by Harneys Trustees Limited as trustee (as described in note (3a) below) and 587,516,458 Shares through Mr. Leng's controlled corporation – Dasheng Limited (as described in note (4) below).

(3) Harneys Trustees Limited is deemed to be interested in 4,441,740,357 Shares in aggregate by virtue of the Securities and Futures Ordinance (Cap. 571) ("**SFO**"). By virtue of the SFO:

(a) 3,869,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 3,869,911,881 Shares directly held by Garland Glory Holdings Limited;

(b) 345,681,920 Shares were held by Harneys Trustees Limited, the trustee of LH Family Trust, in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited. LH Family Trust is a discretionary trust established by Mr. Liu Hua as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited; and

(c) 226,146,556 Shares were held by Harneys Trustees Limited, the trustee of Liu Family Trust, in its capacity as trustee holds the entire issued share capital of LSH International Holding Limited, which in turn holds the entire issued share capital of LSH Investment Holding Limited. Liu Family Trust is a discretionary trust established by Mr. Liu Shenghui as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 226,146,556 Shares directly held by LSH Investment Holding Limited.

(4) Dasheng Limited holds 397,325,754 Shares and has been granted Pre-IPO Share Options to subscribe for 190,190,704 Shares. Each of Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui holds one-third of the equity interest in Dasheng Limited and is therefore deemed to be interested in the Shares and Pre-IPO Share Options directly held by Dasheng Limited.

(5) Each of MSPEA III, NH LP, Morgan Stanley Private Equity Asia III, L.L.C., Morgan Stanley Private Equity Asia III, Inc., MS Holdings Incorporated and Morgan Stanley is deemed to be interested in the 1,661,101,860 Shares held by NHPEA. By virtue of the SFO:

(a) MSPEA III is the sole shareholder of NHPEA. The controlling shareholder of MSPEA III is NH LP (formerly known as Morgan Stanley Private Equity Asia III, L.P.) which holds 92.13% equity interest in MSPEA III.

(b) The general partner of NH LP is Morgan Stanley Private Equity Asia III, L.L.C., whereby Morgan Stanley Private Equity Asia III, L.L.C. is also the general partner of Morgan Stanley Private Equity Asia Employee Investors III, L.P., which holds the remaining 7.87% equity interest in MSPEA III.

(c) The managing member of Morgan Stanley Private Equity Asia III, L.L.C. is Morgan Stanley Private Equity Asia III, Inc., a wholly owned subsidiary of MS Holdings Incorporated which is in turn a wholly owned subsidiary of Morgan Stanley.

(6) 1,686,772,606 Shares includes 1,661,101,860 Shares held by NHPEA as described in note (5) above and 20,799,746 Shares held by Morgan Stanley & Co. International plc, an indirectly wholly owned subsidiary of Morgan Stanley and 4,871,000 Shares held by Morgan Stanley & Co. LLC, an indirectly wholly owned subsidiary of Morgan Stanley.

(7) 933,198,378 Shares include 345,681,920 Shares held by Harneys Trustees Limited as trustee (as described in note (3b) above) and 587,516,458 Shares through Mr. Liu Hua's controlled corporation – Dasheng Limited (as described in note (4) above).

(8) 813,663,014 Shares include 226,146,556 Shares held by Harneys Trustees Limited as trustee (as described in note (3c) above) and 587,516,458 Shares through Mr. Liu Shenghui's controlled corporation – Dasheng Limited (as described in note (4) above).

Save as disclosed above, as at December 31, 2019, no other person (other than the Directors and chief executive of the Company) had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DEBENTURE ISSUED

The Company has not issued any debentures during the year ended 31 December 2019.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any of its associated corporations were granted to any Directors or their respective spouse or children under 18 years of age and no such rights have been exercised by them during the year ended 31 December 2019. Neither the Company nor any of its subsidiaries were a party to any arrangements to enable any Directors or their respective spouses or children under the age of 18 years to acquire such rights from any other body corporates.

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, the Company did not enter into any equity-linked agreement during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Memorandum and Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force during the Reporting Period.

The Company has maintained appropriate liability insurance for its Directors and senior management during the Reporting Period.

LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE COMPANY

The Company did not provide any financial assistance or guarantee to its affiliated companies during the Reporting Period, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company did not enter into any loan agreement with covenants relating to specific performance of its controlling Shareholder nor breach the terms of any loan agreements that are significant to its operations during the Reporting Period.

PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme on 14 October 2019 and a summary of the principal terms of the Pre-IPO Share Option Scheme is set out as below.

Purposes

The purposes of the Pre-IPO Share Option Scheme are to: (i) replace the DIF Share Option Schemes; (ii) attract and retain the best available personnel for positions of substantial responsibility; (iii) provide additional incentive to the Directors and employees of the Group (the "**Employee(s)**," together with the Directors, the "**Service Providers**"); and (iv) promote the success of the business of the Group

Participants

A grant of the option (the "**Option**") under the Pre-IPO Share Option Scheme (the "**Award**") may be made to the Service Providers selected by the Board (including any committee of Directors or of other individuals appointed by the Board or by the compensation committee of the Board satisfying relevant requirements of applicable laws) of the Company (the "**Administrator**"). A holder of an outstanding Award will be a participant (the "**Participant**") under the Pre-IPO Share Option Scheme. For the avoidance of doubt, Awards may be granted to any holder of the outstanding DIF Share Options, who is a company wholly owned, directly or indirectly, by (i) one or more Service Providers or (ii) any trusts, if all of the beneficiaries consist only of the Service Providers (in the case of a discretionary trust, all discretionary objects consist only of the Service Providers).

Maximum Number of Shares in Respect of Which Awards May Be Granted

The maximum number of the Shares that may be subject to Awards and issued under the Pre-IPO Share Option Scheme is 190,190,704, representing approximately 2.13% of the total number of the issued shares of the Company as at the date of this annual report.

Grant of Options

Subject to the terms and provisions of the Pre-IPO Share Option Scheme, the Administrator may grant Options in such amounts as the Administrator, in its sole discretion, will determine; provided that, no Option authorized by the Pre-IPO Share Option Scheme shall be granted upon and following the Listing.

The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

Exercise Price

The per Share exercise price for the Shares to be issued pursuant to the exercise of an Option shall be determined by the Administrator, provided that such exercise price shall be no less than one hundred percent of the fair market value (the "**Fair Market Value**") per Share on the date of grant. For the avoidance of doubt, for the per Share exercise price for the Shares to be issued upon the exercise of an Option granted in order to replace the existing DIF Share Options as of the date of adoption of the Pre-IPO Share Option Scheme, the relevant Fair Market Value per Share shall be with reference to that of the respective date of grant of such outstanding DIF Share Options.

Duration of Pre-IPO Share Option Scheme

Unless sooner terminated in accordance with the terms of the Pre-IPO Share Option Scheme, it will continue in effect for a term of seven years from the effective date. The term of each Option will be stated in the Award Agreement and will be no more than five years from the date of grant thereof.

Time of Vesting and Exercise of Options

Any Option granted will be exercisable according to the terms of the Pre-IPO Share Option Scheme and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

In respect of any particular Option, the exercise period shall commence on the later of:

(1) the Business Day immediately following the expiry of six months from the Listing Date, or

(2) where the exercise of such Option is subject to any performance target being met, the date of such performance target being proved (to the reasonable satisfaction of the Administrator) to have been met.

Details of the Options Granted under the Pre-IPO Share Option Scheme

All the Pre-IPO Share Options representing 190,190,704 Shares were granted to Dasheng Limited on October 14, 2019 under the Pre-IPO Share Option Scheme with a term of five years. Dasheng Limited is not required to pay for the grant of any Pre-IPO Share Option. As at December 31, 2019, Mr. LENG Youbin, Mr. LIU Hua and Mr. LIU Shenghui each hold one-third equity interests in Dasheng Limited. Details of the outstanding Pre-IPO Share Options are set out below:

Name of Grantee	Position held in the Group	Date of Grant	Number of Shares represented by outstanding Options upon Listing	Number of Shares represented by outstanding Options as at December 31, 2019	Exercise price	Approximately percentage of the issued Shares of the Company as at the end of the Reporting Period
Dasheng Limited	N/A	October 14, 2019	190,190,704	190,190,704	USD0.1416	2.13%

Pre-IPO Share Options granted to Dasheng Limited has vested and become exercisable with respect to 43% on December 31, 2019. Except as unanimously approved by the Board, the remaining 57% shall vest on December 31, 2020, provided that the performance target for the applicable fiscal year has been met. The exercise period of the remaining 57% Pre-IPO Share Options should commence on the date of the performance target being proved (to the reasonable satisfaction of the Administrator) to have been met. The Pre-IPO Share Options shall lapse and become unexercisable if the performance target for such fiscal year is not met.

During the Reporting Period, no option was granted under the Pre-IPO Share Option Scheme, and none of the options granted under the Pre-IPO Share Option Scheme had been exercised, cancelled or lapsed.

Further details of the Pre-IPO Share Option Scheme are set out in appendix IV to the Prospectus and note 32 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on the information that is available to the Company and to the knowledge of the Directors, the Company's public float complies with the requirements of Rule 8.08 of the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Memorandum and Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

EMPLOYEES AND REMUNERATION

As at 31 December 2019, the Group had 5,802 full-time employees (31 December 2018: 5,303), the majority of whom are based in China.

In compliance with the CG Code, the Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Company offers the executive Directors and senior management with remuneration in the form of fees, salaries, bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. Non-executive Directors and independent non-executive Directors receive compensation according to their duties (including serving as members or chairmen of the Board committees).

In line with the performance of the Group and individual employees, the Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group provides training programs to our employees, including new hire training for new employees and regular quality control, production safety and other technical training for our personnel to enhance their skill and knowledge. The Group takes measures to promote equal opportunities, anti-discrimination, and diversity among employees. In addition, the Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff with outstanding performance by way of bonuses, honorary awards, promotions or a combination of the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

Remuneration of the Directors is determined based on their roles and duties and with reference to the Company's remuneration policy and the prevailing market conditions, subject to the approval of the Shareholders general meetings. Details of remuneration of Directors and the five highest paid individuals of the Company for the year ended 31 December 2019 are set out in note 9 to the consolidated financial statements.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting good corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency and responsibility in all aspects, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

Save as disclosed in this annual report, the Company has complied with the applicable code provisions of the CG Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding Directors' dealings in the securities of the Company.

Having made specific enquiry to all the Directors, each Director confirmed that he/she had complied with the required standards set out in the Model Code during the Reporting Period. The Board has also established written guidelines to regulate dealings by relevant employees who are likely to be in possession of inside information of the Company in respect of their dealing in securities of the Company as required in code provision A.6.4 of the CG Code.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by Ernst & Young.

A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming AGM.

SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

TAX ALLOWANCES

The Company is not aware of any particular tax allowances granted to the Shareholders due to their interests in its securities.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements and the risks and consequences of non-compliance with such requirements. The Group has allocated abundant resources to ensure ongoing compliance with laws and regulations and to maintain health relationships with regulators through effective communications. During the year ended 31 December 2019, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

The Group is exposed to a variety of financial risks, including interest rate risk, credit risk, foreign currency risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, including relevant sensitivity analysis, please see note 42 to the financial statements of this annual report.

Interest Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the year ended 31 December 2019, we have not used any derivatives to hedge interest rate risk.

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. The credit risk of our other financial assets, which comprise cash and cash equivalents, restricted cash, pledged deposits, structured deposits, a financial asset at fair value through other comprehensive income, other receivables, and amount due from a director, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Foreign Currency Risk

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars, Hong Kong dollars and Canadian dollars; and (ii) our investment in the construction of the Kingston Plant, which is made in Canadian dollars. During the year ended 31 December 2019, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

Business Risks

Publicity Risk

We produce and sell dairy products and we also sell nutritional supplements. Our business is highly sensitive to consumers' perception of safety, quality, hygiene and awareness for health. Any tampering, adulteration, counterfeiting or other quality control concerns relating to any infant milk formula and nutritional supplements, whether real or perceived and whether or not manufactured by us, may result in negative publicity that could adversely affect us. Any substantial and sustained negative publicity concerning the infant milk formula and nutritional supplement markets could lead to loss of consumer confidence, reduction in sales and prices of our products, or a widespread recall of infant milk formula products or nutritional supplements involved in such incident, thereby potentially having a material and adverse effect on our business, reputation and results of operations.

Product Risk

We consider quality and reliability of our products to be vital to our business. There may be a risk that contamination or spoilage could take place during the production and transportation of our products due to factors that may or may not be within our control. In the event our products are found to be contaminated, spoiled, or defective, or to possess any quality or safety problems, we may experience sales returns, be required to recall products from the market, or be exposed to liability claims, reduced sales volumes, imposition of penalties against us by relevant authorities or compensation awards by courts, any of which could damage our brand image, reputation and relationships with our customers.

Operation Risk

The manufacture of our products is an exact and complex process, partly due to strict quality and safety requirements. In particular, certain stages of our production process must occur in sterile or temperature-controlled environments to preserve the quality of fresh milk and other ingredients as well as to reduce the risk of contamination. Problems may arise during the production process for a variety of reasons, including equipment malfunction, power outages, failure to follow specific protocols and procedures, and quality defects in raw materials, which could compromise the quality of our products. We rely on the timely supply of raw materials that meet our quality standards, such as fresh milk, whey powder, lactoferrin, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to meet our contractual obligations to customers.

Our production and profitability depend on our ability to purchase key raw materials from our suppliers at reasonably acceptable prices. The primary ingredient for our infant milk formula production is fresh milk, which we source locally. As we continue to expand our business and operations, we expect our cost of fresh milk procurement to continue to account for a significant portion of our total cost of sales. The market for our fresh milk and other raw materials may be subject to price volatility depending on a variety of factors beyond our control, including the global and PRC economy and related government policies. The abnormal price volatility of raw materials may have a material and adverse impact on our business, financial condition and results of operations.

Competition Risk

Our success depends on our ability to anticipate, identify, interpret and react to the evolving tastes, dietary habits and nutritional needs of end consumers and to offer products that appeal to them. If we are unable to respond to rapid changes in consumer preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively, our business, financial condition and results of operations could be materially and adversely affected.

Expansion Risk

We have already invested in some overseas businesses and we may consider to further expanding our operations overseas in the future. Overseas operations will expose us to various risks associated with conducting business in foreign countries and territories, which could have a material and adverse effect on our business, results of operations and overall growth strategies.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group promotes the philosophy of environmental responsibility and strictly complies with environmental protection laws and regulations including the Environmental Protection Law of the People's Republic of China and the Environmental Impact Assessment Law of the People's Republic of China. Based on this, the Group has formulated environmental management systems at the group level and built a top-down and hierarchical environmental management system. In its daily operations, the Group has started from technology innovation, management enhancement and awareness development, etc., and strived to improve the resource use efficiency, propel energy-saving and low-carbon operations, strictly control pollutant emissions and properly dispose of waste, build green factories, promote green office practices, fulfill corporate environmental responsibilities and drive the long-term sustainable development of the environment and communities in which the Group operates.

Detail information on the environment and social practices adopted by the Company is set out in the Environmental, Social and Governance Report which will be presented in a separate report and published on the websites of the Company and the Stock Exchange no later than three months after the publication of this Annual Report.

RELATIONSHIP WITH STAKEHOLDERS

The Group acknowledges the importance of stakeholders to the Group's development, always pays attention to stakeholders including the government, shareholders and potential investors, employees, customers, suppliers, distributors and the community and dedicates to maintain good relationship with these stakeholders. The Group strives to achieve sustainable growth through motivating our employees, providing high-quality products to our customers and collaborating with our business partners.

The Group has always treated legal compliance as a basic requirement for our operations and maintains good communication with the government and regulatory agencies through reporting and filing, cooperating with reviews and inspections, and recommending good industry practices. The Group treats the realization of the interests of Shareholders and investors as a key business objective, actively communicates with Shareholders and investors through shareholder meetings, roadshow and timely information disclosure. The Group regards employees as valuable assets, incentivizes employees with a competitive salary and transparent promotion policy, and provides them with a fair, non-discrimination and healthy working environment. The Group also supports their career development skills through internal trainings and trainings from external experts to keep them abreast of the latest developments in the market and industry. The Group sticks to the customer-oriented culture and is committed to providing customers with high-quality and reliable products. The Group creates various online and offline channels to obtain feedbacks from customers and addresses customer's concern in a timely manner. Raw materials are essential to the dairy industry and the Group communicates with its suppliers in a proactive and effective manner to ensure the supply and quality of raw materials, including regular visits and surveys regarding the product quality and price movements. We maintain real-time interactions in daily operations with suppliers in order to obtain first-hand information from them. The Group strives to establish stable and long-term relationship with our distributors. We enter into standard distribution agreements with our distributors and strictly follow the distributor agreements to manage them. We actively communicate with the distributor to get to know their sale amounts, stock status and financial positions. We conduct regular spot inspections of our distributors to ensure that our distributors adhere to our sales and marketing policies and branding strategies.

For details of the Group's relationship with stakeholders, please refer to the environmental, social and governance report of the Group to be published on the website of the Company and the Stock Exchange.

By order of the Board
China Feihe Limited
LENG Youbin
Chairman

Beijing, the PRC
23 March 2020

Corporate Governance Report

The Board is pleased to report to the shareholders on the corporate governance of the Company since the listing of its shares on the Stock Exchange during the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintaining high corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted and applied the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices.

The Board is of the view that throughout the Reporting Period, the Company has complied with all the applicable code provisions as set out in the CG Code, except for code provision A.2.1 described in the paragraph headed "Board of Directors – Chairman and Chief Executive Officer".

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code.

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period. The Board has also established written guidelines to regulate dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them. The Board has delegated the day-to-day operation of the Company to the management while matters affecting the Company's overall strategies, policies and financial matters are reserved to the Board.

Board Composition

The Board currently comprises twelve Directors, consisting of six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors.

The composition of the Board is as follows:

Executive Directors

Mr. Leng Youbin *(Chairman, Chief Executive Officer)*

Mr. Liu Hua

Mr. Cai Fangliang

Mr. Liu Shenghui

Ms. Judy Fong-Yee Tu

Mr. Cheung Kwok Wah

Non-executive Directors

Mr. Gao Yu

Mr. Kingsley Kwok King Chan

Independent Non-executive Directors

Ms. Liu Jinping

Mr. Song Jianwu

Mr. Fan Yonghong

Mr. Jacques Maurice Laforge

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 19 to 24 of the Annual Report for the Reporting Period. The Board members have no financial, business, family, or other material/relevant relationship with each other.

During the Reporting Period, no Board Meeting, Audit Committee Meeting, Remuneration Committee Meeting, Nomination Committee Meeting and meeting between Chairman and independent non-executive Directors were held as the shares of the Company were listed on Stock Exchange in November 2019. The Company is obliged to comply and disclose a summary of the attendance records of the Directors at the Board and the committees' meetings held in the forthcoming year.

The Company is obliged to comply with the CG Code and will take appropriate arrangements for holding at least 4 Board meetings, 2 Audit Committee meetings, 1 Nomination Committee meeting, 1 Remuneration Committee meeting and the meeting between the Chairman and the independent non-executive Directors in the forthcoming year. No general meeting was held during the Reporting Period.

Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Company are held by Mr. Leng Youbin ("**Mr. Leng**"), who has in-depth industry experience and knowledge about the operation and management of the business of the Company.

Mr. Leng is the founder of the Group and has been operating and managing the Group. He is responsible for the overall development strategies and business plans of the Group.

The Board believes that it is beneficial to the business operations and management of the Group that Mr. Leng continues to service as both the Chairman of the Board and the Chief Executive Officer of the Company.

The Board is of the view that given that Mr. Leng had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Directors

The Non-executive Directors (including Independent Non-executive Directors) of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term and may be renewed in accordance with the Articles of Association of the Company and the applicable Listing Rules.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years.

The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy or as an additional Director shall be subject to re-election by shareholders at the first general meeting or next Annual General Meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for and has general powers over the management and operation of our business, including determining our business strategies and investment plans, implementing resolutions passed at our general meetings, and exercising other powers, functions and duties as conferred by the Articles of Association. The Board also assumes the responsibilities for developing and reviewing the policies and practices of the Company on corporate governance, risk management and internal control and compliance with legal and regulatory requirements. The Board consists of 12 Directors, including six executive Directors, two non-executive Directors and four independent non-executive Directors.

Our senior management is responsible for the day-to-day management and operation of our business. Our senior management consists of our six executive Directors.

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, the Company organized training sessions conducted by the qualified professionals/legal advisers for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates.

In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors for Reporting Period and up to date of this report are summarized as follows:

Directors	**Training** *(Note)*
Executive Directors	
Mr. Leng Youbin	✓
Mr. Liu Hua	✓
Mr. Cai Fangliang	✓
Mr. Liu Shenghui	✓
Ms. Judy Fong-Yee Tu	✓
Mr. Cheung Kwok Wah	✓
Non-Executive Directors	
Mr. Gao Yu	✓
Mr. Kingsley Kwok King Chan	✓
Independent Non-Executive Directors	
Ms. Liu Jinping	✓
Mr. Song Jianwu	✓
Mr. Fan Yonghong	✓
Mr. Jacques Maurice Laforge	✓

Note: During the Reporting Period, all Directors attended training sessions and received training materials, including from the Company's lawyers.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

Rule 3.21 of the Listing Rules requires the Audit Committee to comprise non-executive directors only, with a minimum of three members with Independent Non-executive Directors in majority and at least one member with appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee consists of two Independent Non-executive Directors, namely Mr. Fan Yonghong, Mr. Jacques Maurice Laforge and one Non-executive Director, namely Mr. Gao Yu. Mr. Fan Yonghong is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to oversee the financial reporting, risk management and internal control systems and procedures of the Company, review the financial information of the Company, effectiveness of the internal audit function, consider issues relating to the external auditors and their appointment, arrangements to enable employees of the Group to raise concerns about possible improprieties in financial reporting, internal control and perform other duties and corporate governance responsibilities as may be assigned by the Board. The Audit Committee shall discuss the risk management and internal control system with management to ensure that management has performed its duty to establish and maintain effective systems, consider major investigation findings on risk management and internal control matters as delegated by the Board and to ensure the coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

During the Reporting Period, no Audit Committee meeting was held. The Company will take appropriate arrangements for holding at least two Audit Committee meetings and met with the external auditors without the presence of the Executive Directors in the forthcoming year.

Remuneration Committee

Rule 3.25 of the Listing Rules requires an issuer to establish a Remuneration Committee chaired by Independent Non-executive Director and comprising a majority of Independent Non-executive Directors.

The Remuneration Committee consists of three members, namely Mr. Liu Hua, Executive Director, Ms. Liu Jinping, Independent Non-executive Director and Mr. Jacques Maurice Laforge, Independent Non-executive Director. Ms. Liu Jinping is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee are to advise on and formulate the remuneration and appraisal policy in respect of our Directors, senior management and other management members of the Group and make recommendations to the Board.

During the Reporting Period, no Remuneration Committee meeting was held. The Company will take appropriate arrangements for holding at least one Remuneration Committee meeting and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

Details of the remuneration of the senior management by band are set out in note 9 in the Notes to the Audited Financial Statements for the Reporting Period.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Leng Youbin, Executive Director, Ms. Liu Jinping, Independent Non-executive Director and Mr. Song Jianwu, Independent Non-executive Director. Mr. Leng Youbin is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and make recommendations to the Board on the appointment and removal of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, no Nomination Committee meeting was held. The Company will take appropriate arrangements for holding at least one Nomination Committee meeting to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting and to consider and recommend to the Board on the appointment of Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will be primarily responsible for identifying candidates, formulating selection standards and procedures, and examine candidates for directors and senior management of the Company, and providing recommendation on the selection.

Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Nomination Committee has primary responsibility for identifying candidates, formulating selection standards and procedures, and examining candidates for directors and senior management of the Company, and providing recommendations on the selection. The Nomination Committee will give adequate consideration to this policy in identifying and selecting suitably qualified candidates to become directors of the Company.

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and education background, professional experience, skills, relevant knowledge and/or length of service.

The Company aims to maintain an appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy and the measurable objectives at least annually to ensure its continued effectiveness of the Board.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following factors:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

Arrangements have been made to adopt a Director Nomination Policy which shall set out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level in the forthcoming year.

During the Reporting Period, there was no change in the composition of the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness on an annual basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The Audit Committee is responsible to review and supervise our financial reporting process and internal control system. Our Audit Committee consists of three members, namely Mr. Fan Yonghong, who serves as chairman of the committee, Mr. Gao Yu and Mr. Jacques Maurice Laforge.

To monitor the ongoing implementation of risk management policies and corporate governance measures, the Company has established risk management systems with relevant procedures with the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. The Audit Committee consists of three members, namely Mr. Fan Yonghong, who serves as chairman of the committee, Mr. Gao Yu and Mr. Jacques Maurice Laforge. For the qualifications and experience of these committee members, see "Directors and Senior Management;"

- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

- provide anti-corruption and anti-bribery compliance training periodically to senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks; and

- attend training session by the Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period. Based on the internal controls established and maintained by the Group, the reviews performed by the management and the Audit Committee, the Board, with the concurrence of the Audit Committee, is of the opinion that the internal controls and risk managements systems were adequate and effective to address the financial, compliance, operational risks which the Group considers material and relevant to its operation.

The Internal Audit Department is responsible for providing the internal audit function and performing independent review of the adequacy and effectiveness of the risk management and internal control systems associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. In addition to the existing internal control measures, certain other internal control matters were identified and the Company has adopted corresponding internal controls measures to improve on these matters. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee and has not identified any material deficiencies in the internal control system.

The Audit Committee shall establish a whistleblowing policy and system for employees and those who deal with the Company to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company.

The Group has adopted a Guidelines on Disclosure on Inside Information which sets out comprehensive guidelines in respect of handling and dissemination of inside information. This Guidelines sets out the procedures and internal controls to ensure timely disclosure of information on the Group and the fulfilment of the Groups' continuous disclosures obligations, including:

- the processes for identifying, assessing and escalating potential inside information to the designated representative of the Board of Directors;

- restrict access to inside information to a limited number of employees on a "need to know" basis;

- identified members of senior management who are authorised to release inside information; and

- the requirements of all directors and employees of the Group to observe the Guidelines.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 63 to 65.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Group in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB4,700,000 and RMB545,000 respectively. An analysis of the remuneration paid to the external auditors of the Group, Ernst & Young, in respect of audit services and non-audit services for the year ended 31 December 2019 is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	4,700
Non-audit Services	545
	5,245

JOINT COMPANY SECRETARIES

Ms. Judy Fong-Yee Tu and Ms. Chan Wai Ling have been appointed as the Company's joint company secretaries. Ms. Chan Wai Ling is a corporate services director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Ms. Judy Fong-Yee Tu, Executive Director, Vice President and Authorized Representative of the Company has been designated as the primary contact person at the Company which would work and communicate with Ms. Chan Wai Ling on the Company's corporate governance and secretarial and administrative matters.

Ms. Chan Wai Ling has undertaken not less than 15 hours of relevant professional training during the year ended 31 December 2019 in compliance with Rule 3.29 of the Listing Rules. Ms. Judy Fong-Yee Tu is obliged to comply with the Rule 3.29 of the Listing Rules to take no less than 15 hours of relevant professional training in the forthcoming year.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a Shareholders Communication Policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. Resolutions (except resolutions which relate purely to procedural or administrative matters) put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening General Meetings

General meetings may be convened by the Board on requisition of one or more Shareholders holding, as at the date of deposit of requisition, not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company or by such shareholder(s) who made the requisition (the "**Requisitionist(s)**") (as the case may be) pursuant to Article 64 of the Company's Articles of Association.

Shareholders should follow the requirements and procedures as set out in the Cayman Islands Companies Law and where applicable, the Company's Articles of Association, for convening a general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Board of Directors)
Fax:	+86 10 8456 7871
Email:	ir@feihe.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

During the Reporting Period, the Company has not made any changes to the Company's Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends to shareholders. The Company intends to distribute to the Shareholders no less than 30% of the net profit for each financial year going forward after the listing of the Company's shares on the Stock Exchange, subject to the future investment plans of the Company. The Board may declare dividends in the future after taking into account the results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends and the ability to pay dividends will be subject to the requirements of the Listing Rules, all relevant applicable laws, rules and regulations in the Cayman Islands and Hong Kong as well as all the constitutional documents of the Company.

Independent Auditor's Report

EY 安永

To the shareholders of China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Feihe Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 153, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
At 31 December 2019, the Group had gross trade receivables of approximately RMB214,350,000 before impairment provision of approximately RMB9,595,000. Significant management judgement and estimation were required in assessing the expected credit losses ("**ECLs**") for the trade receivables using a provision matrix, with reference to the grouping of various customer segments, age profile of the trade receivables balances, existence of disputes, and past repayment history of customers and forecast economic conditions. The related disclosures are included in notes 2.3, 3 and 22 to the consolidated financial statements.	In evaluating management's impairment assessment, our procedures included: (i) obtaining evidence of subsequent settlements for selected trade receivable balances on a sample basis; and (ii) evaluating management's assumptions used in the provision matrix to determine the ECLs through testing of the underlying information on the ageing reports and assessing the repayment history of the debtors, as well as evaluating the forward-looking factors with reference to the related publicly available information. We also assessed the related disclosures in the consolidated financial statements.
Write-down of inventories to net realisable value	
At 31 December 2019, the Group recorded net inventories of approximately RMB686,094,000. The Group performs a regular review of the carrying amounts of inventories to determine whether any write-down of inventories to net realisable value is required after considering, inter alia, the ageing analysis of inventories, current market conditions, and the expected future sales of goods and usage of raw materials. The determination of net realisable value requires management to make significant assumptions and estimates that affect the reported amount of inventories and related disclosures. The related disclosures are included in notes 2.3, 3 and 21 to the consolidated financial statements.	In evaluating management's assessment of the net realisable value of inventories, our procedures included: (i) observing the physical inventory counts and the condition of inventories at major locations; (ii) obtaining an understanding of the approach adopted by management for their net realisable value assessments; (iii) reviewing and testing the inventory ageing and the usage of raw materials subsequent to year end; and (iv) on a sample basis, comparing the actual selling prices of finished goods subsequent to the year end, to their carrying amounts at the year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chung Chi Ming.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

23 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**13,721,509**	10,391,917
Cost of sales		**(4,111,918)**	(3,372,827)
Gross profit		**9,609,591**	7,019,090
Other income and gains, net	5	**976,789**	555,835
Selling and distribution expenses		**(3,847,985)**	(3,661,314)
Administrative expenses		**(913,226)**	(580,289)
Other expenses	7	**(69,800)**	(86,076)
Finance costs	8	**(72,693)**	(58,675)
PROFIT BEFORE TAX	6	**5,682,676**	3,188,571
Income tax expense	11	**(1,748,099)**	(946,317)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**3,934,577**	2,242,254
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	13		
Basic (expressed in RMB per share)		**0.48**	0.28
Diluted (expressed in RMB per share)		**0.48**	0.28

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**3,934,577**	2,242,254
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(30,187)**	(46,191)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**3,904,390**	2,196,063

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**3,971,218**	2,554,681
Right-of-use assets	*15*	**377,261**	306,446
Goodwill	*16*	**47,976**	47,976
Intangible assets	*17*	**39**	43
Investment in an associate	*18*	**142,530**	142,530
Financial asset at fair value through other comprehensive income	*19*	**1,800**	1,800
Deposits for purchases of items of property, plant and equipment	*20*	**153,947**	147,894
Deferred tax assets	*30*	**208,686**	208,340
Long-term bank deposits	*26*	**–**	150,000
Pledged deposits	*26*	**811,715**	1,003,000
Total non-current assets		**5,715,172**	4,562,710
CURRENT ASSETS			
Inventories	*21*	**686,094**	660,066
Trade and bills receivables	*22*	**314,353**	512,837
Prepayments, deposits and other receivables	*23*	**571,112**	567,197
Due from a director	*24*	**80**	80
Due from a related company	*24*	**–**	750
Structured deposits	*25*	**5,390,191**	1,183,741
Pledged deposits	*26*	**2,872,699**	663,000
Restricted cash	*26*	**76,578**	66,218
Cash and cash equivalents	*26*	**7,377,470**	3,640,836
Total current assets		**17,288,577**	7,294,725
CURRENT LIABILITIES			
Trade and bills payables	*27*	**1,041,547**	833,383
Other payables and accruals	*28*	**2,631,160**	2,477,542
Interest-bearing bank and other borrowings	*29*	**3,094,214**	1,083,267
Lease liabilities	*15*	**57,145**	59,070
Tax payable		**614,434**	406,972
Total current liabilities		**7,438,500**	4,860,234
NET CURRENT ASSETS		**9,850,077**	2,434,491
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,565,249**	6,997,201

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*29*	**1,716,064**	657,302
Other payables	*28*	**133,929**	57,102
Deferred tax liabilities	*30*	**557,192**	360,512
Lease liabilities	*15*	**128,486**	134,801
Total non-current liabilities		**2,535,671**	1,209,717
Net assets		**13,029,578**	5,787,484
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**1**	1
Reserves	*33*	**13,029,577**	5,787,483
Total equity		**13,029,578**	5,787,484

LIU Hua
Director

Judy Fong-Yee TU
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

		Attributable to owners of the parent								
	Notes	Issued capital RMB'000 (note 31)	Share premium account RMB'000	Capital contribution reserve RMB'000 (note 33)	Reserve funds RMB'000 (note 33)	Share option reserve RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Other reserves RMB'000 (note 33)	Total equity RMB'000
At 1 January 2018		1	631,966	71,415	305,543	–	920	2,700,305	(125,137)	3,585,013
Profit for the year		–	–	–	–	–	–	2,242,254	–	2,242,254
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations		–	–	–	–	–	(46,191)	–	–	(46,191)
Total comprehensive income for the year		–	–	–	–	–	(46,191)	2,242,254	–	2,196,063
Equity-settled share option arrangements	32	–	–	6,408	–	–	–	–	–	6,408
Transfer from retained profits		–	–	–	209,841	–	–	(209,841)	–	–
At 31 December 2018 and 1 January 2019		1	631,966*	77,823*	515,384*	–*	(45,271)*	4,732,718*	(125,137)*	5,787,484
Profit for the year		-	-	-	-	-	-	3,934,577	-	3,934,577
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations		-	-	-	-	-	(30,187)	-	-	(30,187)
Total comprehensive income for the year		-	-	-	-	-	(30,187)	3,934,577	-	3,904,390
Issue of shares under initial public offering	31	-	5,983,960	-	-	-	-	-	-	5,983,960
Share issue expenses		-	(65,689)	-	-	-	-	-	-	(65,689)
Special dividend declared in 2019	12	-	-	-	-	-	-	(2,704,164)	-	(2,704,164)
Equity-settled share option arrangements	32	-	-	2,523	-	121,074	-	-	-	123,597
Transfer from retained profits		-	-	-	62,052	-	-	(62,052)	-	-
At 31 December 2019		1	6,550,237*	80,346*	577,436*	121,074*	(75,458)*	5,901,079*	(125,137)*	13,029,578

* These reserve accounts comprise the consolidated reserves of RMB13,029,577,000 (2018: RMB5,787,483,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,682,676**	3,188,571
Adjustments for:			
Finance costs	*8*	**72,693**	58,675
Interest income	*5*	**(163,071)**	(90,305)
Depreciation of property, plant and equipment	*6*	**110,889**	95,464
Depreciation of right-of-use assets	*6*	**70,248**	66,432
Gain on bargain purchase	*5*	**–**	(33,327)
Amortisation of intangible assets	*6*	**4**	1
Loss on disposal of items of property, plant and equipment, net	*6*	**13,696**	3,377
Fair value gains on structured deposits	*5*	**(40,192)**	(7,741)
Write-down of inventories to net realisable value	*6*	**336**	20,657
Impairment of trade receivables, net	*6*	**640**	1,819
Impairment of other receivables, net	*6*	**15,683**	–
Amortisation of deferred income	*5*	**(1,674)**	(17,363)
Equity-settled share option expense	*32*	**123,597**	6,408
		5,885,525	3,292,668
Increase in inventories		**(24,973)**	(90,060)
Decrease/(increase) in trade and bills receivables		**197,928**	(335,665)
Increase in prepayments, deposits and other receivables		**(15,306)**	(329,379)
Decrease in an amount due from a director		**–**	1,579
Decrease in an amount due from a related company		**750**	5
Increase in trade payables		**207,748**	319,237
Increase in other payables and accruals		**196,256**	1,093,615
Decrease in an amount due to the then immediate holding company		**–**	(210)
Cash generated from operations		**6,447,928**	3,951,790
Interest received		**158,812**	57,067
Interest paid		**(80,869)**	(42,924)
Income taxes paid		**(1,345,336)**	(844,737)
Net cash flows from operating activities		**5,180,535**	3,121,196

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and right-of-use assets		**(1,400,781)**	(1,130,123)
Purchase of intangible asset		**–**	(44)
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		**17,618**	46,718
Purchases of structured deposits		**(8,030,000)**	(1,155,000)
Proceeds from redemption of structured deposits		**3,863,742**	837,060
Placement of restricted cash		**(120,765)**	(50,612)
Withdrawal of restricted cash		**110,405**	4,331
Acquisition of business	*34*	**–**	(175,892)
Receipt of government grants		**34,218**	53,018
Deposits paid for purchases of items of property, plant and equipment	*20*	**(174,552)**	(162,553)
Placement of time deposits with original maturity of more than three months when acquired		**(4,720,659)**	(2,744,982)
Withdrawal of time deposits with original maturity of more than three months when acquired		**4,905,878**	1,205,630
Net cash flows used in investing activities		**(5,514,896)**	(3,272,449)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		**4,209,062**	1,923,025
Repayment of bank and other loans		**(1,251,614)**	(1,171,471)
Proceeds from issue of shares		**5,983,960**	–
Share issue expenses		**(65,689)**	–
Dividend paid		**(2,704,164)**	–
Placement of pledged bank deposits		**(3,685,920)**	(1,200,000)
Release of pledged bank deposits		**1,689,000**	–
Principal portion of lease payments	*35(ii)*	**(51,614)**	(60,586)
Net cash flows from/(used in) financing activities		**4,123,021**	(509,032)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,788,660**	(660,285)
Cash and cash equivalents at beginning of year		**895,854**	1,565,574
Effect of foreign exchange rate changes, net		**(17,929)**	(9,435)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,666,585**	895,854
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*26*	**4,666,585**	895,854

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 26 October 2012. The address of the registered office of the Company is P.O. Box 2075, George Town, Grand Cayman KY1-1105, Cayman Islands.

The Company is an investment holding company. During the year, the principal activities of the Group consisted of the production and sale of dairy products and sale of nutritional supplements.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 November 2019.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follow:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Flying Crane International, Inc.[1]	United States ("**USA**")	United States dollar ("**US$**")1	–	100	Investment holding
Feihe International, Inc.[1]	USA	US$10	–	100	Inactive
Feihe China Nutrition (Hong Kong) Limited	Hong Kong	Hong Kong dollar ("**HK$**") 373,650,001	–	100	Investment holding and provision of management services
Feihe China Nutrition Company[1]	USA	US$1.1	–	100	Inactive
Feihe International (HK) Limited	Hong Kong	HK$244,150,001	–	100	Investment holding and provision of management services
Heilongjiang Platinum Holding Limited[1]	British Virgin Islands	US$1	–	100	Inactive
Heilongjiang Platinum International Limited[1]	British Virgin Islands	US$1	–	100	Inactive

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Vitamin World International Company Limited[1]	Cayman Islands	US$1	100	–	Investment holding
Vitamin World USA[1]	USA	US$10	–	100	Sale of vitamin products
Vitamin World (China) Limited	Hong Kong	HK$0.01	–	100	Investment holding
Vitamin World (Hong Kong) Limited	Hong Kong	HK$0.01	–	100	Inactive
Canada Kingston Dairy Company[1]	Canada	Canadian dollar ("**CAD**") 1	–	100	Inactive
Canada Royal Milk ULC[1]	Canada	CAD1	–	100	Inactive
Heilongjiang Feihe Dairy Products Co., Ltd (黑龍江飛鶴乳業有限公司)[^#1]	The PRC/ Mainland China	US$45,000,000	–	100	Manufacture and sale of milk powder
Beijing Feihe Biotechnology Scientific and Commercial Co., Ltd (北京飛鶴生物科技有限公司)[#1]	The PRC/ Mainland China	Renminbi ("**RMB**")10,000,000	–	100	Sale of milk powder
Feihe (Gannan) Dairy Products Co., Ltd (飛鶴(甘南)乳品有限公司)[^#1]	The PRC/ Mainland China	US$25,000,000	–	100	Manufacture of milk powder
Feihe (Longjiang) Dairy Products Co., Ltd (飛鶴(龍江)乳品有限公司)[#1]	The PRC/ Mainland China	RMB210,000,000	–	100	Manufacture of milk powder
Jilin Feihe Alfbeta Dairy Co., Ltd (飛鶴(鎮賚)乳品有限公司)[#1]	The PRC/ Mainland China	RMB87,000,000	–	100	Manufacture of milk powder
Meiweishi (Beijing) Health Management Co., Ltd. (美維仕(北京)健康管理有限公司)[^#1]	The PRC/ Mainland China	RMB5,000,000	–	100	Inactive

1. CORPORATE AND GROUP INFORMATION (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Heilongjiang Platinum Commerce Co. Ltd (黑龍江白金商貿有限公司)^#1	The PRC/ Mainland China	RMB1,800,000	100	–	Investment holding
Heilongjiang ShangHeGu Nutraceutical Food Co., Limited (黑龍江尚禾穀營養食品有限公司)#1	The PRC/ Mainland China	RMB51,000,000	–	100	Manufacture of milk powder
Feihe (Tailai) Dairy Products Co., Ltd (飛鶴(泰來)乳品有限公司)#1	The PRC/ Mainland China	RMB500,000,000	–	100	Manufacture of milk powder
Heilongjiang Feihe Electronic Commerce Co., Ltd (黑龍江飛鶴電子商務有限公司)#1	The PRC/ Mainland China	RMB10,000,000	–	100	Sale of milk powder
Feihe (Jilin) Dairy Products Co., Ltd (飛鶴(吉林)乳品有限公司)#1	The PRC/ Mainland China	RMB200,000,000	–	100	Sale of milk powder
Canada Royal Milk (Hong Kong) Limited (加拿大皇家妙克(香港)有限公司)	Hong Kong	HK$1	–	100	Inactive
Feihe Group Limited (飛鶴集團有限公司)	Hong Kong	HK$1	100	–	Inactive
Feihe (Harbin) Dairy Co., Ltd (飛鶴(哈爾濱)乳品有限公司)#1	The PRC/ Mainland China	US$50,000,000	–	100	Sale of milk powder
Royal Milk (Harbin) Food Nutrition Technology Company Limited (皇家妙克(哈爾濱)食品營養科技有限公司)^#1	The PRC/ Mainland China	RMB10,000,000	–	100	Sale of milk powder

Notes:

^ Registered as wholly-foreign-owned enterprises under PRC law.

The English names of these companies represent the best effort made by management of the Company to directly translate their Chinese names as these companies do not register any official English names.

1 Their statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, had been early adopted by the Group in the preparation of the financial statements for the year ended 31 December 2018. They have been prepared under the historical cost convention, except for a financial asset at fair value through other comprehensive income and structured deposits which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

Fair value measurement

The Group measures its financial asset at fair value through other comprehensive income and structured deposits at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% – 10%
Plant and machinery	7% – 10%
Furniture, fixtures and equipment	20%
Motor vehicles	13% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademark

Purchased trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	40–50 years
Leased retail stores and office	1–10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases of retail stores (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for “Revenue recognition” below.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, amounts due to affiliates and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Restricted cash

Restricted cash represents guaranteed deposits pledged to the banks for issuance of trade facilities, such as guaranteed deposits for issuance of letters of credit. Such restricted cash will be released when the Group repays the related trade facilities.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of goods provide customers with rights of return. The rights of return give rise to variable consideration.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Sale of goods (Continued)

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a share option scheme in replacement of the previous share option schemes operated by Diamond Infant Formula Holding Limited ("**DIF**"), the Company's then immediate holding company prior to listing, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the condition being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain specific percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than Mainland China are charged as expenses when employees have rendered the service entitling them to the contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is different from the Company's functional currency, US$. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency to present the financial statements. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and an associate are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding tax in respect of the unremitted earnings of certain subsidiaries of the Group established in Mainland China to the extent that the directors are of the opinion that they would be probable for distribution in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that should be recognised. Further details are contained in note 30 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Write-down of inventories to net realisable value

The Group's management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. The Group's management reassesses the estimation at the end of each reporting period.

Provision for income taxes

Provision for income taxes is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the reporting period. Non-financial assets with finite lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group principally focuses on the production and sale of dairy products and sale of nutritional supplements. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	**13,162,917**	9,751,392
United States of America	**558,592**	640,525
	13,721,509	10,391,917

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	**2,681,452**	1,994,447
United States of America	**209,660**	226,947
Canada	**1,801,859**	978,176
	4,692,971	3,199,570

The non-current asset information is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

There was no single external customer of the Group that individually accounted for 10% or more of the Group's total revenue during the year (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced amount of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**13,721,509**	10,391,917

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Type of goods		
Sales of goods	**13,721,509**	10,391,917
Geographical markets		
Mainland China	**13,162,917**	9,751,392
United States of America	**558,592**	640,525
Total revenue from contracts with customers	**13,721,509**	10,391,917
Timing of revenue recognition		
Goods transferred at a point in time	**13,721,509**	10,391,917

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of goods	**577,525**	394,075

5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of dairy products

The performance obligation is satisfied upon delivery of products. The Group has a policy of requiring payment in advance from customers for the sale of products, except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers.

Sale of nutritional supplements

The performance obligation is satisfied when control of goods has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

An analysis of other income and gains, net is as follows:

	Notes	**2019 RMB'000**	**2018 RMB'000**
Other income			
Bank interest income		**87,659**	38,698
Other interest income		**75,341**	51,521
Government grants related to			
– Assets	*28(i)*	**1,674**	17,363
– Income	*(i)*	**723,641**	394,533
Reversal on impairment of other receivable	*23*	**1,172**	–
Others		**38,302**	12,652
		927,789	514,767
Gains, net			
Fair value gains on structured deposits		**40,192**	7,741
Gain on bargain purchase	*34*	**–**	33,327
Others		**8,808**	–
		49,000	41,068
Total other income and gains, net		**976,789**	555,835

Note:

(i) Various government grants have been received by the Group's subsidiaries operated in Heilongjiang and Jilin Provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold*		**4,111,918**	3,372,827
Depreciation of property, plant and equipment	*14*	**110,889**	95,464
Depreciation of right-of-use assets	*15*	**70,248**	66,432
Rent expense – short term leases	*15*	**7,920**	7,103
Rent expense – contingent rent	*15*	**2,846**	2,772
Interest expense on lease liabilities	*8*	**8,872**	9,135
Amortisation of intangible assets	*17*	**4**	1
Research and development costs@		**171,070**	108,889
Auditors' remuneration		**4,700**	1,800
Employee benefit expense* (excluding directors' and chief executive's remuneration *(note 9)*):			
Wages and salaries		**524,015**	310,899
Pension scheme contributions (defined contribution schemes)		**69,075**	61,366
Equity-settled share option expense		**–**	225
		593,090	372,490
Write-down of inventories to net realisable value#		**336**	20,657
Impairment of trade receivables, net	*22*	**640**	1,819
Impairment of other receivables, net		**15,683**	–
Loss on disposal of items of property, plant and equipment, net^	*7*	**13,696**	3,377
Gain on bargain purchase	*34*	**–**	(33,327)
Fair value gains on structured deposits		**(40,192)**	(7,741)

@ Included in "Administrative expenses" in the consolidated statement of profit or loss.

Included in "Cost of sales" in the consolidated statement of profit or loss.

^ Included in "Other expenses" in the consolidated statement of profit or loss.

* Part of the employee benefit expense is included in "Cost of inventories sold".

7. OTHER EXPENSES

An analysis of other expenses is as follows:

	Notes	2019 RMB'000	2018 RMB'000
Loss on disposal of items of property, plant and equipment, net	6	**13,696**	3,377
Termination expense		**–**	1,104
Loss on disposal of old packaging materials		**17,765**	13,521
Provision for impairment of other receivables	23	**16,855**	–
Donations		**21,484**	63,902
Others		**–**	4,172
		69,800	86,076

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on:		
Bank loans	**82,580**	41,603
Other loans	**48,263**	29,839
Lease liabilities	**8,872**	9,135
Total interest expense on financial liabilities not at fair value through profit or loss	**139,715**	80,577
Less: Interest capitalised	**(67,022)**	(21,902)
	72,693	58,675

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**1,412**	–
Other emoluments		
Salaries and allowances	**38,608**	17,617
Pension scheme contributions	**336**	342
Equity-settled share option expense	**123,330**	6,183
	162,274	24,142
	163,686	24,142

Certain directors were granted share options in respect of their services to the Group under the share option schemes, and further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 RMB'000	2018 RMB'000
Mr. Song Jianwu	**353**	–
Ms. Liu Jinping	**353**	–
Mr. Jacques Maurice Laforge	**353**	–
Mr. Fan Yonghong	**353**	–
	1,412	–

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries and allowances RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2019					
Executive Directors					
Mr. Liu Hua	–	2,072	–	41,110	43,182
Mr. Liu Shenghui	–	727	126	41,110	41,963
Mr. Cai Fangliang	–	13,029	84	–	13,113
Ms. Judy Fong-Yee Tu	–	1,036	–	–	1,036
Mr. Cheung Kwok Wah	–	5,952	–	–	5,952
	–	22,816	210	82,220	105,246
Chief Executive					
Mr. Leng Youbin	–	15,792	126	41,110	57,028
	–	38,608	336	123,330	162,274
2018					
Executive Directors					
Mr. Liu Hua	–	1,982	–	2,061	4,043
Mr. Liu Shenghui	–	888	125	2,061	3,074
Mr. Cai Fangliang	–	6,878	92	–	6,970
Ms. Judy Fong-Yee Tu	–	991	–	–	991
	–	10,739	217	4,122	15,078
Chief Executive					
Mr. Leng Youbin	–	6,878	125	2,061	9,064
	–	17,617	342	6,183	24,142

There was no emolument to non-executive directors Mr. Gao Yu and Mr. Kingsley Kwok King Chan during the year (2018: Nil). There was no other arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four executive directors and the chief executive (2018: four executive directors and the chief executive), details of whose remuneration are set out in note 9 above.

11. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("**CIT**") rate of 25% (2018: 25%) during the year.

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2018: 16.5%) during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 RMB'000	2018 RMB'000
Current – PRC		
Charge for the year	**1,552,742**	905,732
Deferred *(note 30)*	**195,357**	40,585
Total tax charge for the year	**1,748,099**	946,317

11. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2019		2018	
	RMB'000	%	RMB'000	%
Profit before tax	5,682,676		3,188,571	
Tax at the statutory tax rate	1,420,669	25.0	797,143	25.0
Income not subject to tax	–	–	(8,331)	(0.3)
Expenses not deductible for tax	51,635	0.9	24,041	0.8
Tax losses not recognised	77,762	1.4	10,785	0.3
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	198,033	3.5	122,679	3.8
Tax charge at the Group's effective rate	1,748,099	30.8	946,317	29.7

12. DIVIDENDS

On 14 October 2019, the Company declared a special dividend of HK$3 billion (equivalent to approximately RMB2.7 billion) to its shareholders.

The proposed final dividend of HK$0.1943 per ordinary share, equivalent to an aggregate of approximately RMB1,573,830,800, for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "**AGM**").

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the share subdivision on 14 October 2019 as disclosed in note 31 on the assumption that the share subdivision had been in effect on 1 January 2018.

The calculation of the diluted earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to owners of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options as at 31 December 2019 into ordinary shares under the share option scheme.

During the year ended 31 December 2018, diluted earnings per share equaled the basic earnings per share as there were no potential dilutive ordinary shares in issue for that year.

	2019 RMB'000	2018 RMB'000
Earnings:		
Profit for the year attributable to owners of the parent	**3,934,577**	2,242,254

	Number of shares	
	2019	**2018**
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**8,157,480,329**	8,040,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**18,122,990**	–
	8,175,603,319	8,040,000,000

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2019							
At 31 December 2018 and 1 January 2019:							
Cost	29,392	661,741	1,345,111	820,920	143,840	17,634	3,018,638
Accumulated depreciation and impairment	–	(126,390)	–	(255,015)	(72,238)	(10,314)	(463,957)
Net carrying amount	29,392	535,351	1,345,111	565,905	71,602	7,320	2,554,681
At 1 January 2019, net of accumulated depreciation and impairment	29,392	535,351	1,345,111	565,905	71,602	7,320	2,554,681
Additions	172	8,566	1,202,620	17,277	73,218	2,157	1,304,010
Transfer from deposits for purchases of items of property, plant and equipment *(note 20)*	–	–	169,193	417	–	–	169,610
Disposals	–	(10,809)	(41)	(17,477)	(818)	(268)	(29,413)
Transfers	–	1,665	(170,130)	161,408	6,339	718	–
Depreciation provided during the year	–	(22,625)	–	(55,772)	(31,331)	(1,161)	(110,889)
Exchange realignment	1,012	167	81,417	8	599	16	83,219
At 31 December 2019, net of accumulated depreciation and impairment	30,576	512,315	2,628,170	671,766	119,609	8,782	3,971,218
At 31 December 2019:							
Cost	30,576	655,707	2,628,170	958,112	218,632	19,506	4,510,703
Accumulated depreciation and impairment	–	(143,392)	–	(286,346)	(99,023)	(10,724)	(539,485)
Net carrying amount	30,576	512,315	2,628,170	671,766	119,609	8,782	3,971,218

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold land RMB'000	Buildings RMB'000	Construction in progress RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	28,814	573,597	431,171	697,398	88,547	15,815	1,835,342
Accumulated depreciation and impairment	–	(106,510)	–	(238,862)	(49,181)	(9,837)	(404,390)
Net carrying amount	28,814	467,087	431,171	458,536	39,366	5,978	1,430,952
At 1 January 2018, net of accumulated depreciation and impairment	28,814	467,087	431,171	458,536	39,366	5,978	1,430,952
Additions	–	15,055	1,059,685	19,387	34,030	1,966	1,130,123
Transfer from deposits for purchases of items of property, plant and equipment *(note 20)*	–	–	88,871	18,208	–	–	107,079
Acquisition of business *(note 34)*	–	16,172	–	–	24,314	–	40,486
Disposals	–	(6,428)	(16,499)	(25,430)	(967)	(770)	(50,094)
Transfers	–	62,545	(205,667)	141,139	365	1,618	–
Depreciation provided during the year	–	(20,474)	–	(45,936)	(27,585)	(1,469)	(95,464)
Exchange realignment	578	1,394	(12,450)	1	2,079	(3)	(8,401)
At 31 December 2018, net of accumulated depreciation and impairment	29,392	535,351	1,345,111	565,905	71,602	7,320	2,554,681
At 31 December 2018:							
Cost	29,392	661,741	1,345,111	820,920	143,840	17,634	3,018,638
Accumulated depreciation and impairment	–	(126,390)	–	(255,015)	(72,238)	(10,314)	(463,957)
Net carrying amount	29,392	535,351	1,345,111	565,905	71,602	7,320	2,554,681

At 31 December 2019, certain of the Group's construction in progress with a net carrying amount of approximately RMB1,777,827,000 was pledged to secure a loan borrowed from a third party (2018: Nil).

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Note	2019 RMB'000	2018 RMB'000
Right-of-use assets			
Carrying amount at 1 January		**309,430**	121,797
Additions during the year		**137,894**	11,619
Disposal during the year		**(1,901)**	–
Acquisition of business	*34*	**–**	223,703
Exchange realignment		**2,086**	18,743
Depreciation during the year		**(70,248)**	(66,432)
Carrying amount at the end of year		**377,261**	309,430
Current portion		**–**	(2,984)
Non-current portion		**377,261**	306,446

The consolidated statement of profit or loss and the consolidated statement of cash flows contain the following amounts relating to leases:

	2019 RMB'000	2018 RMB'000
Depreciation of right-of-use assets	**70,248**	66,432
Interest expenses	**8,872**	9,135
Expenses relating to short-term leases	**7,920**	7,103
Expenses relating to contingent rent	**2,846**	2,772
The cash outflow for leases as financing activities	**(51,614)**	(60,586)

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

	2019 RMB'000	2018 RMB'000
Lease liabilities		
Minimum lease payments due:		
– Within one year	**70,914**	60,117
– More than one year but less than two years	**42,283**	47,369
– More than two years but less than five years	**71,801**	104,975
– Five or more years	**16,456**	–
Total minimum lease payments	**201,454**	212,461
Less: Future finance charges	**(15,823)**	(18,590)
Total lease liabilities	**185,631**	193,871
Portion classified as current liabilities	**(57,145)**	(59,070)
Non-current portion	**128,486**	134,801

The total cash outflow for leases is disclosed in note 35(iii) to the financial statements.

16. GOODWILL

	RMB'000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019:	
Cost	**70,088**
Accumulated impairment	**(22,112)**
Net carrying amount	**47,976**

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the following cash-generating unit for impairment testing:

- Jilin Feihe Alfbeta Dairy Co. Ltd. ("**Alfbeta Business**"), established in Jilin Province, the PRC

	2019 RMB'000	2018 RMB'000
Carrying amount of goodwill – Alfbeta Business	**47,976**	47,976

16. GOODWILL (Continued)

Alfbeta Business

The recoverable amount of Alfbeta Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16.0% (2018: 16.0%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3.0% (2018: 3.0%), which is the same as the long term average growth rate of the dairy industry.

Assumptions were used in the value in use calculation of Alfbeta Business cash-generating unit for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The basis used to determine the value assigned to the budgeted revenue is the average revenue achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of Alfbeta Business and discount rates are consistent with external information sources.

17. INTANGIBLE ASSETS

	Trademark RMB'000
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	**43**
Amortisation provided during the year	**(4)**
At 31 December 2019	**39**
At 31 December 2019:	
Cost	**44**
Accumulated amortisation	**(5)**
Net carrying amount	**39**
31 December 2018	
At 1 January 2018	–
Additions	44
Amortisation provided during the year	(1)
At 31 December 2018	43
At 31 December 2018 and 1 January 2019:	
Cost	44
Accumulated amortisation	(1)
Net carrying amount	43

18. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Unlisted shares, at cost	**140,000**	140,000
Loans to an associate	**2,530**	2,530
	142,530	142,530

The loans to an associate are unsecured, interest-free and not repayable within 12 months from the end of the reporting period.

In the opinion of the directors, these loans are considered as part of the Group's net investment in the associate.

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jilin Green Energy Ecological Livestock Co. Ltd. (吉林綠能生態牧業有限公司)	RMB350,000,000	The PRC/ Mainland China	40%	Inactive

18. INVESTMENT IN AN ASSOCIATE (Continued)

The Group's shareholding in the associate is held through an indirectly wholly-owned subsidiary of the Company.

The financial year end of the associate is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associate adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2019 RMB'000	2018 RMB'000
Current assets	**33,497**	29,716
Non-current assets	**153,332**	144,323
Current liabilities	**(46,829)**	(34,039)
Non-current liabilities	**–**	–
Net assets	**140,000**	140,000
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**40%**	40%
Carrying amount of the investment #	**140,000**	140,000
Revenue	**–**	–
Loss for the year	**–**	–
Other comprehensive loss	**–**	–
Total comprehensive loss	**–**	–
Dividend received	**–**	–
Share of the associate's total comprehensive loss for the year	**–**	–

As at 31 December 2019 and 31 December 2018, other investors of the associate had not injected their agreed proportion of capital.

Since the associate was in its start-up phase of operation and only incurred capital expenditure, the directors of the Company consider no indication of impairment of the Group's investment in an associate was noted as at 31 December 2019 and 31 December 2018.

19. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investment designated at fair value through other comprehensive income		
Unlisted equity investment, at fair value	**1,800**	1,800

An unlisted equity investment with a carrying amount of RMB1,800,000 was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature. There were no significant changes in the market value of the unlisted equity investment at the end of the reporting period. The fair value of the investment has been categorised as Level 3 of the fair value hierarchy. A significant increase/(decrease) in the price-book ratios of comparable companies would result in a significant increase/(decrease) in the fair value of the investment.

20. DEPOSITS FOR PURCHASES OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**147,894**	93,202
Additions	**174,552**	162,553
Transfer to property, plant and equipment *(note 14)*	**(169,610)**	(107,079)
Exchange realignment	**1,111**	(782)
Carrying amount at the end of year	**153,947**	147,894

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**370,768**	160,374
Work in progress	**43,621**	105,024
Finished goods	**271,705**	394,668
	686,094	660,066

22. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**214,350**	443,180
Bills receivable	**109,598**	78,612
	323,948	521,792
Impairment	**(9,595)**	(8,955)
	314,353	512,837

The Group has a policy of requiring payment in advance from customers for the sale of products (other than cash and credit card sales), except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

22. TRADE AND BILLS RECEIVABLES (Continued)

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**222,434**	387,315
1 to 2 months	**21,924**	54,921
2 to 3 months	**55,245**	42,614
Over 3 months	**14,750**	27,987
	314,353	512,837

The movements in the loss allowance for impairment of trade receivables are as follows:

	Note	2019 RMB'000	2018 RMB'000
At beginning of year		**8,955**	7,136
Impairment losses recognised, net	*6*	**640**	1,819
At end of year		**9,595**	8,955

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

22. TRADE AND BILLS RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2019

	Current	Past due: Less than 1 month	Past due: 1 to 3 months	Past due: Over 3 months	Credit impaired	Total
Expected credit loss rate	**0.6%**	**1.3%**	**5.7%**	**6.2%**	**100%**	**3.0%**
Gross carrying amount (RMB'000)	**223,735**	**22,215**	**58,554**	**15,727**	**3,717**	**323,948**
Expected credit losses (RMB'000)	**1,301**	**291**	**3,309**	**977**	**3,717**	**9,595**

As at 31 December 2018

	Current	Past due: Less than 1 month	Past due: 1 to 3 months	Past due: Over 3 months	Credit impaired	Total
Expected credit loss rate	0.7%	1.6%	6.6%	7.6%	100%	1.7%
Gross carrying amount (RMB'000)	390,050	55,804	45,630	30,305	3	521,792
Expected credit losses (RMB'000)	2,735	883	3,016	2,318	3	8,955

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2019 RMB'000	2018 RMB'000
Prepayments		**262,405**	407,728
Deposits		**8,190**	6,648
Other receivables		**330,372**	166,993
		600,967	581,369
Impairment	*(i)*	**(29,855)**	(14,172)
		571,112	567,197

Note:

(i) The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9 and considered the historical loss rate and adjusted for macroeconomic data in calculating the expected loss rate.

The movements in provision for impairment of other receivables are as follows:

	Notes	2019 RMB'000	2018 RMB'000
At 1 January		**14,172**	14,172
Impairment loss recognised	*7*	**16,855**	–
Reversal of impairment	*5*	**(1,172)**	–
At 31 December		**29,855**	14,172

Except as disclosed above, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. DUE FROM A DIRECTOR AND A RELATED COMPANY

The amount due from a director is unsecured, non-trade in nature, interest-free and repayable on demand.

The amount due from a related company was unsecured, trade in nature, interest-free and repayable on demand.

Set out below is additional information of amounts due from a director and a related company.

2019

	31 December 2019 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2019 RMB'000
Due from a director			
Mr. Leng Youbin	**80**	**3,580**	**80**
Due from a related company			
千畦(上海)電子商務有限公司	**–**	**750**	**750**

2018

	31 December 2018 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2018 RMB'000
Due from a director			
Mr. Leng Youbin	80	1,659	1,659
Due from a related company			
千畦(上海)電子商務有限公司	750	861	745

The above related company was controlled by Mr. Leng Youbin, a director of the Company.

25. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented eleven (2018: eight) wealth management products issued by banks. The principals and returns were not guaranteed by the relevant banks and the maximum expected rates of return ranging from 2.0% to 4.3% per annum (2018: from 2.0% to 4.7% per annum). The Group designated these structured deposits as investments at fair value through profit or loss upon initial recognition. The Group uses the structured deposits primarily to enhance the return on investment.

26. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED DEPOSITS

	Notes	**2019 RMB'000**	**2018 RMB'000**
Cash and bank balances		**7,454,048**	3,857,054
Pledged deposits		**3,684,414**	1,666,000
		11,138,462	5,523,054
Less:			
Restricted cash		**(76,578)**	(66,218)
Pledged deposits for bank facilities with maturity date within one year	*29(a)*	**(2,872,699)**	(663,000)
Pledged deposits for bank facilities with maturity date after one year	*29(a)*	**(811,715)**	(1,003,000)
Long-term bank deposits		**–**	(150,000)
Cash and cash equivalents as stated in the consolidated statement of financial position		**7,377,470**	3,640,836
Less:			
Non-pledged time deposits with original maturity of more than three months when acquired		**(2,710,885)**	(2,744,982)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**4,666,585**	895,854

26. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND PLEDGED DEPOSITS (Continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB6,353,368,000 (2018: RMB5,131,233,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

27. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade and bills payables	**1,041,547**	833,383

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

	2019 RMB'000	2018 RMB'000
Within three months	**1,018,656**	811,091
Three to six months	**9,211**	14,998
Over six months	**13,680**	7,294
	1,041,547	833,383

The trade and bills payables are unsecured, non-interest-bearing and are normally settled on terms of one to three months.

28. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Deferred income	*(i)*	**123,679**	90,001
Other payables		**598,663**	827,791
Accruals		**995,094**	1,039,327
Contract liabilities	*(ii)*	**1,047,653**	577,525
		2,765,089	2,534,644
Non-current portion		**(133,929)**	(57,102)
Current portion		**2,631,160**	2,477,542

Notes:

(i) Deferred income represents government grants received by the Group in respect of the construction and acquisition of property, plant and equipment. These government grants are recorded initially at fair value as deferred income, which are amortised to match the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives. The movements in deferred income are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**90,001**	54,346
Received during the year	**34,218**	53,018
Amortisation during the year	**(1,674)**	(17,363)
Exchange realignment	**1,134**	–
At the end of the year	**123,679**	90,001

(ii) Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances from customers		
Sale of goods	**1,047,653**	577,525

Contract liabilities mainly represent short-term advances received from customers to deliver dairy products.

The other payables are non-interest-bearing and have an average term of three months.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured *(note (i))*	2.6%-4.0%	2020	2,898,937	2.4%-3.7%	2019	703,590
Bank loans – unsecured *(note (i))*	4.2%	2020	150,000	4%	2019	272,508
Other loans – unsecured	6.0%	2020	45,277	6.0%	2019	107,169
			3,094,214			1,083,267
Non-current						
Bank loans – secured	4.0%	2021	643,524	3.5-4.0%	2021	605,499
Other loans – unsecured	N/A	N/A	–	6.0%	2020	51,803
Other loans – secured	CDOR+1.73%	2021-2024	1,072,540	N/A	N/A	–
			1,716,064			657,302
			4,810,278			1,740,569

Note:

(i) The bank loans contain a repayment on demand clause for which the lending bank has the overriding right at any time to require the Group to make immediate repayment. For the purpose of the above analysis, the loans are included within current interest-bearing bank and other borrowings and analysed into loans repayable within one year or on demand.

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	3,048,937	976,098
In the second year	643,524	–
In the third year	–	605,499
	3,692,461	1,581,597
Other borrowings repayable:		
Within one year	45,277	107,169
In the second year	306,440	51,803
In the third to fifth years, inclusive	766,100	–
	1,117,817	158,972
	4,810,278	1,740,569

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

(a) At the end of the reporting period, the Group's overdraft facilities amounting to CAD180,000,000 (equivalent to RMB965,286,000) (2018: CAD225,000,000 (equivalent to RMB1,135,305,000)), of which CAD162,750,000 (equivalent to RMB872,781,000) (2018: CAD191,250,000 (equivalent to RMB965,014,000)) had been utilised and were secured by pledged deposits of RMB1,014,715,000 (2018: RMB1,266,000,000).

At the end of the reporting period, the Group's unsecured overdraft facilities amounting to US$20,000,000 (equivalent to RMB139,286,000) (2018: US$70,000,000 (equivalent to RMB481,706,000)) of which Nil (2018: US$39,600,000 (equivalent to RMB272,508,000)) had been utilised.

At the end of the reporting period, the Group's overdraft facilities amounting to HK$3,000,000,000 (equivalent to RMB2,669,680,000) (2018: Nil) which was fully utilised and secured by a pledged deposit of US$383,340,000 (equivalent to RMB2,669,699,000) (2018: Nil).

As at 31 December 2018, a bank loan of the Group of US$50,000,000 (equivalent to RMB344,075,000), was secured by a pledged deposit of RMB400,000,000.

(b) Included in the bank borrowings as at 31 December 2019 were borrowings with carrying amounts of RMB2,669,680,000 (equivalent to US$383,338,000) (2018: RMB616,583,000 (equivalent to US$89,600,000)) which were denominated in US$. Also, included in the bank borrowings as at 31 December 2019 were borrowings with carrying amounts of RMB872,781,000 (equivalent to CAD162,750,000) (2018: RMB965,014,000 (equivalent to CAD191,250,000)) which were denominated in CAD. All other bank borrowings were denominated in RMB.

(c) At the end of the reporting period, except for a loan amounting to RMB1,072,540,000, which was secured by the Group's construction in progress with a carrying amount of RMB1,777,827,000 and repayable from 2021 to 2024, all the other loans were unsecured and repayable in 2020. As at 31 December 2018, included in the other loans was a loan from a related company of US$6,620,000 (equivalent to RMB45,556,000), for which a director of the Company is also a shareholder of that related company. The remaining other loans as at 31 December 2018 were unsecured and repayable within 2019 to 2020.

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Unrecognised tax benefits and surcharge RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2018	–	78,257	151,065	229,322
Acquisition of a subsidiary	16,390	–	–	16,390
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 11)*	(13,359)	–	122,679	109,320
Exchange realignment	975	4,505	–	5,480
At 31 December 2018 and 1 January 2019	**4,006**	**82,762**	**273,744**	**360,512**
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 11)*	**(2,330)**	**–**	**198,033**	**195,703**
Exchange realignment	**(19)**	**996**	**–**	**977**
At 31 December 2019	**1,657**	**83,758**	**471,777**	**557,192**

30. DEFERRED TAX (Continued)

Deferred tax assets

	Accruals RMB'000	Deferred income RMB'000	Unrealised profits on inventories RMB'000	Total RMB'000
At 1 January 2018	107,373	11,425	20,807	139,605
Deferred tax credited to the statement of profit or loss during the year *(note 11)*	36,084	8,915	23,736	68,735
At 31 December 2018 and 1 January 2019	**143,457**	**20,340**	**44,543**	**208,340**
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 11)*	**15,376**	**9,528**	**(24,558)**	**346**
At 31 December 2019	**158,833**	**29,868**	**19,985**	**208,686**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of the reporting period, the directors of the Company, based on the Group's operation and expansion plan, estimated that part of the retained earnings of the PRC subsidiaries would be retained in Mainland China for use in future operations and investments. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB6,112,790,000 (2018: RMB3,521,140,000) at 31 December 2019.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

	Notes	Number of shares 2019	2018	2019 RMB'000	2018 RMB'000
Authorised					
50,000 ordinary shares of US$1 each at 1 January 2018, 31 December 2018 and 1 January 2019		**50,000**	50,000	**303**	303
Share subdivision	*(i)*	**1,999,999,950,000**	–	**–**	–
At 31 December		**2,000,000,000,000**	50,000	**303**	303
Issued and paid-up					
Balance at 1 January 2018, 31 December 2018 and 1 January 2019		**201**	201	**1**	1
Share subdivision	*(i)*	**8,039,999,799**	–	**–**	–
Issue of ordinary shares of the Company of US$0.000000025 each	*(ii)*	**893,340,000**	–	**–**	–
At 31 December		**8,933,340,000**	201	**1**	1

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

Notes:

(i) Pursuant to the written resolution of the then shareholder of the Company passed on 14 October 2019, each of the then existing and unissued shares of US$1 each of the Company was subdivided into 40,000,000 shares of US$0.000000025 each.

(ii) In connection with the Company's initial public offering, 893,340,000 ordinary shares of US$0.000000025 each were issued at a price of HK$7.50 per share for a total cash consideration, before share issue expenses, of HK$6,700,050,000 (equivalent to RMB5,983,960,000). Dealings in the shares of the Company on the Stock Exchange commenced on 13 November 2019.

Share options

Details of the share option schemes and the share options issued are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

Share option schemes of the then immediate holding company

DIF operated a share option scheme (the "**First Share Option Scheme**"), which was adopted and approved by the shareholders of DIF on 18 December 2013. Eligible persons of the First Share Option Scheme include, inter alia, any eligible person (including director and employee) of DIF and its subsidiaries. The purpose of the First Share Option Scheme was to provide eligible persons with the opportunity to acquire proprietary interests in DIF and to encourage eligible persons to work towards enhancing the value of DIF and its shareholders as a whole.

1,144,255 share options were granted on 18 December 2013 under the First Share Option Scheme ("**Tranche A Options**") to eligible persons to subscribe for a total of 1,144,255 new shares of DIF of US$0.001 each, vested on 31 March 2014. These share options are exercisable at US$7.4 per share and must be exercised within seven years from the grant date, and if not so exercised, the share options shall lapse.

1,058,000 share options were granted on 18 December 2013 under the First Share Option Scheme ("**Tranche B Options**") to eligible persons to subscribe for a total of 1,058,000 new shares of DIF of US$0.001 each, vesting over a period of three years from the grant date, of which 30% of the share options vested on 31 December 2016, 30% of the share options vested on 31 December 2017, and 40% of the share options vested on 31 December 2018. These share options are exercisable at US$7.4 per share and must be exercised within seven years from the grant date, and if not so exercised, the share options shall lapse.

Share options did not confer rights on the holders to dividends or voting rights at shareholders' meetings.

The movements of options granted pursuant to the First Share Option Scheme are as follows:

	Weighted average exercise price per share US$	Number of options
At 1 January 2018, 31 December 2018 and 1 January 2019	7.4	1,008,000
Exercised during the year	7.4	(1,008,000)
At 31 December 2019		–

32. SHARE OPTION SCHEMES (Continued)

Share option schemes of the then immediate holding company (Continued)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2018 are as follows:

31 December 2018 Number of options	Exercise price per share US$	Exercise period
302,400	7.4	31-12-16 to 17-12-20
302,400	7.4	31-12-17 to 17-12-20
403,200	7.4	31-12-18 to 17-12-20
1,008,000		

The estimated fair values of the Tranche A Options and Tranche B Options granted were US$5,032,000 (US$4.4 each) and US$5,021,000 (US$4.75 each), respectively.

The fair value of the share options granted during the year ended 31 December 2013 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Tranche A Options	Tranche B Options
Dividend yield	0%	0%
Expected volatility	43%	43%
Risk-free interest rate	2.5%	2.5%

The expected volatility reflects the assumption that the historical volatility of comparable companies in the same industry is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

32. SHARE OPTION SCHEMES (Continued)

Share option schemes of the then immediate holding company (Continued)

DIF operated another share option scheme (the "**Second Share Option Scheme**"), which was adopted and approved by the shareholders of DIF on 1 January 2017. Eligible persons of the Second Share Option Scheme include, inter alia, any eligible employee (including director, officer and/or employee) of DIF and its subsidiaries. The purpose of the Second Share Option Scheme was to attract and retain the best available personnel for positions of substantial responsibility and to provide additional incentive to the Directors and employees of the Group for promoting the success of the business of the Group.

1,300,268 share options were granted on 1 January 2017 under the Second Share Option Scheme to eligible persons to subscribe for a total of 1,300,268 new shares of DIF of US$0.001 each, vesting over a period of four years from the grant date, of which 498,378 share options vested on 31 March 2017, 240,567 share options be vested on 31 December 2018, 240,567 share options vested on 31 December 2019, and 320,756 share options to be vested on 31 December 2020. These share options are exercisable at US$48.0 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse.

Share options did not confer rights on the holders to dividends or voting rights at shareholders' meetings.

The movements of options granted pursuant to the Second Share Option Scheme are as follows:

	Weighted average exercise price per share US$	Number of options
At 1 January 2018, 31 December 2018 and 1 January 2019	**48.0**	**1,300,268**
Exercised during the year	**48.0**	**(738,945)**
Cancelled during the year	**48.0**	**(561,323)**
At 31 December 2019		**–**

32. SHARE OPTION SCHEMES (Continued)

Share option schemes of the then immediate holding company (Continued)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2018 are as follows:

31 December 2018 Number of options	Exercise price per share US$	Exercise period
498,378	48.0	31-3-17 to 31-12-21
240,567	48.0	31-12-18 to 31-12-21
240,567	48.0	31-12-19 to 31-12-21
320,756	48.0	31-12-20 to 31-12-21
1,300,268		

The estimated fair value of the share options under the Second Share Option Scheme granted was US$2,647,000.

The fair value of the share options granted during the year ended 31 December 2017 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield	0%
Expected volatility	41%
Risk-free interest rate	2.0%

The expected volatility reflects the assumption that the historical volatility of comparable companies in the same industry is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

32. SHARE OPTION SCHEMES (Continued)

Share option scheme of the Company

On 14 October 2019, DIF cancelled the Second Share Option Scheme while the Company adopted a new share option scheme (the "**Third Share Option Scheme**") as a replacement. The replacement plan was approved by board resolutions of the Company on the same date.

The purpose of the Third Share Option Scheme is to (i) attract and retain the best available personnel for position of substantial responsibility; (ii) provide additional incentives to the directors and employees of the Group; and (iii) promote the success of the business of the Group.

Except for the number of options which were subdivided from 561,323 options of DIF's shares to 190,190,704 options of the Company's shares and the respective dilution of the exercise price from US$48 to US$0.14, the cancelled and replacement awards involving exactly the same conditions were treated as a modification with the increment fair value being recognised over the vesting year of the replacement share-based payment award.

Share options do not confer rights on the holders to dividends or voting rights at shareholders' meetings.

The movements of options granted pursuant to the Third Share Option Scheme are as follows:

	Weighted average exercise price per share US$	Number of options
At 1 January 2019	–	–
Granted during the year	0.14	190,190,704
At 31 December 2019	0.14	190,190,704

32. SHARE OPTION SCHEMES (Continued)

Share option scheme of the Company (Continued)

The exercise prices and exercise periods of the share options outstanding as at 31 December 2019 are as follows:

31 December 2019 Number of options	Exercise price per share US$	Exercise period
81,510,302	0.14	31-12-19 to 31-12-21
108,680,402	0.14	31-12-20 to 31-12-21
190,190,704		

The estimated fair value of the share options under the Third Share Option Scheme granted was US$34,475,000.

The fair value of the share options granted during year ended 31 December 2019 was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	1.6%

The expected volatility reflects the assumption that the historical volatility of comparable companies in the same industry is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

The Group recognised total share option expenses of RMB123,597,000 (2018: RMB6,408,000) for the year.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital contribution reserve

Capital contribution reserve represents the deemed contribution from the Company's then immediate holding company in relation to the share options granted therefrom to the Group's employees.

Reserve funds

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.3 to the financial statements. The amount will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

Other reserves

The other reserves represents the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the reorganisation.

34. ACQUISITION OF BUSINESS

On 19 January 2018, the Group acquired the business of Vitamin World, Inc. ("**Vitamin World**"), at a consideration of US$28,000,000 (approximately RMB176,000,000). The purchase consideration for the acquisition was in the form of cash and the amount was settled during the year ended 31 December 2018.

The fair values of the identifiable assets and liabilities of Vitamin World's business as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition RMB'000**
Property, plant and equipment	*14*	**40,486**
Deferred tax assets		**580**
Right-of-use assets	*15*	**223,703**
Inventories		**189,360**
Cash and cash equivalents		**327**
Trade receivables		**3,884**
Other receivables		**3,052**
Deferred tax liabilities		**(16,390)**
Lease liabilities		**(223,703)**
Other accruals and payables		**(11,753)**
Total identifiable net assets at fair value		**209,546**
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss		**(33,327)**
Satisfied by cash		**176,219**

The Group incurred transaction costs of approximately RMB7,250,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss. In the opinion of directors of the Company, the shareholders of Vitamin World agreed to accept the consideration for the acquisition of Vitamin World's business which was lower than the fair value of net identifiable assets acquired as Vitamin World was loss-making for few years before the acquisition. Accordingly, it resulted in gain on bargain purchase of RMB33,327,000.

34. ACQUISITION OF BUSINESS (Continued)

An analysis of the cash flows in respect of the acquisition of business is as follows:

	RMB'000
Cash consideration	**(176,219)**
Cash and cash equivalents acquired	**327**
Net cash outflow of cash and cash equivalents included in cash flows from investing activities	**(175,892)**

Since the acquisition, Vitamin World's business contributed RMB640,525,000 to the Group's revenue and a loss of RMB186,066,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year ended 31 December 2018, the revenue of the Group and the profit of the Group for the year would have been RMB11,743,313,000 and RMB2,045,971,000, respectively.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(i) Major non-cash transactions

During the year, the Group acquired certain items of property, plant and equipment of which the considerations were partially settled by deposits previously paid with aggregate carrying amounts of RMB169,610,000 (2018: RMB107,079,000), and had non-cash additions to right-of-use assets and lease liabilities of RMB41,123,000 (2018: RMB11,618,000) and RMB41,123,000 (2018: RMB11,618,000), respectively, in respect of lease arrangements for retail stores.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(ii) Changes in financial assets and liabilities arising from financing activities

	Lease liabilities RMB'000	Pledged deposits RMB'000	Interest-bearing bank and other borrowings RMB'000
At 1 January 2018	–	(466,000)	966,919
Financing cash flows	(60,586)	(1,200,000)	751,554
New leases	11,618	–	–
Increase arising from acquisition of a subsidiary	223,703	–	–
Foreign exchange movement	19,136	–	22,096
At 31 December 2018 and 1 January 2019	193,871	(1,666,000)	1,740,569
Financing cash flows	**(51,614)**	**(1,996,920)**	**2,957,448**
New leases	**41,123**	**–**	**–**
Foreign exchange movement	**2,251**	**(21,494)**	**112,261**
At 31 December 2019	**185,631**	**(3,684,414)**	**4,810,278**

(iii) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000	2018 RMB'000
Within operating activities	**8,872**	9,135
Within financing activities	**51,614**	60,586
	60,486	69,721

36. CONTINGENT LIABILITIES

At 31 December 2019, the Group had no contingent liabilities (2018: RMB90 million, primarily attributable to a guarantee given to a bank in connection with a facility granted to a third party constructor) not provided for in the financial statements.

37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's interest-bearing bank and other borrowings are included in note 29 to the financial statements.

38. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	**690,795**	188,019

39. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Transactions with related companies

	Notes	2019 RMB'000	2018 RMB'000
Related companies:*			
Sales of dairy and soybean products	*(i)*	**–**	715
Interest expense	*(ii)*	**154**	22

* These related companies are controlled by common directors of the Company.

(i) The sales of dairy and soybean products were based on the terms agreed with the parties with certain common directors.

(ii) The interest expense was charged based on the contract terms mutually agreed by the respective parties.

(b) Outstanding balances with related parties

The amount due from a director included in the Group's current assets is unsecured, interest-free and repayable on demand. Further details of the balance are included in note 24 to the financial statements.

(c) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Salaries and allowance	**38,608**	17,617
Pension scheme contributions	**336**	342
Equity-settled share option scheme	**123,330**	6,183
Total compensation paid/payable to key management personnel	**162,274**	24,142

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2019

Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Trade and bills receivables	–	314,353	–	314,353
Financial assets included in prepayments, deposits and other receivables	–	308,707	–	308,707
Due from a director	–	80	–	80
Structured deposits	5,390,191	–	–	5,390,191
Pledged deposits	–	3,684,414	–	3,684,414
Restricted cash	–	76,578	–	76,578
Cash and cash equivalents	–	7,377,470	–	7,377,470
	5,390,191	11,761,602	1,800	17,153,593

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	1,041,547
Financial liabilities included in other payables and accruals	1,227,504
Interest-bearing bank and other borrowings	4,810,278
Lease liabilities	185,631
	7,264,960

40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

31 December 2018

Financial assets

	Financial assets at fair value through profit or loss – designated as such upon initial recognition RMB'000	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income – equity investments RMB'000	Total RMB'000
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Long-term bank deposits	–	150,000	–	150,000
Trade and bills receivables	–	512,837	–	512,837
Financial assets included in prepayments, deposits and other receivables	–	159,469	–	159,469
Due from a director	–	80	–	80
Due from a related company	–	750	–	750
Structured deposits	1,183,741	–	–	1,183,741
Pledged deposits	–	1,666,000	–	1,666,000
Restricted cash	–	66,218	–	66,218
Cash and cash equivalents	–	3,640,836	–	3,640,836
	1,183,741	6,196,190	1,800	7,381,731

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	833,383
Financial liabilities included in other payables and accruals	1,636,273
Interest-bearing bank and other borrowings	1,740,569
Lease liabilities	193,871
	4,404,096

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial assets				
Financial asset at fair value through other comprehensive income	**1,800**	1,800	**1,800**	1,800
Structured deposits	**5,390,191**	1,183,741	**5,390,191**	1,183,741
Financial liabilities				
Interest-bearing bank and other borrowings	**4,810,278**	1,740,569	**4,738,399**	1,723,364

Management has assessed that the fair values of cash and cash equivalents, restricted cash, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from a director and a related company, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

The fair values of the structured deposits are determined in accordance with discounted cash flow analysis. The fair values of financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 31 December 2019				
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Structured deposits	–	5,390,191	–	5,390,191
At 31 December 2018				
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Structured deposits	–	1,183,741	–	1,183,741

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 (2018: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (2018: Nil).

The fair value of the financial asset at fair value through other comprehensive income was estimated using the market approach, with an unobservable input as the price-to-book ratio of comparable companies. A 20% (2018: 20%) increase/decrease in the price-to-book ratio of comparable companies would result in an increase/decrease in fair value by approximately RMB360,000 (2018: RMB360,000).

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 31 December 2019				
Interest-bearing bank and other borrowings	–	4,738,399	–	4,738,399
At 31 December 2018				
Interest-bearing bank and other borrowings	–	1,723,364	–	1,723,364

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, financial assets included in prepayments, deposits and other receivables, structured deposits, a financial asset at fair value through other comprehensive income, trade and bills payables, financial liabilities included in other payables and accruals, and balance with a director, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group's policies for managing each of these risks are summarised below.

Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, except on retained profits.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
31 December 2019		
US$	**50**	**10,188**
CAD	**50**	**(9,338)**
RMB	**50**	**57,968**
US$	**(50)**	**(10,188)**
CAD	**(50)**	**9,338**
RMB	**(50)**	**(57,968)**
31 December 2018		
US$	50	1,449
CAD	50	206
RMB	50	30,163
US$	(50)	(1,449)
CAD	(50)	(206)
RMB	(50)	(30,163)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and cash collateral may be required. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	214,350	214,350
Bills receivable					
– Not yet past due	109,598	–	–	–	109,598
Financial assets included in prepayments, deposits and other receivables					
– Normal**	308,707	–	–	–	308,707
Due from a director – Normal**	80	–	–	–	80
Pledged deposits					
– Not yet past due	3,684,414	–	–	–	3,684,414
Restricted cash – Not yet past due	76,578	–	–	–	76,578
Cash and cash equivalents					
– Not yet past due	7,377,470	–	–	–	7,377,470
	11,556,847	–	–	214,350	11,771,197

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Long-term bank deposits	150,000	–	–	–	150,000
Trade receivables*	–	–	–	443,180	443,180
Bills receivable					
– Not yet past due	78,612	–	–	–	78,612
Financial assets included in prepayments, deposits and other receivables					
– Normal**	159,469	–	–	–	159,469
Due from a director – Normal**	80	–	–	–	80
Due from a related company					
– Normal**	750	–	–	–	750
Pledged deposits					
– Not yet past due	1,666,000	–	–	–	1,666,000
Restricted cash – Not yet past due	66,218	–	–	–	66,218
Cash and cash equivalents					
– Not yet past due	3,640,836	–	–	–	3,640,836
	5,761,965	–	–	443,180	6,205,145

* For trade receivables which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of amounts due from a director and a related company and the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 22 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different countries.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2019		
US$	**5**	**93,413**
CAD	**5**	**(92,043)**
US$	**(5)**	**(93,413)**
CAD	**(5)**	**92,043**
31 December 2018		
US$	5	(1,913)
HK$	5	(2,590)
CAD	5	(74,397)
US$	(5)	1,913
HK$	(5)	2,590
CAD	(5)	74,397

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand or less than one year RMB'000	One to five years RMB'000	Five or more years RMB'000	Total RMB'000
31 December 2019				
Trade and bills payables	1,041,547	–	–	1,041,547
Financial liabilities included in other payables and accruals	1,227,504	–	–	1,227,504
Lease liabilities	70,914	114,084	16,456	201,454
Interest-bearing bank and other borrowings	3,188,494	1,785,847	–	4,974,341
	5,528,459	1,899,931	16,456	7,444,846
31 December 2018				
Trade and bills payables	833,383	–	–	833,383
Financial liabilities included in other payables and accruals	1,636,273	–	–	1,636,273
Lease liabilities	60,117	152,344	–	212,461
Interest-bearing bank and other borrowings	1,143,916	685,621	–	1,829,537
	3,673,689	837,965	–	4,511,654

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statement of financial position less cash and bank balances and pledged deposits. Total capital is calculated as equity holders' funds (i.e., total equity attributable to owners of the Company), as shown in the consolidated statement of financial position. The gearing ratios as at the end of the reporting period were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings *(note 29)*	**4,810,278**	1,740,569
Less:		
Cash and bank balances *(note 26)*	**(7,454,048)**	(3,857,054)
Pledged deposits *(note 26)*	**(3,684,414)**	(1,666,000)
Net debt	**(6,328,184)**	(3,782,485)
Total equity attributable to owners of the Company	**13,029,578**	5,787,484
Gearing ratio	**(0.49)**	(0.65)

43. EVENTS AFTER THE REPORTING PERIOD

Evaluation on the impact of the Novel Coronavirus

Since the outbreak of the novel coronavirus pneumonia (the "**Epidemic**"), the Group's management has been monitoring the development of the Epidemic and assessing the impact on the Group's operations. The Group has already taken steps and measures to protect its employees from being infected. Up to the date of approval of these financial statements, management is not aware of any infected cases among the Group's employees.

Although there were a number of confirmed infected cases in Beijing (where the Group's headquarter is located), Heilongjiang province and Jilin province (where the Group's manufacturing facilities in the PRC are located), the Group's operations in the PRC have been resumed after the Lunar New Year holiday and have not experienced any material disruptions. Up to the date of approval of these financial statements, management is not aware of any material adverse impact on the Group's financial position caused by the Epidemic.

The Group will keep paying attention to the development of the coronavirus situation and evaluate the impact on the financial position and operation of the Group. As of the date of approval of these financial statements, no significant adverse impact has been identified.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,023,519**	1,011,350
CURRENT ASSETS		
Prepayments	**7,429**	7,341
Due from subsidiaries	**6,417,458**	923,580
Pledged deposits	**2,669,699**	–
Cash and cash equivalents	**1,743,328**	3,782
Total current assets	**10,837,914**	934,703
CURRENT LIABILITIES		
Other payables and accruals	**49,271**	42,841
Due to the then immediate holding company	**225**	222
Due to subsidiaries	**571,621**	1,075,974
Interest-bearing bank and other borrowings	**2,714,957**	377,298
Total current liabilities	**3,336,074**	1,496,335
NET CURRENT ASSETS/(LIABILITIES)	**7,501,840**	(561,632)
Net assets	**8,525,359**	449,718
EQUITY		
Share capital	**1**	1
Reserves *(note)*	**8,525,358**	449,717
Total equity	**8,525,359**	449,718

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserve is as follows:

	Share premium account RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2018	631,966	71,415	–	24,148	(255,582)	471,947
Loss for the year	–	–	–	–	(77,084)	(77,084)
Equity-settled share-based payment arrangements	–	6,408	–	–	–	6,408
Exchange differences on translation of foreign operations	–	–	–	48,446	–	48,446
At 31 December 2018 and 1 January 2019	**631,966**	**77,823**	**–**	**72,594**	**(332,666)**	**449,717**
Profit for the year	**–**	**–**	**–**	**–**	**4,761,893**	**4,761,893**
Issue of shares under initial public offering	**5,983,960**	**–**	**–**	**–**	**–**	**5,983,960**
Share issue expenses	**(65,689)**	**–**	**–**	**–**	**–**	**(65,689)**
Special dividend declared in 2019	**–**	**–**	**–**	**–**	**(2,704,164)**	**(2,704,164)**
Equity-settled share-based payment arrangements	**–**	**2,523**	**121,074**	**–**	**–**	**123,597**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(23,956)**	**–**	**(23,956)**
At 31 December 2019	**6,550,237**	**80,346**	**121,074**	**48,638**	**1,725,063**	**8,525,358**

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meaning:

"AGM"	the annual general meeting of the Company to be held for the purpose, among others, approving the audited financial statements for the year ended 31 December 2019, which will be held on 22 June 2020
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"China" or "PRC"	the People's Republic of China, and for the purposes of this annual report for geographical reference only (unless otherwise indicated), excluding Taiwan, Macau and Hong Kong
"Company," "us,", "China Feihe" or "we"	China Feihe Limited (中國飛鶴有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 26 October 2012, whose Shares are listed on the main board of the Stock Exchange
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands
"DIF Holding"	Diamond Infant Formula Holding Limited, an exempted company incorporated in the Cayman Islands with limited liability on October 24, 2012
"DIF Share Option(s)"	option(s) granted under the DIF Share Option Schemes to subscribe for DIF Ordinary Shares
"DIF Share Option Schemes"	collectively, the First DIF Share Option Scheme and the Second DIF Share Option Scheme
"Director(s)"	director(s) of the Company
"First DIF Share Option Scheme"	the first pre-IPO share option scheme adopted by DIF Holding on December 18, 2013
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"Group" or "we" or "our" or "us"	the Company and its subsidiaries

"HK$" or "HKD"	Hong Kong dollars, the lawful currency for Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
"Kingston Plant"	the planned production facility to be constructed in the city of Kingston, Ontario, Canada
"Latest Practicable Date"	6 April 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing"	the listing of the Shares on the main board of the Stock Exchange
"Listing Date"	13 November 2019, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Memorandum and Articles of Association"	the amended and restated memorandum of association and articles of association of our Company, conditionally adopted on 14 October 2019 with effect from the Listing Date, and as amended from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO Share Option"	the pre-IPO share option(s) granted under the Pre-IPO Share Option Scheme
"Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on October 14, 2019
"Prospectus"	the prospectus of the Company dated 30 October 2019
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	the lawful currency of the PRC

Definitions

"Reporting Period"	the period commencing from the Listing Date and up to 31 December 2019
"Second DIF Share Option Scheme"	the second pre-IPO share option scheme adopted by DIF Holding on January 1, 2017
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of US$0.000000025 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States" or "U.S."	the United States of America and its territories
"US$" or "USD"	the lawful currency of the United States
"Vitamin World USA"	Vitamin World USA Corporation, a corporation incorporated in the State of Delaware, the United States on December 13, 2017 and a wholly-owned subsidiary of the Company
"%"	per cent.