



中國飛鶴有限公司

China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6186



2022
INTERIM REPORT

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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

Non-executive Directors

Mr. GAO Yu
Mr. Kingsley Kwok King CHAN
Mr. CHEUNG Kwok Wah

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. LIU Hua (*Chairman*)
Ms. Judy Fong-Yee TU
Ms. LIU Jinping

JOINT COMPANY SECRETARIES

Ms. Judy Fong-Yee TU
Ms. LEE Mei Yi

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

AUTHORISED REPRESENTATIVES

Mr. LIU Hua
Ms. Judy Fong-Yee TU

PRINCIPAL BANK

China Construction Bank Corporation
Qiqihar Branch
No. 267, Yongan Avenue
Longsha District
Qiqihar
Heilongjiang
PRC

REGISTERED OFFICE

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PO Box 2075 George Town
Grand Cayman KY1-1105
Cayman Islands

CORPORATE HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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PO Box 2075 George Town
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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INVESTOR RELATIONS CONTACT

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CORPORATE WEBSITE

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STOCK CODE

6186

Financial Highlights

Key Financial Data

The table below sets out our financial highlights for the six months ended 30 June 2022.

	For the six months ended 30 June		
	2022	2021	Percentage changed
	(In thousands of RMB)		
	(Unaudited)	(Unaudited)	
Revenue	9,672,823	11,543,762	(16.2)%
Gross profit	6,536,625	8,457,088	(22.7)%
Profit for the period	2,272,056	3,765,254	(39.7)%
Earnings per share attributable to ordinary equity holders of the parent (RMB):			
– Basic	0.25	0.42	(40.5)%
– Diluted	0.25	0.41	(39.0)%

Management Discussion and Analysis

INDUSTRY OVERVIEW

China has been 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 realize the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to the National Bureau of Statistics, China's birth rate dropped from 13.57‰ in 2016 to 7.52‰ in 2021, with number of newborns declining to 10.6 million in 2021. Despite the decline, it is expected in 2025 the number of newborns is expected to go back to the same level as in 2021, thanks to the supportive measures for the three-child policy. Due to factors listed below, China's infant milk formula market in terms of retail sales value is expected to remain stable.

- 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. Such increase 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 is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics, China's per capita annual disposable income in 2021 reached RMB35,128, with a CAGR of 8.1% from 2016 to 2021. Such increase 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. 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 implemented 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 remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.
 - o On 22 February 2021, a series of national safety standards on infant food and infant milk formula were released by the State Healthcare Commission, such as National Standard for Infant Formula Food Safety (GB10765-2021) (食品安全國家標準嬰兒配方食品) and National Standard for Larger Infant Formula Food Safety (GB 10766-2021) (食品安全國家標準較大嬰兒配方食品). The new national safety standards have made stricter provisions on areas such as protein, carbohydrate, microelement, which is conducive to the innovation of leading infant milk formula enterprises and the further development of infant milk formula industry.
 - o On 20 July 2021, the State Council issued the Decision on Optimizing Birth Policy to Promote Long-term Balanced Development of Population (關於優化生育政策促進人口長期均衡發展的決定), proposing the implementation of the three-child policy and supporting measures to slow down the decline of birth rate. Later, the National Healthcare Security Administration issued the Notice on Supporting Maternity Insurance under the Three-Child Policy (關於做好支持三孩政策生育保險工作的通知), and the National People's Congress Standing Committee voted to pass the decision on amending the Law of Population and Family Planning, advocating on age-appropriate marriage and childbirth, which promotes childbirths. During the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in March 2022, the government reported the detailed implementation plan of the three-child policy, such as increasing maternity subsidies and medical security, adjustment of income tax on persons who care for children under three years old, and development of publicly afforded childcare services.
 - o On 28 July 2021, the State Administration for Market Regulation published the Notice of the public solicitation for opinions on the Announcement of the State Administration for Market Regulation on the Further Regulation of Labels and Identification of Infant Milk Formula Product (Draft for Comment) (市場監管總局關於進一步規範嬰幼兒配方乳粉產品標籤標識的公告(徵求意見稿)), which made further stipulations on the characteristics, such as the label's main display layout, content claim, pattern, and feeding suggestion form. In addition, it is stipulated that if the product name refers to certain animal origin, all the milk protein raw materials in the product should come from such animal species. For compound ingredients in product ingredient list (excluding compound food additives), the original ingredients must be specified. Furthermore, companies not in compliance with the above stipulations are required to rectify within 6 months upon the issuance of the announcement.

Management Discussion and Analysis

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 series, the Group also offers a portfolio of well-known brands spanning the regular infant milk formula series as well as other products such as dairy products for adults and students.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 2,000 offline customers with more than 100,000 retail points of sale as at 30 June 2022. 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 through sales to the Group's offline customers accounted for 82.9% of its total revenue from dairy products for the six months ended 30 June 2022.

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 2022, the Group had nine production facilities to manufacture its products with a designed annual production capacity of approximately 267,000 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. The Group is constructing two new production facilities (our Harbin plant and Qiqihar plant).

Management Discussion and Analysis

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. During the six months ended 30 June 2022, approximately 500,000 face-to-face seminars were held in total, which include more than 44,000 online face-to-face seminars and 454,000 offline face-to-face seminars. The number of new customers we acquired exceeded 1,140,000;
- 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 engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated 58 specialty stores across the United States, mostly in malls and outlet centres, and employed 232 people as at 30 June 2022. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms. Revenue generated from nutritional supplement products in the United States was RMB99.0 million, accounting for 1.0% of the Group's total revenue for the six months ended 30 June 2022.

Management Discussion and Analysis

OPERATING RESULTS AND ANALYSIS

The Six Months Ended 30 June 2022 Compared to Six Months Ended 30 June 2021

The table below sets forth Group's interim condensed consolidated statement of profit or loss and consolidated statement of comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the periods indicated, together with changes (expressed in percentages) from 2021 to 2022.

	For the six months ended 30 June				Percentage changed
	2022		2021		
	(In thousands of RMB, except percentages) (Unaudited)				
Revenue	9,672,823	100%	11,543,762	100%	(16.2)%
Cost of sales	(3,136,198)	(32.4)%	(3,086,674)	(26.7)%	1.6%
Gross profit	6,536,625	67.6%	8,457,088	73.3%	(22.7)%
Other income and gains, net	758,774	7.8%	900,999	7.8%	(15.8)%
Selling and distribution expenses	(3,142,167)	(32.5)%	(3,334,938)	(28.9)%	(5.8)%
Administrative expenses	(656,680)	(6.8)%	(604,553)	(5.3)%	8.6%
Other expenses	(56,586)	(0.6)%	(38,164)	(0.3)%	48.3%
Finance costs	(12,024)	(0.1)%	(14,562)	(0.2)%	(17.4)%
Share of loss of an associate	(7,814)	(0.1)%	(3,740)	0%	108.9%
Changes in fair value less costs to sell of biological assets	(185,380)	(1.9)%	(81,077)	(0.7)%	128.6%
Profit before tax	3,234,748	33.4%	5,281,053	45.7%	(38.7)%
Income tax expense	(962,692)	(9.9)%	(1,515,799)	(13.1)%	(36.5)%
Profit for the period	2,272,056	23.5%	3,765,254	32.6%	(39.7)%
Other comprehensive income <i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations	71,855	0.7%	61,042	0.5%	17.7%
Total comprehensive income for the period	2,343,911	24.2%	3,826,296	33.1%	(38.7)%

Management Discussion and Analysis

Revenue

The Group's revenue decreased by 16.2% from RMB11,543.8 million for the six months ended 30 June 2021 to RMB9,672.8 million for the six months ended 30 June 2022, primarily due to (i) a decrease of birth rate in Mainland China; and (ii) in order to provide consumers with a better product experience, the Group implemented the "fresh" strategy in 2022 to further reduce the channel inventory of products such as Astrobaby product, maintain the high freshness of products on the shelf, and take tighter control over overall inventory levels in distribution channels.

Cost of Sales

The Group's cost of sales increased by 1.6% from RMB3,086.7 million for the six months ended 30 June 2021 to RMB3,136.2 million for the six months ended 30 June 2022, primarily due to the impact of product mix change of the Group and the increase of volume of raw milk sold to the third parties by YST.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 22.7% from RMB8,457.1 million for the six months ended 30 June 2021 to RMB6,536.6 million for the six months ended 30 June 2022.

The Group's gross profit margin decreased from 73.3% for the six months ended 30 June 2021 to 67.6% for the six months ended 30 June 2022, primarily due to a decrease in revenue from Classic Astrobaby products. The decrease in sales volume of the Group led to an increase in unit fixed cost and also decreased the Group's gross profit margin.

Other Income and Gains, Net

Other income and gains, net decreased by 15.8% from RMB901.0 million for the six months ended 30 June 2021 to RMB758.8 million for the six months ended 30 June 2022, primarily due to (i) a decrease in government grants, and (ii) a decrease in interest income.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 5.8% from RMB3,334.9 million for the six months ended 30 June 2021 to RMB3,142.2 million for the six months ended 30 June 2022, primarily due to a decrease in promotional activities.

Administrative Expenses

Administrative expenses increased by 8.6% from RMB604.6 million for the six months ended 30 June 2021 to RMB656.7 million for the six months ended 30 June 2022, primarily due to an increase in research and development costs.

Other Expenses

Other expenses increased by 48.3% from RMB38.2 million for the six months ended 30 June 2021 to RMB56.6 million for the six months ended 30 June 2022, primarily due to (i) an increase in donation; (ii) an increase in impairment of right-of-use assets; and (iii) an increase in loss of disposal of property, plant and equipment.

Management Discussion and Analysis

Finance Costs

Finance costs decreased by 17.4% from RMB14.6 million for the six months ended 30 June 2021 to RMB12.0 million for the six months ended 30 June 2022, primarily due to the repayment of the Group's overseas interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax decreased by 38.7% from RMB5,281.1 million for the six months ended 30 June 2021 to RMB3,234.7 million for the six months ended 30 June 2022.

Income Tax Expenses

Our income tax expenses decreased by 36.5% from RMB1,515.8 million for the six months ended 30 June 2021 to RMB962.7 million for the six months ended 30 June 2022 as a result of a decrease in our profit before tax for the six months ended 30 June 2022.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 28.7% for the six months ended 30 June 2021 and 29.8% for the six months ended 30 June 2022.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by 39.7% from RMB3,765.3 million for the six months ended 30 June 2021 to RMB2,272.1 million for the six months ended 30 June 2022.

Liquidity and Capital Resources

In the six months ended 30 June 2022, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from 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 2022, the Group had cash and cash equivalents of RMB10,323.8 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.

Management Discussion and Analysis

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 2022, the Group’s interest-bearing bank and other borrowings were approximately RMB972.0 million.

Capital Structure

As at 30 June 2022, the Group had net assets of RMB23,380.7 million, comprising current assets of RMB19,204.3 million, non-current assets of RMB12,741.4 million, current liabilities of RMB6,375.7 million and non-current liabilities of RMB2,189.3 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 long-term bank 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 was (0.42) as at 31 December 2021 and (0.45) as at 30 June 2022.

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 2022, 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 was made in Canadian dollars. During the six months ended 30 June 2022, 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 2022, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

PLEDGE OF THE GROUP’S ASSETS

As at 30 June 2022, the total pledged group assets amounted to approximately RMB1,850.6 million, representing a decrease of RMB2.1 million as compared to the beginning of 2022.

Management Discussion and Analysis

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 2022, the Group did not have any contingent liabilities.

FUTURE PROSPECTS

Adhering to the innovation-driven development strategy and continuing to enhance the hard power of industry-leading scientific capabilities

As one of the earliest infant milk formula enterprises in China, Feihe always upholds developing the “mother’s career and future career” as its original intention and mission, takes scientific research and innovation as the core driving force for the high-quality development of the enterprise and strives to develop good milk power and products that are more suitable for the physique of Chinese babies. In the future, Feihe will finally follow the path of scientific and technological innovation, continue to increase investment in scientific research, consolidate its leading edges of scientific research and products in the field of breast milk, infant and other nutrition and health research in China, and vigorously move towards the leading innovation in precision nutrition and health technology for the entire life cycle.

Feihe will closely follow the scientific and technological frontier of the industry, and further strengthen the construction of a scientific research platform integrating production, learning, research and application by relying on academician workstations, post-doctoral workstations and top scientific research platforms jointly built with universities and institutions including Peking University Health Science Center, Jiangnan University and Chinese Academy of Agricultural Sciences. Feihe will actively explore cooperation with top scientific research institutions and institutes at home and abroad, deepen technology co-creation, co-construction and sharing, and promote the in-depth integration of innovation chain and industry chain. We will strengthen basic research and clinical trial research, optimize and improve the research on breast milk and physique of Chinese people, step up the scientific research on precision nutrition throughout the whole life cycle, and open up the whole-chain scientific research and innovation system from forage planting to functional product development; continue to promote the transformation of advanced scientific research results into high-quality products, accelerate the iterative upgrade of infant milk formula and children’s milk formula, and provide consumers of all ages with more delicious, more suitable and higher-quality functional nutrition and health products.

Feihe will take the opportunity of successfully undertaking the national key R&D project in the “14th Five-Year Plan”, and continue to explore the functional research and preparation process of core raw materials of dairy products on the basis of realizing the industrialized production of lactoferrin for the first time in China. We will build the independent production capacity of core ingredients, further realize the independent control of key raw materials, tackle the “bottlenecking” problems in the industry, and lead the innovative development of China’s dairy industry.

Management Discussion and Analysis

Expanding the digital ecosystem and continuing to enhance the core competitiveness for the future

Facing the rapid development of digital economy in the future, Feihe will promote the evolution to global intelligence and wisdom based on the existing “3+2+2” digital upgrade results, build the core competitiveness in digital intelligence for the enterprise, enrich and expand the digital application scenarios centered on sales forecasting, supply-demand balance, fresh delivery, product traceability and industrial collaboration. Feihe will deeply apply big data, cloud computing, Internet of Things, 5G and other technologies, and actively explore new business growth models based on digital intelligence on the basis of the integration and sharing of data resources at the front, middle and back ends of the business, so as to achieve the whole-chain and full-dimension digital intelligence empowerment of consumers, stores, dealers, supply chain and production management.

Feihe will also increase its layout in the field of intelligent marketing and digital consumption, focus on the nutrition and health needs of mothers and infants groups, and build a new professional vertical e-commerce system integrating “people, goods and market” by relying on the members of Star Mother Association and the service platform of High-quality Selection for Star Mothers. Feihe will build a new digital consumption ecosystem integrating functions like online community, online transaction, live-streaming e-commerce, logistics and distribution, carry out the full-domain operation covering online live-streaming, mini-program public domain transformation and corporate micro-private domain sales, provide customized product services and consumption experience for consumers, meet the transformation of consumer demand from products to solutions, create a new ecological model of omni-channel operation, and lead partners to stride towards the vast market of family consumption.

Striving to be a national famous brand and continuing to deliver the value and warmth of Chinese brands

2022 is the 60th anniversary of Feihe’s establishment in Heilongjiang, and also the 60th year for Feihe’s dedication to nurturing Chinese babies with original intention and ingenuity. With excellent quality and strong brand, we provide more than 200 million cans of Feihe milk powder for Chinese mothers a year. Feihe is now one of the Top 500 Companies in China and one of the Top 500 Asian Brands, and has been recognized and awarded the “National Famous Brand” and “China’s Powerful Brand Project”. In the future, Feihe will insist on building the brand foundation with scientific research and innovation, winning the trust of consumers with ingenuity and quality, and delivering the brand warmth with professional services, so as to continuously boost the confidence and trust of Chinese people in domestic brands, and continue to lead the “domestic production renaissance”.

Feihe will continue to gain insight into the core needs of mothers and infants, carry out the original intention of “More Suitable for Chinese Babies” from products to services, and provide consumers with more satisfying and valuable products as well as more professional and considerate interactive services. Feihe will continue to call on the growth of both parents and children and pass on the social trend of mutual companionship through the initiative of “May 28 Babies’ Day in China”; we will continue to carry out various consumer interaction and traceability activities such as “Fresh Parenting Concept” and “Mother’s Love” to achieve emotional integration with consumers and cultivate our brand together. Feihe will integrate its three major intelligent platforms, the Star Mother Association, the High-quality Selection for Star Mothers and the Intelligent Nutrition Consultant to provide a full range of refined and professional solutions for mother groups from product service and scientific feeding to spiritual care, and deliver the value and warmth of Chinese brands with practical actions.

Management Discussion and Analysis

Carrying out various social responsibilities and continuing to promote green and sustainable development

Facing the future, Feihe will resolutely implement the national “30.60” goal of “peaking of carbon emissions” and “carbon neutrality”, unswervingly adhere to the path of green and low-carbon development, and strive to be a pioneer in the green and sustainable development of the industry. Feihe will promote the sustainable development strategy in a more comprehensive and profound manner, and carry out the “dual-carbon” action in a whole-chain, whole-process and integrated way by soil improvement from the source, utilization of planting and breeding wastes, emission and carbon reduction in production, and sustainable innovation at the consumption and service ends. We will create an closed loop of green and low-carbon industries centered on “green feedlots”, “green factories” and “green workshops”, and work closely with upstream and downstream partners to create social value, share social responsibility, and jointly promote the green and sustainable development of the entire industry chain.

Feihe will adhere to the corporate spirit of “Doing our Best to Repay to the Society”, actively respond to national strategies such as rural revitalization, healthy China and common prosperity aiming at transforming the poverty alleviation model from “blood-transfusion” to “hematopoietic”, and continuously carry out diverse social welfare and charity activities such as student aid and teaching assistance, helping the disadvantaged and impoverished groups, caring for mothers and infants, assisting in pandemic prevention and control. We will further give full play to the strengths of the whole industrial cluster, strive to build a “common wealth industry chain” with milk powder processing as the core, continue to create job opportunities for local people, and drive local farmers to increase their income and increase the value of cultivated land, thereby contributing to the high-quality development of the regional economy.

2022 marks the 60th anniversary of the establishment of Feihe. With our conscience and ingenuity, we will do our best to develop the “mother’s career and future career”, carry forward the core values of “users first, practical style, win-win outcome, and continuous improvement”, practice the corporate mission of “bringing joy and health to families”, and strive to be the most trusted and respected family nutrition expert. We will forge ahead to Feihe’s centennial, and show the spirit of the times and the powerful image of Chinese brands.

Other Information and Corporate Governance

SUBSEQUENT EVENTS

The Group has no material subsequent events after 30 June 2022 as of the date of this interim report.

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.

Save as disclosed below, the Board is of the view that the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2022.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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 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 the code of conduct regarding directors' dealings in the securities of the Company.

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2022.

The Board has also established the “Code of Conduct for Securities Transaction for Relevant Employees” on terms no less exacting than the Model Code to regulate dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision C.1.3 of the CG Code.

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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 2022, 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⁾	6.60%
	Other interest	Founder of a discretionary trust	Long	3,889,911,881 ⁽³⁾	43.68%
Liu Hua	Corporate interest	Interest of controlled corporation	Long	587,516,458 ⁽⁴⁾	6.60%
	Other interest	Founder of a discretionary trust	Long	345,681,920 ⁽⁵⁾	3.88%
Cheung Kwok Wah	Beneficial interest	Beneficial owner	Long	326,000 ⁽⁶⁾	0.00%
Cai Fangliang	Corporate interest	Interest of controlled corporation	Long	101,647,734 ⁽⁷⁾	1.14%
Judy Fong-Yee Tu	Other interest	Founder of a discretionary trust	Long	23,717,804 ⁽⁸⁾	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 2022 (i.e. 8,905,216,000 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) 3,889,911,881 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. Mr. Leng was deemed to be interested in 3,889,911,881 Shares held by Garland Glory Limited by virtue of the SFO.
- (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. Mr. Liu was deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited by virtue of the SFO.
- (6) 326,000 Shares were held by Mr. Cheung Kwok Wah as beneficial owner.
- (7) 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.
- (8) 23,717,804 Shares were held by J.T. Living Trust, which was established by Ms. Judy Fong-Yee Tu as the settlor and the only discretionary object. Ms. Judy Fong-Yee Tu was deemed to be interested in the 23,717,804 Shares by virtue of the SFO.

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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 2022, 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 2022, 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).

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INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2022, 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⁾
Harneys Trustees Limited	Trustee of a trust	Long	4,461,740,357 ⁽²⁾	50.10%
LYB International Holding Limited	Interest in a controlled corporation	Long	3,889,911,881 ⁽²⁾	43.68%
Garland Glory Holdings Limited	Beneficial owner	Long	3,889,911,881 ⁽²⁾	43.68%
Morgan Stanley	Interest in a controlled corporation	Long	700,814,479 (L) ⁽⁴⁾⁽⁵⁾	7.86%
		Short	2,685,013 (S)	0.03%
MS Holdings Incorporated	Interest in a controlled corporation	Long	693,066,860 ⁽⁴⁾	7.78%
Morgan Stanley Private Equity Asia III, Inc.	Interest in a controlled corporation	Long	693,066,860 ⁽⁴⁾	7.78%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in a controlled corporation	Long	693,066,860 ⁽⁴⁾	7.78%
North Haven Private Equity Asia III, L.P. (NH LP)	Interest in a controlled corporation	Long	693,066,860 ⁽⁴⁾	7.78%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd (MSPEA III)	Interest in a controlled corporation	Long	693,066,860 ⁽⁴⁾	7.78%
North Haven Private Equity Asia IMF Holding Limited (NHPEA)	Beneficial owner	Long	693,066,860 ⁽⁴⁾	7.78%
Mr. Liu Shenghui	Interest in a controlled corporation and founder of a discretionary trust	Long	813,663,014 ⁽⁶⁾	9.14%
Dasheng Limited	Beneficial owner	Long	587,516,458 ⁽³⁾	6.60%

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Notes:

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 30 June 2022 (i.e. 8,905,216,000 Shares).
- (2) Harneys Trustees Limited is deemed to be interested in 4,461,740,357 Shares in aggregate by virtue of the SFO:
 - (a) 3,889,911,881 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 3,889,911,881 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.
- (3) 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.
- (4) 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 693,066,860 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.

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- (5) The long position in respect of 700,814,479 Shares includes 693,066,860 Shares held by NHPEA as described in note (4) above and 5,985,704 Shares held by Morgan Stanley & Co. International plc, an indirectly wholly owned subsidiary of Morgan Stanley, and 366,000 Shares held by Morgan Stanley & Co. LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 615,723 Shares held by Morgan Stanley Capital Services LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 1,692 Shares held by Morgan Stanley Europe SE, an indirectly wholly owned subsidiary of Morgan Stanley, and 775,000 Shares held by Prime Dealer Services Corp., an indirectly wholly owned subsidiary of Morgan Stanley, and 3,500 Shares held by E*TRADE Securities LLC, an indirectly wholly owned subsidiary of Morgan Stanley.
- (6) 813,663,014 Shares include 226,146,556 Shares held by Harneys Trustees Limited as trustee (as described in note (2c) above) and 587,516,458 Shares through Mr. Liu Shenghui's controlled corporation – Dasheng Limited (as described in note (3) above).

Save as disclosed above, as at 30 June 2022, 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 at 30 June 2022, the Group had 9,138 full-time employees (YST: 2,092), the majority of whom are based in China.

In line with 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.

As at 30 June 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

Other Information and Corporate Governance

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

During the Reporting Period, the Company exercised its powers under the general mandate to repurchase the Shares granted by the Shareholders of the Company to the Board, which shall expire on the conclusion of the next annual general meeting of the Company (the “**Share Repurchase Plan**”), and repurchased a total of 12,000,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK\$89.7 million. All of these repurchased Shares were subsequently cancelled. The total number of Shares of the Company in issue as at 30 June 2022 is 8,905,216,000. Details of the repurchase of Shares are summarized as follows:

Date of repurchases	Number of Shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
29 March 2022	2,000,000	7.60	7.41
30 March 2022	1,000,000	7.56	7.56
31 March 2022	1,000,000	7.40	7.40
1 April 2022	1,000,000	8.00	7.97
6 April 2022	500,000	8.10	8.05
7 April 2022	500,000	7.68	7.68
8 April 2022	500,000	7.74	7.74
11 April 2022	500,000	7.58	7.58
12 April 2022	500,000	7.29	7.29
13 April 2022	500,000	7.40	7.40
14 April 2022	500,000	7.63	7.58
19 April 2022	500,000	7.33	7.29
21 April 2022	500,000	7.29	7.28
25 April 2022	500,000	7.11	7.11
6 May 2022	1,000,000	7.10	7.10
10 May 2022	500,000	6.99	6.93
12 May 2022	500,000	6.86	6.86
	<u>12,000,000</u>		

The Board considers that the then trading price of the Shares did not reflect their intrinsic value and the business prospects of the Group. The Share Repurchase Plan reflects the confidence of the Board and the management team in the current and long-term business outlook and growth of the Company, driven by the Company's market leading position. The Board considers that the Share Repurchase Plan is in the best interest of the Company and its Shareholders as a whole.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

Other Information and Corporate Governance

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. For the unutilized amounts of HK\$2,501.9 million as at 30 June 2022 the Company will bring them forward from prior period and apply the remaining net proceeds in the manner set out in the Prospectus. It is expected that the remaining net proceeds from the Global Offering will be fully utilized by 31 December 2023.

The following table sets forth a breakdown of the utilization of the net proceeds as at 30 June 2022.

Intended use of proceeds	Initial intended allocation (HK\$ million)	Utilized amount for the year ended 31 December 2021 (HK\$ million)	Unutilized amount as at 31 December 2021 (HK\$ million)	Utilized amount for the six months ended 30 June 2022 (HK\$ million)	Unutilized amount as at 30 June 2022 (HK\$ million)	Expected timeline for utilizing the remaining proceeds
Repayment of offshore debts	2,621.9	(379.6)	1,077.5	(180.7)	896.8	Before 31 December 2023
Potential merger and acquisition opportunities	1,310.9	-	-	-	-	-
Operation of the Company's Kingston Plant	655.5	(50.5)	605.0	(30.8)	574.2	Before 31 December 2023
Research and development activities of overseas infant milk formula and nutritional supplement products	655.5	-	655.5	-	655.5	Before 31 December 2023
Expansion of Vitamin World USA operations	327.7	(102.7)	125.3	(78.1)	47.2	Before 31 December 2023
Marketing initiatives	327.7	-	327.7	-	327.7	Before 31 December 2023
Working capital and general corporate purposes	655.5	-	0.5	-	0.5	Before 31 December 2023
	6,554.7	(532.8)	2,791.5	(289.6)	2,501.9	

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to recommend an interim dividend of HK\$0.1131 per Share for the six months ended 30 June 2022 (the "2022 Interim Dividend") with an aggregate amount of approximately HK\$1,005,542,725 (equalling approximately RMB876,895,600) to Shareholders whose names are listed on the Company's register of members as at 19 October 2022. The 2022 Interim Dividend is based on (i) our dividend policy set out in the Prospectus of intending to distribute no less than 30% of our net profit for each financial year, and (ii) an approximately additional 10% of our profit for the six months ended 30 June 2022, totaling approximately 40% of our profit for the six months ended 30 June 2022 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 29 August 2022⁽¹⁾. The 2022 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 28 October 2022.

In order to ascertain Shareholders' entitlement to the proposed 2022 Interim Dividend, the register of members of the Company will be closed from 18 October 2022 to 19 October 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 2022 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 17 October 2022.

(1): When calculating such percentages, the profit of YST was excluded from our profit for the six months ended 30 June 2022.

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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 2022 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, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements and interim results for the six months ended 30 June 2022 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.

Pre-IPO Participants

A grant of 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 2.14% of the total number of the issued shares of the Company as at the date of this interim report.

Other Information and Corporate Governance

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 the 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 the 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.

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.

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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 2022, 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	2.14%

Pre-IPO Share Options granted to Dasheng Limited has vested and become exercisable with respect to 43% on 31 December 2019, and the remaining 57% has vested and become exercisable on 31 December 2020 as the performance target for the applicable fiscal year has been met.

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

Further details of the Pre-IPO Share Option Scheme are set out in appendix IV to the Prospectus.

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.

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Participants

Participants (the “**Participant(s)**”) 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.

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 (the “**Individual Limit**”).

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.

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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, a 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.

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 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.

Other Information and Corporate Governance

Movements of the share options under the 2020 Share Option Scheme during the six months ended 30 June 2022 are as follows:

Date of grant	Date of expiry	Vesting period	Exercise price (HK\$)	Closing price immediately before the date of grant	Number of underlying ordinary shares comprised in the options outstanding at 1 January 2022	Number of underlying ordinary shares comprised in the options granted during the six months ended 30 June 2022	Number of underlying ordinary shares comprised in the options lapsed or cancelled during the six months ended 30 June 2022 ⁽¹⁾	Number of underlying ordinary shares comprised in the options exercised during the six months ended 30 June 2022	Number of underlying ordinary shares comprised in the options outstanding at 30 June 2022
2 February 2021	1 February 2031	2 February 2022 to 2 February 2026	23.80	23.10	37,250,000	-	8,886,000	-	28,364,000
15 July 2021	14 July 2031	15 July 2022 to 15 July 2026	16.84	16.78	8,193,800	-	440,300	-	7,753,500
24 January 2022	23 January 2032	24 January 2023 to 24 January 2027	11.76	11.72	-	7,860,000	343,000	-	7,517,000

Note:

- (1) Such share options granted under the 2020 Share Option Scheme lapsed upon the resignation of the relevant employees of the Company.

The fair value of the share options granted during the six months ended 30 June 2022 under the 2020 Share Option Scheme was HK\$24,639,000. Save as disclosed above, during the Reporting Period, no other share option has been granted under the 2020 Share Option Scheme, and no other share options under the 2020 Share Option Scheme had been exercised, cancelled nor lapsed.

Other Information and Corporate Governance

All the grantees being granted the share options under the 2020 Share Option Scheme on 2 February 2021, 15 July 2021 and 24 January 2022 are employees of the Company working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance.

None of such grantees is a director, chief executive or substantial shareholder of the Company or any of their respective associate, or a consultant, adviser, agent, business partner, joint venture partner, supplier of services or goods, or contractor of the Company.

None of the numbers of the share options granted to each of such grantees in any 12-month period exceeds the Individual Limit.

For more details, please refer to the announcements of the Company dated 2 February 2021, 15 July 2021 and 24 January 2022.

CHANGE OF DIRECTORS' INFORMATION

Mr. Fan Yonghong resigned as an independent director and a member of the Audit committee, Compensation Committee and Nominating and Corporate Governance Committee of Puxin Limited (listed on the New York Stock Exchange, Stock Code: NEW) on 19 April 2022.

Mr. Song Jianwu resigned as an independent director of Zhewen Interactive Group Co., Ltd. (浙文互聯集團股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 600986) on 25 July 2022.

Mr. Gao Yu resigned as a managing director of the Private Credit & Equity Division, the co-chief investment officer of Private Equity Asia and head of China Investment business, the chairman of RMB Fund's investment committee of Morgan Stanley Asia Limited as well as a member of Morgan Stanley's China Management Committee on 5 July 2022, an independent director and vice chairman of the board of AMTD International Inc. (listed on the New York Stock Exchange, Stock Symbol: HKIB) on 23 February 2022, and a non-executive director and chairman of the board of Home Control International Limited (listed on the Hong Kong Stock Exchange, Stock Code: 1747) on 29 July 2022.

Save as disclosed above, during the Reporting Period and as at the Latest Practicable Date, there was no change in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 32 to 60, which comprises the condensed consolidated statement of financial position of China Feihe Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2022 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

27/F, One Taikoo Place

979 King’s Road

Quarry Bay, Hong Kong

29 August 2022

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
REVENUE	4	9,672,823	11,543,762
Cost of sales		(3,136,198)	(3,086,674)
Gross profit		6,536,625	8,457,088
Other income and gains, net	4	758,774	900,999
Selling and distribution expenses		(3,142,167)	(3,334,938)
Administrative expenses		(656,680)	(604,553)
Other expenses	6	(56,586)	(38,164)
Finance costs	7	(12,024)	(14,562)
Share of loss of an associate		(7,814)	(3,740)
Changes in fair value less costs to sell of biological assets		(185,380)	(81,077)
PROFIT BEFORE TAX	5	3,234,748	5,281,053
Income tax expense	8	(962,692)	(1,515,799)
PROFIT FOR THE PERIOD		2,272,056	3,765,254
Attributable to:			
Owners of the parent		2,255,887	3,740,086
Non-controlling interests		16,169	25,168
		2,272,056	3,765,254
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (expressed in RMB per share)	10	0.25	0.42
Diluted (expressed in RMB per share)	10	0.25	0.41

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	2,272,056	3,765,254
OTHER COMPREHENSIVE INCOME		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	71,855	61,042
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,343,911	3,826,296
Attributable to:		
Owners of the parent	2,328,439	3,801,158
Non-controlling interests	15,472	25,138
	2,343,911	3,826,296

Interim Condensed Consolidated Statement of Financial Position

30 June 2022

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	8,950,370	8,436,909
Investment properties		120,793	77,469
Right-of-use assets		417,992	427,753
Goodwill		112,402	112,402
Intangible assets		19,604	20,694
Investment in a joint venture		6,399	6,187
Investment in an associate		113,558	121,372
Financial asset at fair value through other comprehensive income		1,800	1,800
Deposits for purchases of items of property, plant and equipment		302,772	126,254
Biological assets	12	1,872,000	1,707,317
Deferred tax assets		433,688	473,629
Long-term bank deposits		390,000	–
Total non-current assets		12,741,378	11,511,786
CURRENT ASSETS			
Inventories	13	1,541,808	1,721,807
Trade and bills receivables	14	445,418	477,328
Prepayments, deposits and other receivables		627,033	575,934
Due from a director	19(a)	80	80
Structured deposits		6,225,700	7,539,583
Restricted cash		40,496	25,616
Cash and cash equivalents		10,323,805	9,629,290
Total current assets		19,204,340	19,969,638
CURRENT LIABILITIES			
Trade and bills payables	15	990,029	1,283,996
Other payables and accruals	16	4,643,072	4,220,649
Interest-bearing bank and other borrowings		408,143	312,852
Lease liabilities		77,791	62,103
Tax payable		256,634	1,062,506
Total current liabilities		6,375,669	6,942,106
NET CURRENT ASSETS		12,828,671	13,027,532
TOTAL ASSETS LESS CURRENT LIABILITIES		25,570,049	24,539,318

Interim Condensed Consolidated Statement of Financial Position

30 June 2022

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		563,834	621,357
Other payables and accruals	16	640,658	646,750
Deferred tax liabilities		851,164	752,571
Lease liabilities		133,685	115,270
Total non-current liabilities		2,189,341	2,135,948
Net assets		23,380,708	22,403,370
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	1	1
Reserves		21,883,165	20,921,299
		21,883,166	20,921,300
Non-controlling interests		1,497,542	1,482,070
Total equity		23,380,708	22,403,370

LIU Hua
Director

Judy Fong-Yee TU
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the parent												
	Notes	Issued capital	Treasury shares	Share	Capital	Reserve funds	Share	Exchange	Retained profits	Other reserves	Non-controlling interest	Total equity	
				premium account	contribution reserve		option reserve	fluctuation reserve					Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2021		1	-	6,550,237	80,346	713,473	231,236	(220,336)	10,517,289	(125,137)	17,747,109	1,438,416	19,185,525
Profit for the period		-	-	-	-	-	-	-	3,740,086	-	3,740,086	25,168	3,765,254
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	61,072	-	-	61,072	(30)	61,042
Total comprehensive income for the period		-	-	-	-	-	-	61,072	3,740,086	-	3,801,158	25,138	3,826,296
Final 2020 dividend declared	9	-	-	-	-	-	-	-	(1,185,775)	-	(1,185,775)	-	(1,185,775)
Shares repurchased and cancellation	17(i)	-	-	(255,220)	-	-	-	-	-	-	(255,220)	-	(255,220)
Equity-settled share option arrangements		-	-	-	-	-	55,296	-	-	-	55,296	-	55,296
At 30 June 2021 (unaudited)		1	-	6,295,017*	80,346*	713,473*	286,532*	(159,264)*	13,071,600*	(125,137)*	20,162,568	1,463,554	21,626,122
At 1 January 2022		1	(94,036)	6,279,659	80,346	812,631	361,360	(290,418)	13,896,894	(125,137)	20,921,300	1,482,070	22,403,370
Profit for the period		-	-	-	-	-	-	-	2,255,887	-	2,255,887	16,169	2,272,056
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	72,552	-	-	72,552	(697)	71,855
Total comprehensive income for the period		-	-	-	-	-	-	72,552	2,255,887	-	2,328,439	15,472	2,343,911
Final 2021 dividend declared	9	-	-	-	-	-	-	-	(1,316,357)	-	(1,316,357)	-	(1,316,357)
Shares repurchased	17(i)	-	(74,226)	-	-	-	-	-	-	-	(74,226)	-	(74,226)
Equity-settled share option arrangements		-	-	-	-	-	24,010	-	-	-	24,010	-	24,010
Cancellation of shares repurchased	17(i)	-	94,036	(94,036)	-	-	-	-	-	-	-	-	-
At 30 June 2022 (unaudited)		1	(74,226)*	6,185,623*	80,346*	812,631*	385,370*	(217,866)*	14,836,424*	(125,137)*	21,883,166	1,497,542	23,380,708

* These reserve accounts comprise the consolidated reserves of RMB21,883,165,000 (30 June 2021: RMB20,162,567,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,234,748	5,281,053
Adjustments for:			
Finance costs	7	12,024	14,562
Interest income	4	(140,620)	(177,053)
Impairment of right-of-use assets	6	8,781	3,362
Depreciation of property, plant and equipment	5	212,474	194,980
Depreciation of investment properties	6	8,718	6,018
Depreciation of right-of-use assets	5	13,249	12,812
Amortisation of intangible assets		1,090	5
Loss on disposal of items of property, plant and equipment, net	6	11,798	7,849
Fair value gains on structured deposits	4	(102,274)	(86,100)
Changes in fair value less costs to sell of biological assets		185,380	81,077
Reversal of write-down of inventories to net realisable value	5	(26,531)	(14,485)
Reversal of impairment of trade receivables	5	-	(9,803)
Gain on termination of leases	4	-	(11,540)
Gain on lease modification		-	(11,874)
Covid-19-related rent concessions from lessors		(151)	(4,637)
Amortisation of deferred income	4	(27,241)	(13,188)
Share of loss of an associate		7,814	3,740
Equity-settled share option expense		24,010	55,296
		3,423,269	5,332,074
Decrease/(increase) in inventories		213,171	(322,847)
Decrease/(increase) in trade and bills receivables		32,247	(52,315)
Decrease in prepayments, deposits and other receivables		65,236	33,078
Increase/(decrease) in trade and bills payables		(296,357)	251,746
Decrease in other payables and accruals		(888,108)	(1,201,239)
Cash generated from operations		2,549,458	4,040,497
Interest received		132,308	168,933
Interest paid		(11,571)	(14,279)
Income taxes paid		(1,634,125)	(1,536,712)
Net cash flows from operating activities		1,036,070	2,658,439

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and right-of-use assets		(607,627)	(408,930)
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		12,564	25,511
Additions to biological assets		(436,237)	(235,190)
Proceeds from disposal of biological assets		82,271	88,665
Purchases of structured deposits		(3,023,400)	(6,814,833)
Proceeds from redemption of structured deposits		4,439,557	6,131,376
Placement of restricted cash		(37,692)	(25,298)
Withdrawal of restricted cash		22,812	23,917
Acquisition of a business		(135,883)	–
Receipt of government grants		8,075	132,018
Deposits paid for purchases of items of property, plant and equipment		(226,243)	(75,083)
Placement of time deposits with original maturity of more than three months when acquired		(1,255,299)	(2,248,037)
Withdrawal of time deposits with original maturity of more than three months when acquired		1,446,586	1,774,030
Net cash flows from/(used in) investing activities		289,484	(1,631,854)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		371,600	–
Repayment of bank and other loans		(355,555)	(288,275)
Repurchase of shares		(74,226)	(255,220)
Dividend paid		–	(1,185,775)
Principal portion of lease payments		(32,750)	(20,419)
Net cash flows used in financing activities		(90,931)	(1,749,689)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		5,988,909	5,912,195
Effect of foreign exchange rate changes, net		25,772	39,554
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		10,754,301	9,873,912
Less: Long-term bank deposits		(390,000)	(700,000)
Less: Restricted cash		(40,496)	(25,301)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		10,323,805	9,148,611
Less: Non-pledged time deposits with original maturity of more than three months when acquired		(3,074,501)	(3,919,966)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows		7,249,304	5,228,645

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and the applicable 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 consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

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 2021, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRSs 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

3. OPERATING SEGMENT INFORMATION

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

- Raw milk segment – manufacture and sale of raw milk; and
- Dairy products and nutritional supplements products segment – manufacture and sale of dairy products and sale of nutritional supplements

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, other interest income, non-lease-related finance costs, and share of loss of an associate are excluded from such measurement.

Segment assets exclude deferred tax assets, financial asset at fair value through other comprehensive income, long-term bank deposits, structured deposits, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2022

	Dairy products and nutritional supplements		Total RMB'000 (Unaudited)
	Raw milk RMB'000 (Unaudited)	products RMB'000 (Unaudited)	
Segment revenue			
Sales to external customers	150,819	9,522,004	9,672,823
Intersegment sales	858,216	–	858,216
	1,009,035	9,522,004	10,531,039
<i>Reconciliation:</i>			
Elimination of intersegment sales			(858,216)
Revenue			9,672,823
Segment results	46,975	3,039,961	3,086,936
<i>Reconciliation:</i>			
Elimination of intersegment results			23,558
Bank interest income			59,551
Other interest income			81,069
Share of loss of an associate			(7,814)
Finance costs (other than interest on lease liabilities)			(8,552)
Profit before tax			3,234,748
Segment assets	6,332,891	8,084,936	14,417,827
<i>Reconciliation:</i>			
Corporate and other unallocated assets			17,527,891
Total assets			31,945,718
Segment liabilities	1,111,729	4,057,149	5,168,878
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			3,396,132
Total liabilities			8,565,010

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2021 (unaudited)

	Raw milk RMB'000	Dairy products and nutritional supplements products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	22,158	11,521,604	11,543,762
Intersegment sales	815,281	–	815,281
	837,439	11,521,604	12,359,043
<i>Reconciliation:</i>			
Elimination of intersegment sales			(815,281)
Revenue			11,543,762
Segment results	80,986	5,037,731	5,118,717
<i>Reconciliation:</i>			
Elimination of intersegment results			(283)
Bank interest income			83,181
Other interest income			93,872
Share of loss of an associate			(3,740)
Finance costs (other than interest on lease liabilities)			(10,694)
Profit before tax			5,281,053
As at 31 December 2021 (audited)			
Segment assets	5,832,943	7,866,161	13,699,104
<i>Reconciliation:</i>			
Corporate and other unallocated assets			17,782,320
Total assets			31,481,424
Segment liabilities	1,445,516	4,883,252	6,328,768
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			2,749,286
Total liabilities			9,078,054

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

3. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Mainland China	9,573,781	11,433,395
United States of America	99,042	110,367
	9,672,823	11,543,762

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

(b) Non-current assets

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
	Mainland China	10,118,092
United States of America	71,234	73,054
Canada	1,726,564	1,708,180
	11,915,890	11,036,357

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

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue from contracts with customers	9,672,823	11,543,762

Revenue from contracts with customers

(i) Disaggregated revenue information

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Type of goods		
Sales of goods	9,672,823	11,543,762
Geographical markets		
Mainland China	9,573,781	11,433,395
United States of America	99,042	110,367
Total revenue from contracts with customers	9,672,823	11,543,762
Timing of revenue recognition		
Goods transferred at a point in time	9,672,823	11,543,762

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

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	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Other income			
Bank interest income		59,551	83,181
Other interest income		81,069	93,872
Government grants related to			
– Assets	(i)	27,241	13,188
– Income	(ii)	474,853	593,184
Others		13,786	19,934
		656,500	803,359
Gains, net			
Fair value gains on structured deposits		102,274	86,100
Gain on termination of leases		–	11,540
		102,274	97,640
Total other income and gains, net		758,774	900,999

Notes:

- (i) The Group received government grants in respect of the construction and acquisition of property, plant and equipment, the purchases of feed and the construction of farms. 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 the Interim Condensed Consolidated Financial Information

30 June 2022

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold	2,399,291	2,478,198
Breeding costs to produce	533,997	436,084
Production costs of raw milk	202,910	172,392
Cost of sales	3,136,198	3,086,674
Depreciation of property, plant and equipment	263,636	226,691
Less: Capitalised in biological assets	(51,162)	(31,711)
Depreciation recognised in the interim condensed consolidated statement of profit or loss	212,474	194,980
Depreciation of right-of-use assets	13,249	12,812
Rent expense – short term leases	2,517	2,107
Interest expense on lease liabilities	3,472	3,868
Reversal of write-down of inventories to net realisable value	(26,531)	(14,485)
Reversal of impairment of trade receivables	–	(9,803)
Foreign exchange differences, net	19,114	7,157

6. OTHER EXPENSES

An analysis of other expenses is as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost on disposal of cow-waste	10,846	11,248
Depreciation of investment properties	8,718	6,018
Impairment of right-of-use assets	8,781	3,362
Loss on disposal of items of property, plant and equipment	11,798	7,849
Loss on disposal of old packaging materials	3,938	1,609
Donations	12,403	7,851
Others	102	227
Total	56,586	38,164

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest on:		
Bank loans	4,529	369
Other loans	7,702	10,325
Lease liabilities	3,472	3,868
Total interest expense on financial liabilities not at fair value through profit or loss	15,703	14,562
Less: Interest capitalised	(3,679)	–
	12,024	14,562

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 2021: 25%) during the period.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group operating in the agricultural business are exempted from enterprise income tax.

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 2021: 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	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current – PRC		
Charge for the period	828,253	1,343,144
Deferred	134,439	172,655
Total tax charge for the period	962,692	1,515,799

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

9. DIVIDEND

During the six months ended 30 June 2022, the Company declared a final dividend of HK\$0.1733 per ordinary share, equivalent to a total of approximately RMB1.32 billion for the year ended 31 December 2021 to its shareholders. During the six months ended 30 June 2021, the Company declared a final dividend of HK\$0.1586 per ordinary share, equivalent to a total of approximately RMB1.19 billion for the year ended 31 December 2020 to its shareholders.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK\$0.1131 per ordinary share for the six months ended 30 June 2022, amounting to a total of approximately RMB876,895,600. For the year ended 31 December 2021, the Company also declared an interim dividend of HK\$0.2973 per ordinary share for the six months ended 30 June 2021, amounting to a total of approximately RMB2.21 billion.

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

The calculation of the basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders 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 into ordinary shares under the share option schemes.

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	2,255,887	3,740,086
	Number of shares	
	30 June 2022 (Unaudited)	30 June 2021 (Unaudited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	8,899,932,667	8,931,673,028
Effect of dilution – weighted average number of ordinary shares:		
Share options	166,405,466	180,433,211
	9,066,338,133	9,112,106,239

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of property, plant and equipment of RMB606,954,000 (six months ended 30 June 2021: RMB408,110,000).

Assets with a net book value of RMB24,362,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB33,360,000), resulting in a loss on disposal of RMB11,798,000 (six months ended 30 June 2021: RMB7,849,000).

At 30 June 2022, certain of the Group's plant and machinery and construction in progress with an aggregate net carrying amount of approximately RMB1,850,654,000 (31 December 2021: RMB1,852,766,000) were pledged to secure loans borrowed from a third party and a bank.

12. BIOLOGICAL ASSETS

(a) Nature of activities

Dairy cows and goats owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group as at 30 June 2022 and 31 December 2021 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2022 and 31 December 2021 were dairy cows that have not had their first calves.

	30 June 2022 (Unaudited) Heads	31 December 2021 (Audited) Heads
Dairy cows		
Milkable cows	38,180	36,290
Heifers and calves	46,439	43,276
Total dairy cows	84,619	79,566

The Group is exposed to fair value risks arising from changes in price of the cow's dairy products. The Group does not anticipate that the price of the cow's dairy products will decline significantly in the foreseeable future and the Directors are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the cow's dairy products.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

12. BIOLOGICAL ASSETS (Continued)

(a) Nature of activities (Continued)

In general, the heifers are inseminated with semen when they reached approximately 16 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

The quantity of dairy goats owned by the Group as at 30 June 2022 is shown below. The Group's dairy goats contain lambs, young goats and milkable goats. Lambs and young goats held at 30 June 2022 were dairy goats that have not had their first lambs.

	30 June 2022 (Unaudited) Heads
Dairy goats	
Milkable goats	5,064
Lambs and young goats	1,605
Total dairy goats	6,669

The Group is exposed to fair value risks arising from changes in the prices of the dairy goats. The fair value of the dairy goats is determined with reference to the market prices of items with similar age, breed and genetic merit. There is an active market for dairy goats in the Mainland China.

(b) Value of dairy cows and goats

The value of dairy cows at the end of the reporting period was:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Dairy cows	1,833,300	1,707,317

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

12. BIOLOGICAL ASSETS (Continued)

(b) Value of dairy cows and goats (Continued)

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 1 January 2021	542,957	898,983	1,441,940
Increase due to raising (feeding costs and others)	565,802	–	565,802
Increase due to purchase	65,707	–	65,707
Increase due to acquisition of a business	12,710	17,820	30,530
Transfer (out)/in	(376,341)	376,341	–
Decrease due to sales	(50,478)	(108,443)	(158,921)
Gain/(loss) arising from changes in fair value less costs to sell	1,746	(239,487)	(237,741)
Balance as at 31 December 2021 and 1 January 2022 (audited)	762,103	945,214	1,707,317
Increase due to raising (feeding costs and others)	382,462	–	382,462
Transfer (out)/in	(258,809)	258,809	–
Decrease due to sales	(17,270)	(64,320)	(81,590)
Loss arising from changes in fair value less costs to sell	(24,147)	(150,742)	(174,889)
Balance as at 30 June 2022 (unaudited)	844,339	988,961	1,833,300

The value of dairy goats at the end of the reporting period was:

	30 June 2022 RMB'000 (Unaudited)
Dairy goats	38,700

	Lambs and young goats RMB'000	Milkable goats RMB'000	Total RMB'000
Balance as at 1 January 2022	–	–	–
Increase due to acquisition of a business	24,263	20,524	44,787
Increase due to raising (feeding costs and others)	4,688	–	4,688
Transfer (out)/in	(15,046)	15,046	–
Decrease due to sales	(110)	(174)	(284)
Loss arising from changes in fair value less costs to sell	(5,403)	(5,088)	(10,491)
Balance as at 30 June 2022 (unaudited)	8,392	30,308	38,700

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

12. BIOLOGICAL ASSETS (Continued)

(c) Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets:

	Fair value measurement using significant unobservable inputs (Level 3) RMB'000
As at 30 June 2022 (unaudited)	1,872,000
As at 31 December 2021 (audited)	1,707,317

13. INVENTORIES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Feed	281,969	493,739
Raw materials	486,844	588,121
Work in progress	404,477	180,177
Finished goods	338,980	410,203
Others	29,538	49,567
	1,541,808	1,721,807

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

14. TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	378,019	381,708
Bills receivable	69,413	97,634
	447,432	479,342
Impairment	(2,014)	(2,014)
	445,418	477,328

The Group has a policy of requiring payment in advance from customers for the sale of products (other than cash and credit card sales and sales of raw milk), 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 reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	299,534	354,633
1 to 2 months	127,814	100,762
2 to 3 months	11,467	17,387
Over 3 months	6,603	4,546
	445,418	477,328

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

15. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade and bills payables	990,029	1,283,996

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	888,506	1,219,732
3 to 6 months	44,409	21,591
Over 6 months	57,114	42,673
	990,029	1,283,996

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Deferred income	647,896	667,906
Other payables	1,134,345	1,525,882
Accruals	1,607,764	1,215,970
Contract liabilities	577,368	1,457,641
Dividend payable	1,316,357	–
	5,283,730	4,867,399
Non-current portion	(640,658)	(646,750)
Current portion	4,643,072	4,220,649

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

17. SHARE CAPITAL

	Note	Number of shares			
		30 June 2022	31 December 2021	30 June 2022 RMB'000	31 December 2021 RMB'000
Authorised					
2,000,000,000,000 ordinary shares of US\$0.000000025 each		2,000,000,000,000	2,000,000,000,000	303	303
Issued and paid-up					
At the beginning of the period/year		8,915,239,000	8,933,340,000	1	1
Cancellation of shares repurchased	(i)	(10,023,000)	(18,101,000)	-	-
At the end of the period/year		8,905,216,000	8,915,239,000	1	1

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

Note:

(i) During the six months ended 30 June 2022, the Company repurchased 12,000,000 ordinary shares on the Stock Exchange of Hong Kong Limited at a total consideration of approximately RMB74,226,000. During the six months ended 30 June 2022, the Company cancelled 10,023,000 repurchased shares and the premium paid on the repurchases of these shares of RMB94,036,000 has been charged to the share premium account.

During the six months ended 30 June 2021, the Company repurchased 16,101,000 ordinary shares on the Stock Exchange of Hong Kong Limited at total consideration of approximately RMB255,220,000. All of these repurchased shares were cancelled during the six months ended 30 June 2021 and the premium paid on the repurchase of these shares of RMB255,220,000 has been charged to the share premium account.

During the year ended 31 December 2021, the Company repurchased 28,124,000 ordinary shares on the Stock Exchange of Hong Kong Limited at total consideration of approximately RMB364,614,000, of which 18,101,000 repurchased shares were cancelled during the year ended 31 December 2021.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

18. COMMITMENTS

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	807,346	652,294
Purchases of diary cows	157,250	–
	964,596	652,294

19. 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) 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.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Salaries and allowance	24,681	20,130
Pension scheme contributions	113	109
Total compensation paid/payable to key management personnel	24,794	20,239

Notes to the Interim Condensed Consolidated Financial Information

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20. 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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial assets				
Financial asset at fair value through other comprehensive income	1,800	1,800	1,800	1,800
Structured deposits	6,225,700	7,539,583	6,225,700	7,539,583
Financial liabilities				
Interest-bearing bank and other borrowings	971,977	934,209	954,730	926,751

Management has assessed that the fair values of cash and cash equivalents, restricted cash, 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, and 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 2022 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 the Interim Condensed Consolidated Financial Information

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20. 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 2022 (unaudited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	6,225,700	-	6,225,700
At 31 December 2021 (audited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	7,539,583	-	7,539,583

The Group did not have any financial liabilities measured at fair value as at 30 June 2022 (31 December 2021: 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 2021: 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 2021: 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 2021: RMB360,000).

Notes to the Interim Condensed Consolidated Financial Information

30 June 2022

20. 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 2022 (unaudited)				
Interest-bearing bank and other borrowings	-	954,730	-	954,730
At 31 December 2021 (audited)				
Interest-bearing bank and other borrowings	-	926,751	-	926,751

21. 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 29 August 2022.

Definitions

“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 to subscribe for DIF Ordinary Shares
“DIF Share Option Schemes”	collectively, the First DIF Share Option Scheme and the Second DIF Share Option Scheme
“Director(s)”	director(s) of the Company
“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 Option in accordance with the terms of the 2020 Share Option Scheme or (where the context so permits) any person entitled to any such 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
“IFRSs”	the International Financial Reporting Standards, which include all International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations issued by the International Accounting Standards Board (IASB)
“Kingston Plant”	the Company’s production facility in the city of Kingston, Ontario, Canada
“Latest Practicable Date”	14 September 2022, 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 second amended and restated memorandum of association and articles of association of our Company adopted on 28 June 2022, 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

Definitions

“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 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 2022 and ending on 30 June 2022
“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

Definitions

“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
“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
“YST”	YuanShengTai Dairy Farm Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1431)
“%”	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