



中國飛鶴有限公司

China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6186

INTERIM REPORT 2020



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr LENG Youbin (*Chairman & Chief Executive Officer*)

Mr LIU Hua

Mr CAI Fangliang

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

COMPLIANCE ADVISER

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Cayman Islands

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STOCK CODE

6186

Financial Highlights

KEY FINANCIAL DATA

FINANCIAL HIGHLIGHTS

The table below sets out our financial highlights for the six months ended 30 June 2020.

	For the six months ended 30 June		Percentage changed
	2020	2019	
	(Unaudited)	(Audited)	
	(In thousands of RMB)		
Revenue	8,706,593	5,891,721	47.8%
Gross profit	6,176,215	3,975,491	55.4%
Profit for the period	2,753,131	1,750,833	57.2%
Earnings per share attributable to ordinary equity holders of the parent (RMB):			
– Basic	0.31	0.22	40.9%
– Diluted	0.30	0.22	36.4%

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 USD\$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.

Management Discussion and Analysis

- Favorable industry policies by the PRC government:
 - o 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 maintain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.
 - o 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 2019. 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.

The infant milk formula market in China has been impacted by the COVID-19 pandemic (the “**Pandemic**”) in terms of production and logistics distribution in the first quarter of 2020. However, due to China's effective control of the Pandemic and the robust demand for infant milk formula products, the retail sales value of infant milk formula in China is expected to remain stable in 2020.

BUSINESS OVERVIEW

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 and rice powder dietary supplement products.

Management Discussion and Analysis

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 1,900 offline customers with more than 119,000 retail points of sale as at 30 June 2020. The Group's offline customers are distributors who sell its products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated from sales to the Group's offline customers accounted for 87.0% of its total revenue from dairy products for the six months ended 30 June 2020.

To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, the Group's products are also sold directly on some of the largest e-commerce platforms as well as through its own website and mobile applications.

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 30 June 2020, the Group had seven production facilities to manufacture its products with a designed annual production capacity of 192,400 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 one of its existing production facilities (our Longjiang plant) and constructing one new production facility (our Harbin plant).

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 the six months ended 30 June 2020, more than 330,000 face-to-face seminars were held in total, which include more than 144,000 online face-to-face seminars and 186,000 offline face-to-face seminars;
- Maximize online interactivity with consumers; and
- Targeted and results-driven exposure on media.

Vitamin World USA

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 62 specialty stores across the United States of America (the "**United States**"), mostly in malls and outlet centres, and employed over 340 people as at 30 June 2020. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms. Revenue generated from nutritional supplement products was RMB186.3 million, accounting for 2.1% of the Group's total revenue for the six months ended 30 June 2020.

Management Discussion and Analysis

OPERATING RESULTS AND ANALYSIS

The table below sets forth the Group's condensed consolidated statements of profit or loss and comprehensive income in amounts and as a percentage of the Group's total revenue for the periods indicated, together with changes (expressed in percentages) for the six months ended 30 June 2019 and 2020.

	For the six months ended 30 June				Percentage Changed
	2020		2019		
	(Unaudited)		(Audited)		
	(In thousands of RMB, except percentages)				
Revenue	8,706,593	100%	5,891,721	100%	47.8%
Cost of sales	(2,530,378)	(29.1)%	(1,916,230)	(32.5)%	32.0%
Gross profit	6,176,215	70.9%	3,975,491	67.5%	55.4%
Other income and gains, net	763,038	8.8%	371,745	6.3%	105.3%
Selling and distribution expenses	(2,196,836)	(25.2)%	(1,553,183)	(26.4)%	41.4%
Administrative expenses	(526,765)	(6.1)%	(289,671)	(4.9)%	81.8%
Other expenses	(219,444)	(2.5)%	(16,868)	(0.3)%	1,200.9%
Finance costs	(26,544)	(0.3)%	(23,031)	(0.4)%	15.3%
Share of loss of an associate	(347)	0%	–	–	N/M
Profit before tax	3,969,317	45.6%	2,464,483	41.8%	61.1%
Income tax expense	(1,216,186)	(14.0)%	(713,650)	(12.1)%	70.4%
Profit for the period	2,753,131	31.6%	1,750,833	29.7%	57.2%
Other comprehensive income/loss					
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations	107,202	1.2%	(445)	0%	N/M
Total comprehensive income for the period	2,860,333	32.8%	1,750,388	29.7%	63.4%

Management Discussion and Analysis

Revenue

The Group's revenue increased by 47.8% from RMB5,891.7 million for the six months ended 30 June 2019 to RMB8,706.6 million for the six months ended 30 June 2020, 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) the Group's swift response to the development of the Pandemic in China, which helped minimize the impact of the Pandemic on the Group's production, logistics and sales. The decrease in the revenue from nutritional supplement products during the same periods was primarily due to the store closures resulting from the Pandemic in the United States.

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

	For the six months ended 30 June				Percentage Changed
	2020		2019		
	(In thousands of RMB, except percentages)				
	(Unaudited)				
High-end infant milk formula product series	6,773,217	77.8%	3,915,966	66.5%	73.0%
Regular infant milk formula product series	1,541,784	17.7%	1,408,832	23.9%	9.4%
Other dairy products*	205,279	2.4%	247,939	4.2%	(17.2)%
Nutritional supplement products	186,313	2.1%	318,984	5.4%	(41.6)%
Total Revenue	8,706,593	100.0%	5,891,721	100.0%	47.8%

* Other dairy products include adult milk powder, liquid milk, adult goat milk powder, rice powder dietary supplement products and other related products, among others.

Cost of Sales

The Group's cost of sales increased by 32.0% from RMB1,916.2 million for the six months ended 30 June 2019 to RMB2,530.4 million for the six months ended 30 June 2020, primarily due to the increased sales volume of the Group's dairy products.

Management Discussion and Analysis

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 periods indicated.

	For the six months ended 30 June				Period-on-Period Change in Gross Profit
	2020		2019		
	Gross Profit		Gross Profit		
	Gross Profit	Margin	Gross Profit	Margin	
	(In thousands of RMB, except percentages)				
	(Unaudited)				
High-end infant milk formula product series	5,023,827	74.2%	2,880,037	73.5%	74.4%
Regular infant milk formula product series	973,432	63.1%	852,020	60.5%	14.2%
Other dairy products*	76,492	37.3%	87,440	35.3%	(12.5)%
Nutritional supplement products	102,464	55.0%	155,994	48.9%	(34.3)%
Gross profit	6,176,215	70.9%	3,975,491	67.5%	55.4%

As a result of the foregoing, the Group's gross profit increased by 55.4% from RMB3,975.5 million for the six months ended 30 June 2019 to RMB6,176.2 million for the six months ended 30 June 2020.

The Group's gross profit margin increased from 67.5% for the six months ended 30 June 2019 to 70.9% for the six months ended 30 June 2020, primarily due to the Group's high-end infant milk formula product series, which had a relatively high gross profit margin among the Group's products, accounted for an increased portion in the Group's total sales in the six months ended 30 June 2020 as compared to that in the same period in 2019.

Other Income and Gains, Net

Other income and gains, net increased by 105.3% from RMB371.7 million for the six months ended 30 June 2019 to RMB763.0 million for the six months ended 30 June 2020, primarily due to (i) an increase in government grants, and (ii) an increase in other interest income.

Management Discussion and Analysis

Selling and Distribution Expenses

Selling and distribution expenses increased by 41.4% from RMB1,553.2 million for the six months ended 30 June 2019 to RMB2,196.8 million for the six months ended 30 June 2020, primarily due to (i) an increase in advertising and promotional expenses, and (ii) an increase in staff costs in relation to sales and distribution.

Administrative Expenses

Administrative expenses increased by 81.8% from RMB289.7 million for the six months ended 30 June 2019 to RMB526.8 million for the six months ended 30 June 2020, primarily due to (i) an increase in staff costs, and (ii) expenses in relation to share option scheme.

Other Expenses

Other expenses significantly increased from RMB16.9 million for the six months ended 30 June 2019 to RMB219.4 million for the six months ended 30 June 2020, primarily due to the donations of cash and nutritional supplement made to the Chinese Red Cross Foundation in relation to the Pandemic.

Finance Costs

Finance costs increased by 15.3% from RMB23.0 million for the six months ended 30 June 2019 to RMB26.5 million for the six months ended 30 June 2020, primarily due to an increase in the Group's interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 61.1% from RMB2,464.5 million for the six months ended 30 June 2019 to RMB3,969.3 million for the six months ended 30 June 2020.

Income Tax Expenses

Our income tax expense increased by 70.4% from RMB713.7 million for the six months ended 30 June 2019 to RMB1,216.2 million for the six months ended 30 June 2020 as a result of an increase in our profit before tax for the six months ended 30 June 2020.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 29.0% for the six months ended 30 June 2019 and 30.6% for the six months ended 30 June 2020.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 57.2% from RMB1,750.8 million for the six months ended 30 June 2019 to RMB2,753.1 million for the six months ended 30 June 2020.

LIQUIDITY AND CAPITAL RESOURCES

In the six months ended 30 June 2020, 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 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.

Cash and Cash Equivalents

As at 30 June 2020, the Group had cash and cash equivalents of RMB10,583.3 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.

Net Proceeds from the Global Offering

For net proceeds from the Global Offering, please see “Use of Net Proceeds from Initial Public Offering”.

Bank and Other Borrowings

As at 30 June 2020, the Group’s interest-bearing bank and other borrowings were approximately RMB1,236.6 million, of which RMB344.6 million are repayable within one year and the remaining balances are repayable within two to five years. 3.7% of the interest-bearing bank and other borrowings were bearing interest at fixed rates. Apart from RMB45.9 million and RMB1,040.7 million of such borrowings, which were denominated in US dollars and Canadian dollars, respectively, the rest of the Group’s borrowings were denominated in Renminbi.

CAPITAL STRUCTURE

As at 30 June 2020, the Group had net assets of RMB14,362.9 million, comprising current assets of RMB17,336.0 million, non-current assets of RMB5,171.2 million, current liabilities of RMB6,213.4 million and non-current liabilities of RMB1,930.9 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 statements 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 statements of financial position. The Group’s gearing ratio decreased from (0.49) as at 31 December 2019 to (0.68) as at 30 June 2020.

Management Discussion and Analysis

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 six months ended 30 June 2020, 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 and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which is made in Canadian dollars. During the six months ended 30 June 2020, 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2020, 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 RMB721.9 million, property, plant and equipment of RMB1,068.2 million and pledged deposits of RMB403.0 million. As at 30 June 2020, the total pledged group assets amounted to approximately RMB2,193.1 million, representing a decrease of RMB3,269.1 million as compared to the beginning of 2020.

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 30 June 2020, the Group did not have any contingent liabilities.

FUTURE PROSPECTS

Striving to lead R&D and technology development

Feihe Industry Chain Innovation Center for Infant Milk Formula, together with the efforts of leading research and academic institutions, will strive to lead R&D and technology development by strengthening basic research, analysing nutritional components of breast milk and developing raw materials that simulate the composition of breast milk with native functions. It also published several thesis and academic articles on SCI and important academic journals.

Management Discussion and Analysis

Feihe will leverage the core capabilities of its dairy engineering academician workstation of Heilongjiang Feihe Dairy Products Co., Ltd. to build four platforms in 2020, namely, the Frontier Competition Research Platform, the Technology Development Platform, the Technology Cooperation Platform and the Intellectual Property Right Platform. These platforms will establish a mechanism for cooperation with the top scientific research institutions to foster development in the fields of global agriculture and farming, nutritional science, food innovation and life sciences. In addition, Feihe will also build technology platforms in areas such as the development of breast milk simulated raw materials, biological function enhancement technologies and agriculture and farming development. Feihe's basic research will continue to focus on the important features of breast milk of Chinese mothers as well as the development of immune system and brain to discover raw materials that are closer simulates of breast milk. Furthermore, Feihe will adhere to the concept of "Original Innovation" and establish a model which covers the entire industrial chain including agriculture and farming development, technology development and product development, which will in turn realise its vision of "Managing the Lifelong Health of Human Beings".

Enhancing brand power by continuously providing value-added consumer services

In the past 58 years, Feihe has always regarded the infant milk formula business as a business of conscience, a business for mothers and a business for the nation. As a leading brand for domestic infant milk formula products, Feihe's commitment to social responsibilities has brought hope and joy to millions of families through its constantly optimized products and services for Chinese babies. Feihe will enhance its brand image by placing customers at its center. It will continuously develop suitable media channels to reach consumers, build brand IP and improve brand communication with customers in first-and second-tier cities, so as to enhance customers' recognition of Feihe as a professional infant nutrition expert.

In the future, Feihe will continue to provide value-added consumer services. Feihe has fully upgraded the Super-premium Astrobaby ("星飛帆") product series. It will further promote concept of natural life and parenting through its Super-premium Organic Zhenzhi ("臻稚有機") product series and its innovative Zhuoran (茁然) infant milk formula products. The abovementioned efforts will improve super-premium consumers' product experience. During the Pandemic, Feihe provided parents with high-quality parenting content through online live broadcast, Star Mother Class and other innovative forms. Feihe will strive to provide high-quality nutrition, health and parenting content services.

Feihe will continue to campaign for 28 May as "Chinese Baby Day". Such campaign will improve Feihe's brand power and influence, allow Feihe to gain consumer trust and preference in markets in first – and second-tier cities, and enhance consumers' awareness and demand for our products. We will act more proactively to embrace new technologies, directions and business models, gain deeper insights into consumer needs and focus more on product innovation and R&D, in order to provide consumers with high-quality products, services and experience.

Management Discussion and Analysis

Empower business development with digital and intelligent transformation

Feihe will fully digitalise its businesses, processes and touchpoints. It will apply digitalisation to production, R&D, transportation and service to fully explore the value of data and secure the quality and safety of its products. Feihe will also continue to construct middle data platform and support management decisions with the help of big data analytics, which will in turn improve its business operations, thereby contributing to the exploration and innovation of its business. Feihe will also strive to provide consumers with “fresher and more suitable” products through an optimized supply chain management by collaborating with external partners in the ecosystem, including the upstream partners and downstream partners in the industry value chain, on data sharing and intelligence synergy. The exploration of smart marketing and smart supply chain, will rely on the middle data platform. As such middle data platform gradually matures, it will enable interactive sharing, exploration and prediction capabilities in network collaboration and data intelligence, which will improve consumer experience.

Enable problem-solving through innovative marketing

In the first half of 2020, businesses were moved to online platforms due to the Pandemic. Feihe responded swiftly and made suitable arrangements for production and supply. Feihe has fully utilized the industrial synergies in the industrial value chain. The close collaboration between its production, logistics, and customer service centers, as well as the collaboration within the industrial value chain as a result of our proposal to our partners, ensured that there was no shortage of products in market and stores. Feihe also provided secure and contactless door-to-door delivery services, which effectively guaranteed the availability of milk powder for many Chinese babies, thereby contributed to the stability of China’s infant milk formula market.

As the online operation model features “transparency, realness, zero distance and unrestricted by physical space”, Feihe quickly transformed the traditional operation model to a “fast, abundant, accurate and comprehensive” online operation model. Such online operation model allowed Feihe to quickly find the right connection with customers, and provide tailored comprehensive protection system for mothers and babies.

Feihe believes that the current consumption scene is facing great changes, the convenience of online platforms has become the mainstream, and enterprises should strive to win the hearts of customers and gain their trust. Feihe will study the impact of the Pandemic on China’s economy and the industry, identify development trends, and actively adapt to the changes in consumption patterns and purchase methods to continuously win the trust and support of consumers. Feihe will work together with other national dairy enterprise brands to satisfy consumers’ pursuit of a better life with better products and services.

Other Information and Corporate Governance

SUBSEQUENT EVENTS

Due to personal health reasons, Mr. Liu Shenghui (劉聖慧) resigned as an executive director and the vice president of finance of the Company on 31 July 2020. For further details, please refer to the announcement of the Company dated 31 July 2020.

The Company and YuanShengTai Dairy Farm Limited (“YST”) jointly announced on 6 September 2020 that CLSA Limited will, on behalf of the Company, make voluntary conditional cash offers (i) to acquire all of the outstanding ordinary shares in the issued share capital of YST; and (ii) to cancel all the outstanding share options granted by YST pursuant to the share option scheme adopted by YST on 7 November 2013, whether vested or not. For further details, please refer to the joint announcement made by the Company and YST on 6 September 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognizes the importance of maintaining and promoting sound corporate governance. The principles of the Company’s corporate governance are to promote effective internal control measures, 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 the Company and its shareholders. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board is of the view that during the Reporting Period, the Company has complied with all of the applicable code provisions as Set out in the CG Code except code provision A.2.1.

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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all the directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months period ended 30 June 2020.

The Company has also established the “Code of Conduct for Securities Transactions for Relevant Employees” on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the “Code of Conduct for Securities Transactions for Relevant Employees” by the employees was noted by the Company during the Reporting Period.

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

As at 30 June 2020, 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 (resigned on 31 July 2020)	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 corporation	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 30 June 2020 (i.e. 8,933,340,000 Shares).

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- (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.

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(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 30 June 2020, 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 30 June 2020, 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).

Other Information and Corporate Governance

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2020, 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	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 Short	1,387,426,661(L) ⁽⁵⁾⁽⁶⁾ 11,229,568(S)	15.53% 0.12%
MS Holdings Incorporated	Interest in a controlled corporation	Long	1,368,651,860 ⁽⁵⁾	15.32%
Morgan Stanley Private Equity Asia III, Inc.	Interest in a controlled corporation	Long	1,368,651,860 ⁽⁵⁾	15.32%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in a controlled corporation	Long	1,368,651,860 ⁽⁵⁾	15.32%
North Haven Private Equity Asia III, L.P. (NH LP)	Interest in a controlled corporation	Long	1,368,651,860 ⁽⁵⁾	15.32%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd (MSPEA III)	Interest in a controlled corporation	Long	1,368,651,860 ⁽⁵⁾	15.32%
North Haven Private Equity Asia IMF Holding Limited (NHPEA)	Beneficial owner	Long	1,368,651,860 ⁽⁵⁾	15.32%
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%

Other Information and Corporate Governance

Notes:

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 30 June 2020 (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 1,368,651,860 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) The long position in respect of 1,387,426,661 Shares includes 1,368,651,860 Shares held by NHPEA as described in note (5) above and 14,784,865 Shares held by Morgan Stanley & Co. International plc, an indirectly wholly owned subsidiary of Morgan Stanley and 3,679,000 Shares held by Morgan Stanley & Co. LLC, an indirectly wholly owned subsidiary of Morgan Stanley, 281,825 Shares held by Morgan Stanley Capital Services LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 29,111 Shares held by Morgan Stanley Europe SE, an indirectly wholly owned subsidiary of Morgan Stanley.

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- (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).
- (9) The letter "L" denotes the person's long position and the letter "S" denotes the person's short position in such Shares.

Save as disclosed above, as at 30 June 2020, 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.

EMPLOYEES AND REMUNERATION

As of 30 June 2020, the Group had 5,638 full-time employees, the majority of whom are based in China.

In order to maintain the performance of the Group and individual employees, the Group strives to offer a good working environment, various 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, options 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.

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

Neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares for the six months ended 30 June 2020.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

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 30 June 2020, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK\$1,118.1 million being used for the payment of offshore debts; (ii) HK\$62.5 million being used for the expansion of Vitamin World USA operations; and (iii) HK\$67.9 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.

Other Information and Corporate Governance

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of HK\$0.1375 per Share for the six months ended 30 June 2020 (the “**2020 Interim Dividend**”) with an aggregate amount of approximately HK\$1,228,334,250 (equalling approximately RMB1,101,476,800) to shareholders of the Company (the “**Shareholders**”) whose names are listed on the Company’s register of members on 3 September 2020. The 2020 Interim Dividend is 40% of our net profit for the six months ended 30 June 2020, which is based on (i) our dividend policy set out in the Prospectus for distributing 30% of our net profit, and (ii) an additional special interim dividend of 10% of our net profit for the six months ended 30 June 2020 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 18 August 2020. The 2020 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 18 September 2020.

In order to ascertain Shareholders’ entitlement to the proposed 2020 Interim Dividend, the register of members of the Company will be closed from 2 September 2020 to 3 September 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 2020 Interim Dividend, 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 1 September 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.

AUDIT COMMITTEE

The Company has 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 financial information for the six months ended 30 June 2020 set out in this interim report is unaudited. The audit committee of the Company has reviewed with the Company’s management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, and financial reporting matters, including the review of the Group’s financial statements and interim results for the six months ended 30 June 2020 and this interim report.

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.

Other Information and Corporate Governance

Pre-IPO Participants

A grant of the pre-IPO share option (the “**Pre-IPO Share Option**”) under the Pre-IPO Share Option Scheme (the “**Pre-IPO 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 “**Pre-IPO Administrator**”). A holder of an outstanding Pre-IPO Award will be a participant (the “**Pre-IPO Participant**”) under the Pre-IPO Share Option Scheme. For the avoidance of doubt, Pre-IPO 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 Pre-IPO Awards May Be Granted

The maximum number of the Shares that may be subject to Pre-IPO 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 interim report.

Grant of Options

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

The date of grant of an Pre-IPO Award will be, for all purposes, the date on which the Pre-IPO Administrator makes the determination granting such Pre-IPO Award, or such other later date as is determined by the Pre-IPO Administrator. Notice of the determination will be provided to each Pre-IPO 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 Pre-IPO Share Option shall be determined by the Pre-IPO 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 Pre-IPO Share 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 Pre-IPO Share Option will be stated in the Award Agreement and will be no more than five years from the date of grant thereof.

Other Information and Corporate Governance

Time of Vesting and Exercise of Pre-IPO Share Options

Any Pre-IPO Share 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 Pre-IPO Administrator and set forth in the Award Agreement. A Pre-IPO Share Option may not be exercised for a fraction of a Share.

In respect of any particular Pre-IPO Share 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 Pre-IPO Share Option is subject to any performance target being met, the date of such performance target being proved (to the reasonable satisfaction of the Pre-IPO Administrator) to have been met.

Details of the Pre-IPO Share 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 14 October 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 30 June 2020, 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 Pre-IPO Options upon Listing	Number of Shares represented by outstanding Pre-IPO Options as at the end of the Reporting Period	Exercise price	Approximately percentage of the issued Shares of the Company as at the end of the Reporting Period
Dasheng Limited	N/A	14 October 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 31 December 2019. Except as unanimously approved by the Board, the remaining 57% shall vest on 31 December 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 Pre-IPO 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.

Other Information and Corporate Governance

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.

2020 SHARE OPTION SCHEME

The Company adopted the 2020 Share Option Scheme on 22 June 2020 and a summary of the principal terms of the 2020 Share Option Scheme is set out as below.

Purposes

The purposes of the 2020 Share Option Scheme are (i) to attract and retain skilled and experienced personnel for positions of substantial responsibility, (ii) to provide additional incentive to directors of the Company and its Subsidiaries, key employees and other stakeholders of the Group, and (iii) to promote the success of the Company's business.

Participants

Participants (the "**Participants**") include:

- (a) any Eligible Employee;
- (b) any director (including executive director, non-executive director and independent non-executive director) of the Company or the Subsidiaries; and
- (c) any consultant, adviser, agent, business partner, joint venture partner, service provider, contractor of the Company or the Subsidiaries.

The basis of eligibility of any of the class of Participants to the grant of any 2020 Share Options shall be determined by the Board from time to time.

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 2020 Share Option Scheme is 134,000,100, representing 1.5% of the total number of the issued shares of the Company as at the date of this interim report.

Other Information and Corporate Governance

Maximum Entitlement of Each Participant under the 2020 Share Option Scheme

The total number of Shares issued and to be issued upon exercise of the 2020 Share Options granted to each eligible Participant (including exercised, cancelled and outstanding 2020 Share Options) in any 12-month period shall not exceed 1% of the Shares in issue.

Grant of 2020 Share Options

On and subject to the terms of the 2020 Share Option Scheme and the Listing Rules, the Board shall be entitled at any time within ten (10) years after 22 June 2020 to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an 2020 Share Option to subscribe for such number of Shares as the Board may determine at the Subscription Price (the “**Offer**”).

An Offer shall be made to a Participant by an Offer Letter in such form as the Board may from time to time determine requiring the Participant to undertake to hold the 2020 Share Option on the terms on which it is to be granted and to be bound by the terms of the 2020 Share Option Scheme and any other terms and conditions as contained in the Offer Letter and shall remain open for acceptance by the Participant concerned for such time to be determined by the Board, provided that no such Offer shall be open for acceptance after the expiry of ten (10) years after 22 June 2020 or after the 2020 Share Option Scheme has been terminated in accordance with the terms hereof or after the Participant to whom the Offer is made has ceased to be a Participant. The Offer Letter shall specify the terms on which the 2020 Share Option is to be granted.

An Offer shall be deemed to have been accepted and the 2020 Share Option to which such Offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Grantee, together with the payment of HK\$1.00 to the Company as the consideration for the grant thereof is received by the Company. Such payment shall in no circumstances be refundable. Once accepted, the 2020 Share Option is granted as from the Offer Date.

Exercise of Options

A 2020 Share Option may, subject to the terms and conditions upon which such 2020 Share Option is granted, be exercised in whole or in part in the manner as set out below by the Grantee (or, as the case may be, his or her legal personal representative(s)) giving notice in writing to the Company stating that the 2020 Share Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for the Shares in respect of which the notice is given. The aggregate Subscription Price shall be paid by cash, cheque or any other means deemed acceptable by the Board. Any exercise of a 2020 Share Option by a Grantee shall be subject to the applicable laws, regulations, rules and requirements of any relevant country or jurisdiction. Within ten (10) Business Days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the Auditors or the independent financial adviser retained by the Company, the Company shall allot and issue, and shall instruct the Share Registrar to issue, the relevant Shares to the Grantee (or his or her legal personal representative(s)) credited as fully paid and issue to the Grantee (or his or her legal personal representative(s)) a share certificate in respect of the Shares so allotted. Subject to the terms and conditions upon which such 2020 Share Option was granted and any restrictions applicable under the Listing Rules, an 2020 Share Option may be exercised by the Grantee (or their legal personal representatives) at any time during the Option Period, provided that it satisfies the requirements as set out in the supplemental circular of the Company dated 5 June 2020.

Other Information and Corporate Governance

Subscription Price

The Subscription Price shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant 2020 Share Option (and shall be stated in the Offer Letter), but in any case the Subscription Price shall not be less than the higher of:

- (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day;
- (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant; and
- (c) the nominal value of a Share.

Duration of the 2020 Share Option Scheme

The 2020 Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the 22 June 2020. After the expiry of the ten (10) year period, no further Options will be offered or granted but in all other aspects the provisions of the 2020 Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any 2020 Share Option granted prior thereto. 2020 Share Options granted hereunder shall continue to be exercisable subject to the terms of the 2020 Share Option Scheme and in accordance with their terms of grant after the end of the ten (10) year period of the 2020 Share Option Scheme until the end of the Option Period.

During the Reporting Period and as at the Latest Practicable Date, no share option has been granted under the 2020 Share Option Scheme.

Further details of the 2020 Share Option Scheme are set out in the supplemental circular of the Company dated 5 June 2020.

CHANGE OF DIRECTORS' INFORMATION

During the Reporting Period and as at the Latest Practicable Date, changes in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Leng Youbin ceased to be the General Manager of Heilongjiang Feihe Dairy Co., Limited with effect from 19 March 2020.

Mr. Liu Shenghui resigned as an executive director and the vice president of finance of the Company with effect from 31 July 2020 due to personal health reason.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend our sincere appreciation to our customers, suppliers and shareholders for their continuous support, and our management and staff for their contribution and dedication to the Group throughout the period.

By order of the Board

Leng Youbin
Chairman

Independent Review Report



To the board of directors of China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 29 to 50, which comprises the condensed consolidated statement of financial position of China Feihe Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

18 August 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
REVENUE	4	8,706,593	5,891,721
Cost of sales		(2,530,378)	(1,916,230)
Gross profit		6,176,215	3,975,491
Other income and gains, net	4	763,038	371,745
Selling and distribution expenses		(2,196,836)	(1,553,183)
Administrative expenses		(526,765)	(289,671)
Other expenses	6	(219,444)	(16,868)
Finance costs	7	(26,544)	(23,031)
Share of loss of an associate		(347)	–
PROFIT BEFORE TAX	5	3,969,317	2,464,483
Income tax expense	8	(1,216,186)	(713,650)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		2,753,131	1,750,833
Earnings per share attributable to ordinary equity holders of the parent:			
Basic (expressed in RMB per share)	10	0.31	0.22
Diluted (expressed in RMB per share)		0.30	0.22

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
PROFIT FOR THE PERIOD		2,753,131	1,750,833
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		107,202	(445)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD			
ATTRIBUTABLE TO OWNERS OF THE PARENT		2,860,333	1,750,388

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	4,173,218	3,971,218
Right-of-use assets		299,208	377,261
Goodwill		47,976	47,976
Intangible assets		36	39
Investment in an associate		142,183	142,530
Investment in a joint venture		6,731	–
Financial asset at fair value through other comprehensive income		1,800	1,800
Deposits for purchases of items of property, plant and equipment		155,964	153,947
Deferred tax assets		274,100	208,686
Pledged deposits		70,000	811,715
Total non-current assets		5,171,216	5,715,172
CURRENT ASSETS			
Inventories	12	945,294	686,094
Trade and bills receivables	13	400,526	314,353
Prepayments, deposits and other receivables		574,464	571,112
Due from a director	18(b)	80	80
Structured deposits		4,471,579	5,390,191
Pledged deposits		333,000	2,872,699
Restricted cash		27,724	76,578
Cash and cash equivalents		10,583,347	7,377,470
Total current assets		17,336,014	17,288,577
CURRENT LIABILITIES			
Trade and bills payables	14	1,283,496	1,041,547
Other payables and accruals	15	2,286,385	2,631,160
Interest-bearing bank and other borrowings		344,609	3,094,214
Lease liabilities		50,850	57,145
Dividend payable		1,582,447	–
Tax payable		665,629	614,434
Total current liabilities		6,213,416	7,438,500
NET CURRENT ASSETS		11,122,598	9,850,077
TOTAL ASSETS LESS CURRENT LIABILITIES		16,293,814	15,565,249

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		892,034	1,716,064
Other payables	15	202,063	133,929
Deferred tax liabilities		709,047	557,192
Lease liabilities		127,739	128,486
Total non-current liabilities		1,930,883	2,535,671
Net assets		14,362,931	13,029,578
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	1	1
Reserves		14,362,930	13,029,577
Total equity		14,362,931	13,029,578

LIU Hua
Director

Judy Fong-Yee TU
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent									
	Notes	Issued capital	Share premium account	Capital contribution reserve	Reserve funds	Share option reserve	Exchange fluctuation reserve	Retained profits	Other reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	1	631,966	77,823	515,384	-	(45,271)	4,732,718	(125,137)	5,787,484	
Profit for the period	-	-	-	-	-	-	1,750,833	-	1,750,833	
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(445)	-	-	(445)	
Total comprehensive income/(loss) for the period	-	-	-	-	-	(445)	1,750,833	-	1,750,388	
Equity-settled share option arrangements	-	-	1,108	-	-	-	-	-	1,108	
At 30 June 2019 (audited)	1	631,966*	78,931*	515,384*	-*	(45,716)*	6,483,551*	(125,137)*	7,538,980	
At 1 January 2020	1	6,550,237	80,346	577,436	121,074	(75,458)	5,901,079	(125,137)	13,029,578	
Profit for the period	-	-	-	-	-	-	2,753,131	-	2,753,131	
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	107,202	-	-	107,202	
Total comprehensive income for the period	-	-	-	-	-	107,202	2,753,131	-	2,860,333	
Final 2019 dividend declared	9	-	-	-	-	-	(1,583,148)	-	(1,583,148)	
Equity-settled share option arrangements	-	-	-	-	56,168	-	-	-	56,168	
At 30 June 2020 (unaudited)	1	6,550,237*	80,346*	577,436*	177,242*	31,744*	7,071,062*	(125,137)*	14,362,931	

* These reserve accounts comprise the consolidated reserves of RMB14,362,930,000 (30 June 2019: RMB7,538,979,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,969,317	2,464,483
Adjustments for:			
Finance costs	7	26,544	23,031
Interest income	4	(170,384)	(52,642)
Impairment of items of property, plant and equipment	5	3,970	–
Impairment of right-of-use assets	5	59,506	–
Depreciation of property, plant and equipment	5	74,507	54,622
Depreciation of right-of-use assets	5	29,364	34,020
Amortisation of intangible assets		3	2
Loss on disposal of items of property, plant and equipment, net	5	6,119	5,470
Fair value gains on structured deposits	4	(17,414)	(13,046)
Write-down of inventories to net realisable value	5	6,834	–
Impairment/(reversal) of impairment of trade receivables, net		17,102	(1,341)
Reversal of impairment of other receivables, net		(1,050)	(122)
Amortisation of deferred income	4	(1,834)	(12,945)
Share of loss of an associate		347	–
Equity-settled share option expense		56,168	1,108
		4,059,099	2,502,640
Increase in inventories		(265,182)	(39,478)
Decrease/(increase) in trade and bills receivables		(103,197)	264,262
Increase in prepayments, deposits and other receivables		(17,659)	(369,492)
Increase in an amount due from a director		–	(2,000)
Decrease in an amount due from a related company		–	750
Increase/(decrease) in trade and bills payables		241,527	(189,978)
Decrease in other payables and accruals		(341,120)	(847,115)
Cash generated from operations		3,573,468	1,319,589
Interest received		184,501	70,362
Interest paid		(38,327)	(21,452)
Income taxes paid		(1,078,584)	(608,212)
Net cash flows from operating activities		2,641,058	760,287

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and right-of-use assets		(308,462)	(718,542)
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		12,476	17,064
Purchases of structured deposits		(5,054,365)	(2,329,890)
Proceeds from redemption of structured deposits		5,990,391	1,912,631
Placement of restricted cash		(294,580)	(41,092)
Withdrawal of restricted cash		343,434	78,579
Investment in a joint venture		(6,673)	–
Receipt of government grants		76,743	–
Deposits paid for purchases of items of property, plant and equipment		(53,461)	(22,615)
Placement of time deposits with original maturity of more than three months when acquired		(2,894,025)	(1,926,480)
Withdrawal of time deposits with original maturity of more than three months when acquired		1,634,862	1,510,620
Net cash flows used in investing activities		(553,660)	(1,519,725)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		150,000	1,243,829
Repayment of bank and other loans		(3,654,056)	(246,742)
Placement of pledged bank deposits		(873,000)	(611,715)
Release of pledged bank deposits		4,202,716	600,000
Principal portion of lease payments		(9,703)	(31,104)
Net cash flows from/(used in) financing activities		(184,043)	954,268
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		4,666,585	895,854
Effect of foreign exchange rate changes, net		43,385	5,393
CASH AND CASH EQUIVALENTS AT END OF PERIOD		6,613,325	1,096,077
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents		6,613,325	1,096,077

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”, which also include IASs and Interpretations) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

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. The amendments did not have material impact on the Group’s interim condensed consolidated financial information.

The adoption of other revised IFRSs has had no material impact on the interim financial information of the Group.

Details of the Group’s accounting policies applicable from 1 January 2020 are as follows:

Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group’s investment in a joint venture 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 a joint venture 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 joint venture, 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 joint venture are eliminated to the extent of the Group’s investment in the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

3. 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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Mainland China	8,542,270	5,589,368
United States of America	164,323	302,353
	8,706,593	5,891,721

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

(b) Non-current assets

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
	Mainland China	2,886,903
United States of America	113,962	209,660
Canada	1,824,451	1,801,859
	4,825,316	4,692,971

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

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Revenue from contracts with customers	8,706,593	5,891,721

Revenue from contracts with customers

(i) Disaggregated revenue information

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Type of goods		
Sales of goods	8,706,593	5,891,721
Geographical markets		
Mainland China	8,542,270	5,589,368
United States of America	164,323	302,353
Total revenue from contracts with customers	8,706,593	5,891,721
Timing of revenue recognition		
Goods transferred at a point in time	8,706,593	5,891,721

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

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

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Other income			
Bank interest income		69,494	20,277
Other interest income		100,890	32,361
Government grants related to			
– Assets	(i)	1,834	12,945
– Income	(ii)	550,954	286,470
Others		14,927	6,646
		738,099	358,699
Gains, net			
Fair value gains on structured deposits		17,414	13,046
Foreign exchange gain, net		7,525	–
		24,939	13,046
Total other income and gains, net		763,038	371,745

Notes:

- (i) The Group received government grants 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.
- (ii) 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.

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Cost of inventories sold	2,530,378	1,916,230
Depreciation of property, plant and equipment	74,507	54,622
Depreciation of right-of-use assets	29,364	34,020
Rent expense – short term leases	3,148	6,790
Interest expense on lease liabilities	3,330	3,980
Write-down of inventories to net realisable value	6,834	–
Impairment of items of property, plant and equipment	3,970	–
Loss on disposal of items of property, plant and equipment	6,119	5,470
Impairment of right-of-use assets	59,506	–

6. OTHER EXPENSES

An analysis of other expenses is as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Impairment of right-of-use assets	59,506	–
Impairment of items of property, plant and equipment	3,970	–
Loss on disposal of items of property, plant and equipment	6,119	5,470
Impairment of trade receivables	17,102	–
Loss on disposal of old packaging materials	507	5,083
Donations	131,441	6,162
Others	799	153
	219,444	16,868

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Interest on:		
Bank loans	38,513	30,947
Other loans	20,177	7,465
Lease liabilities	3,330	3,980
Total interest expense on financial liabilities not at fair value through profit or loss	62,020	42,392
Less: Interest capitalised	(35,476)	(19,361)
	26,544	23,031

8. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (six months ended 30 June 2019: 25%) during the period.

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (six months ended 30 June 2019: 16.5%) during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Current – PRC		
Charge for the period	1,130,966	681,719
Deferred	85,220	31,931
Total tax charge for the period	1,216,186	713,650

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

9. DIVIDEND

During the six months ended 30 June 2020, the Company declared a final dividend of HK\$0.1943 per ordinary share, equivalent to a total of approximately RMB1.58 billion for the year ended 31 December 2019 to its shareholders.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK\$0.1375 (six months ended 30 June 2019: Nil) per ordinary share, amounting to a total of approximately RMB1.10 billion (six months ended 30 June 2019: Nil).

10. 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 period. The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the share subdivision as disclosed in note 16 on the assumption that the share subdivision had been in effect on 1 January 2019.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2020 is based on the profit for the period 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 30 June 2020 into ordinary shares under the share option scheme.

During the six months ended 30 June 2019, diluted earnings per share equaled the basic earnings per share as there were no potential dilutive ordinary shares in issue for that period.

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Earnings:		
Profit for the period attributable to owners of the parent	2,753,131	1,750,833

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	30 June 2020 (Unaudited)	30 June 2019 (Audited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	8,933,340,000	8,040,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	168,768,972	–
	9,102,108,972	8,040,000,000

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment of RMB299,700,000 (six months ended 30 June 2019: RMB621,572,000).

Assets with a net book value of RMB18,595,000 were disposed of by the Group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB20,633,000), resulting in a loss on disposal of RMB6,119,000 (six months ended 30 June 2019: RMB5,470,000).

During the six months ended 30 June 2020, an impairment loss of RMB3,970,000 (six months ended 30 June 2019: Nil) was recognised.

At 30 June 2020, certain of the Group's construction in progress with a net carrying amount of approximately RMB721,869,000 (31 December 2019: RMB1,777,827,000) and property, plant and equipment of RMB1,068,267,000 (31 December 2019: Nil) were pledged to secure a loan borrowed from a third party.

12. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	328,024	370,768
Work in progress	102,066	43,621
Finished goods	515,204	271,705
	945,294	686,094

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

13. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	322,802	214,350
Bills receivable	104,422	109,598
	427,224	323,948
Impairment	(26,698)	(9,595)
	400,526	314,353

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.

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	364,077	222,434
1 to 2 months	20,789	21,924
2 to 3 months	8,409	55,245
Over 3 months	7,251	14,750
	400,526	314,353

Notes to Interim Condensed Consolidated Financial Information

30 June 2020

14. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade and bills payables	1,283,496	1,041,547

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within three months	1,217,149	1,018,656
Three to six months	51,868	9,211
Over six months	14,479	13,680
	1,283,496	1,041,547

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

15. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Deferred income	198,381	123,679
Other payables	739,913	598,663
Accruals	1,224,786	995,094
Contract liabilities	325,368	1,047,653
	2,488,448	2,765,089
Non-current portion	(202,063)	(133,929)
Current portion	2,286,385	2,631,160

Notes to Interim Condensed Consolidated Financial Information

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16. SHARE CAPITAL

	Number of shares		30 June 2020 RMB'000	31 December 2019 RMB'000
	30 June 2020	31 December 2019		
Authorised				
At the beginning of the period/year	2,000,000,000,000	50,000	303	303
Share subdivision (note (i))	-	1,999,999,950,000	-	-
At the end of the period/year	2,000,000,000,000	2,000,000,000,000	303	303
Issued and paid-up				
At the beginning of the period/year	8,933,340,000	201	1	1
Share subdivision (note (i))	-	8,039,999,799	-	-
Issue of ordinary shares of the Company of US\$0.000000025 each (note (ii))	-	893,340,000	-	-
At the end of the period/year	8,933,340,000	8,933,340,000	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.

17. COMMITMENTS

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	733,343	690,795

Notes to Interim Condensed Consolidated Financial Information

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18. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in this interim condensed consolidated financial information, the Group had the following transactions with related parties during the period:

(a) Transactions with a related company

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
A related company:*		
Interest expense (note (i))	–	154

* The related company is controlled by a common director of the Company.

(i) 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.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Salaries and allowance	21,123	8,099
Pension scheme contributions	117	175
Equity-settled share option scheme	56,168	1,108
Total compensation paid/payable to key management personnel	77,408	9,382

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19. 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	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial assets				
Financial asset at fair value through other comprehensive income	1,800	1,800	1,800	1,800
Structured deposits	4,471,579	5,390,191	4,471,579	5,390,191
Financial liabilities				
Interest-bearing bank and other borrowings	1,236,643	4,810,278	1,213,322	4,738,399

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, amount due from a director, 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 30 June 2020 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.

Notes to Interim Condensed Consolidated Financial Information

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19. 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			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2020 (unaudited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	4,471,579	-	4,471,579
At 31 December 2019 (audited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	5,390,191	-	5,390,191

The Group did not have any financial liabilities measured at fair value as at 30 June 2020 (31 December 2019: Nil).

During the period, 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 (year ended 31 December 2019: 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% (31 December 2019: 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 (31 December 2019: RMB360,000).

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19. 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			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2020 (unaudited)				
Interest-bearing bank and other borrowings	-	1,213,322	-	1,213,322
At 31 December 2019 (audited)				
Interest-bearing bank and other borrowings	-	4,738,399	-	4,738,399

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 August 2020.

Definitions

“AGM”	the 2019 annual general meeting of the Company held on 22 June 2020
“Audit Committee”	the audit committee under the Board
“Board”	the board of Directors
“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 interim report for geographical reference only (unless otherwise indicated), excluding Taiwan, Macau and Hong Kong
“Company,” “us,” 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 24 October 2012
“DIF Share Option(s)”	option(s) granted under the DIF Share Option Schemes
“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
“Eligible Employee”	any employee (whether full time or part time) of the Group
“First DIF Share Option Scheme”	the first pre-IPO share option scheme adopted by DIF Holding on 18 December 2013
“Global Offering”	the offer of the Shares for subscription as described in the section headed “Structure of the Global Offering” in the Prospectus

Definitions

“Grantee”	any Participant who accepts the offer of the grant of any 2020 Share Option in accordance with the terms of the 2020 Share Option Scheme or (where the context so permits) any person entitled to any such 2020 Share Option in consequence of the death or incapacitation of the original Grantee, or the legal personal representative of such person
“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”	10 September 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this interim 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 under the Board

“Offer Date”	the date on which such 2020 Share Option is offered to a Participant under the 2020 Share Option Scheme
“Offer Letter”	the letter by which an offer to grant an 2020 Share Option is made to a Participant
“Option Period”	the period to be determined and notified by the Board to each Grantee at the time of making an offer of any 2020 Share Option, which shall not be longer than ten (10) years from the date of grant of the 2020 Share Option
“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 14 October 2019
“Prospectus”	the prospectus of the Company dated 30 October 2019 in connection with the Hong Kong public offering of the Company
“Remuneration Committee”	the remuneration committee under the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reporting Period”	the period commencing from 1 January 2020 and ended on 30 June 2020
“Second DIF Share Option Scheme”	the second pre-IPO share option scheme adopted by DIF Holding on 1 January 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
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares upon the exercise of a 2020 Share Option granted under the 2020 Share Option Scheme
“Subsidiaries”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong or elsewhere, and “Subsidiaries” shall be construed accordingly

Definitions

“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 13 December 2017 and a wholly-owned subsidiary of the Company
“%”	per cent.
“2020 Share Option”	an option to subscribe for Shares granted pursuant to the 2020 Share Option Scheme
“2020 Share Option Scheme”	the share option scheme adopted by the Company on 22 June 2020