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APPLICATION PROOF OF



China Feihe Limited 中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

(the “Company”)

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China Feihe Limited
中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	:	[REDACTED] Shares ([including [REDACTED] offered by the [REDACTED] and] subject to the [REDACTED])
Number of [REDACTED]	:	[REDACTED] Shares (subject to adjustment and the [REDACTED])
Number of [REDACTED]	:	[REDACTED] Shares ([including [REDACTED] offered by the [REDACTED] and] subject to adjustment and the [REDACTED])
Maximum [REDACTED]	:	HK\$[REDACTED] per [REDACTED] plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund on final pricing)
Nominal value [REDACTED]	:	US\$0.000000025 per Share
[REDACTED]	:	[REDACTED]

Joint Sponsors

J.P.Morgan

CMS 招商證券國際

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CCB International

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The [REDACTED] is expected to be determined by agreement between us, [REDACTED], the [REDACTED] (on behalf of the [REDACTED]) on or about [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will be not more than HK\$[REDACTED] per [REDACTED] and is currently expected to be not less than HK\$[REDACTED] per [REDACTED], unless otherwise announced. Investors applying for the [REDACTED] must pay, on application, the maximum [REDACTED] of HK\$[REDACTED] per [REDACTED], together with brokerage of [1.0]%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the [REDACTED] is less than HK\$[REDACTED] per [REDACTED]. If, for any reason, the [REDACTED] is not agreed between us, [REDACTED] and the [REDACTED] (on behalf of the [REDACTED]) on or before [REDACTED] (Hong Kong time), the [REDACTED] (including the [REDACTED]) will not proceed and will lapse.

The [REDACTED] (on behalf of the [REDACTED]), with our consent, may reduce the indicative [REDACTED] range stated in this Document and/or reduce the number of [REDACTED] being offered pursuant to the [REDACTED] at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of the reduction of the indicative [REDACTED] range and/or the number of [REDACTED] will be published in the [South China Morning Post] (in English) and the [Hong Kong Economic Times] (in Chinese) not later than the morning of the last day for lodging applications under the [REDACTED]. Further details are set out in "Structure of the [REDACTED]" and "[REDACTED]." Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Document, including the risk factors set out in "Risk Factors."

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in "[REDACTED] – [REDACTED] Agreement and Expenses – [REDACTED] – Grounds for Termination." It is important that you refer to that section for further details.

The [REDACTED] have not been and will not be registered under the Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The [REDACTED] are being offered and sold (1) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in "Risk Factors" in this document. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

Feihe, headquartered in Beijing, is the largest and most highly recognized Chinese brand infant milk formula company, according to the F&S Report. As the prominent market leader, our brand ranked first among domestic and international peers with a market share of 7.3% in terms of 2018 retail sales value, according to the F&S Report. Our company also ranked first among domestic infant milk formula groups with a market share of 15.6% in terms of 2018 retail sales value, and ranked second among overall domestic and international infant milk formula groups with a market share of 7.3% in terms of 2018 retail sales value. With longstanding expertise in the infant milk formula business, our brand has a unique value proposition as "More Suitable for Chinese Babies" (更適合中國寶寶體質). Our 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 retail sales value of infant milk formula in China is projected to steadily increase by a CAGR of 6.9% from 2018 to 2023, according to the F&S Report, of which the high-end segment, consisting of super-premium and premium infant milk formula products, is expected to continue as the driving force of the overall infant milk formula industry. This is underpinned by accelerating urbanization, rising disposable income, increasingly educated and health conscious consumers and growing demand for high quality infant milk formula products. Correspondingly, the high-end segment is forecasted to reach RMB199.8 billion by 2023, representing a CAGR of 16.6% from 2018 to 2023, according to the F&S Report. Capitalizing on the growth trend of the high-end segment that is expected to account for an increasing share of the overall infant milk formula industry, growing from 37.9% in 2018 to 58.3% in 2023, we started repositioning our product offering towards high-end products in the last few years. As of 2018, we are the leading player in the high-end segment, ranking second with a market share of 13.1% in terms of 2018 retail sales value. Within the super-premium segment, we ranked first amongst domestic and international infant milk formula groups with a market share of 24.7% in terms of 2018 retail sales value. Our growth in this segment is driven by our super-premium Astrobaby product series, the revenue of which grew from RMB711.5 million for the year ended December 31, 2016 to RMB5,108.2 million for the year ended December 31, 2018, representing a CAGR of 168.0%, and from RMB910.1 million for the three months ended March 31, 2018 to RMB1,206.0 million for the three months ended March 31, 2019, representing a growth rate of 32.5%.

Our dairy products are primarily sold through an extensive distribution network nationwide of over 1,700 offline customers with more than 92,000 retail points of sale as of March 31, 2019. Our offline customers are distributors who sell our products to retail outlets, as well as maternity store operators, supermarkets and hypermarket chains themselves in some cases. Recognizing the importance and increasing significance of the maternity stores channel in our industry, we are one of the early movers in establishing partnerships with them. With the larger maternity store operators such as Kidswant (孩子王)

SUMMARY

and Aiyingdao (愛嬰島), we have also dedicated resources to develop and strengthen our relationship in order to narrow the gap with our end consumers. We believe our single-layer distribution approach, well-managed nationwide distribution channels and high penetration into maternity stores give us the competitive edge to maintain our profit margins as well as control over end product sales. Furthermore, our barcode scanning function enables customer inventory tracking thus giving good visibility over their inventory levels to avoid stock accumulation and ensuring highest product quality. To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, our products are also sold directly on some of the largest e-commerce platforms, such as Tmall, JD.com, and Suning.com, in addition to our own website and mobile application, such as WeChat.

In addition, another key differentiation of our brand is our consistent dedication into researching and understanding Chinese women's breast milk in order for our infant milk formula production to simulate the composition in breast milk as much as possible. We have established a comprehensive Chinese breast milk database, in which we have collected over 1,500 Chinese breast milk samples from Chinese mothers of various physique and diets across the region. Additionally, we have formed collaborative partnerships with leading national and international research institutions to continue conducting research on the nutrition of infants and adults. Moreover, we persistently source the highest quality fresh milk for all of our infant milk formula production. The close proximity of our production facilities to our dairy milk suppliers ensures the freshness is optimally preserved, whereby the milk is utilized within 24 hours of receipt. According to the F&S Report, we are the only infant milk formula provider that participated in the prestigious National 863 Program, also known as the State High-technology Development Plan (國家高技術研究發展計劃), a PRC Government funded program intended to stimulate the development of advanced technologies. As of the Latest Practicable Date, we are in the process of further developing milk products for infants and adults, with more than ten products in the pipeline targeted to be launched over the next few years.

As a result of our continuous efforts across these initiatives, we have solidified our reputation as a premium infant milk formula brand and have generated significant demand for our high-end products, subsequently driving our revenue growth during the Track Record Period. For the years ended December 31, 2016, 2017 and 2018, our revenue was RMB3,724.4 million, RMB5,887.3 million and RMB10,391.9 million, respectively, and for the three months ended March 31, 2018 and 2019, our revenue was RMB1,968.9 million and RMB2,756.0 million, respectively. Our profit for the years ended December 31, 2016, 2017 and 2018 was RMB406.2 million, RMB1,160.2 million and RMB2,242.3 million, respectively, and for the three months ended March 31, 2018 and 2019, our profit was RMB621.1 million and RMB771.0 million, respectively.

Our Products

During the Track Record Period, we primarily produced and sold a broad range of infant formula products, as well as other products to a lesser extent. Our infant formula products are grouped into two main product categories, namely, our high-end infant formulas and regular infant formulas. Our high-end infant formulas product series comprise our super-premium Astrobaby, super-premium Organic Zhenzhi and premium product series. Our regular infant formula products target a more cost conscious consumer base and contain the essential nutrients for infant development. We also manufacture and sell a range of adult milk powders, liquid milk products, goat milk infant formula and soybean powder, among others. In early 2018, we acquired the retail health business of Vitamin World in order to seek opportunities to diversify our businesses.

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The following table sets forth a breakdown of our revenue by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Infant milk formula products										
High-end infant milk formula product series										
Super-premium										
Astrobaby	711,464	19.1%	2,453,725	41.7%	5,108,200	49.2%	910,126	46.2%	1,205,954	43.8%
Super-premium Organic Zhenzhi ⁽¹⁾	–	–	49,616	0.8%	357,382	3.4%	48,450	2.5%	116,126	4.2%
Premium product series	874,552	23.5%	1,292,076	22.0%	1,192,054	11.5%	289,120	14.7%	490,207	17.8%
Sub-total for high-end infant milk formula product series	1,586,016	42.6%	3,795,417	64.5%	6,657,636	64.1%	1,247,696	63.4%	1,812,287	65.8%
Regular infant milk formula product series	1,594,912	42.8%	1,621,214	27.5%	2,541,562	24.4%	502,991	25.5%	661,437	24.0%
Sub-total	3,180,928	85.4%	5,416,631	92.0%	9,199,198	88.5%	1,750,687	88.9%	2,473,724	89.8%
Other dairy products⁽²⁾	543,453	14.6%	470,629	8.0%	550,383	5.3%	93,503	4.8%	124,055	4.5%
Nutritional supplement products⁽³⁾	–	–	–	–	642,336	6.2%	124,688	6.3%	158,225	5.7%
Total revenue	3,724,381	100.0%	5,887,260	100.0%	10,391,917	100.0%	1,968,878	100.0%	2,756,004	100.0%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

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

(3) We started recognizing revenue for nutritional supplement products after the acquisition of Vitamin World in mid-January 2018.

SUMMARY

We price our products based on various factors including premium ingredients, market position and competing brands. The following table sets forth the gross profit and gross profit margin of our products by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(In thousands of RMB, except percentages)									
	(unaudited)									
Infant milk formula products										
High-end infant milk formula product series										
Super-premium Astrobaby	537,053	75.5%	1,906,807	77.7%	4,502,599	79.3%	756,886	83.2%	855,745	71.0%
Super-premium Organic Zhenzhi ⁽¹⁾	–	–	28,645	57.7%	230,022	64.4%	33,066	68.2%	76,486	65.9%
Premium product series	555,984	63.6%	878,775	68.0%	808,506	67.8%	192,539	66.6%	320,471	65.4%
Sub-total for high-end infant milk formula product series	1,093,037	68.9%	2,814,227	74.1%	5,091,127	76.5%	982,491	78.7%	1,252,702	69.1%
Regular infant milk formula product series	873,027	54.7%	947,096	58.4%	1,593,051	62.7%	303,880	60.4%	389,849	58.9%
Sub-total	1,966,064	61.8%	3,761,323	69.4%	6,684,178	72.7%	1,286,371	73.5%	1,642,551	66.4%
Other dairy products	67,896	12.5%	29,137	6.2%	104,275	18.9%	10,888	11.6%	41,064	33.1%
Nutritional supplement products	–	–	–	–	230,637	35.9%	67,097	53.8%	83,466	52.8%
Total gross profit and gross profit margin	2,033,960	54.6%	3,790,460	64.4%	7,019,090	67.5%	1,364,356	69.3%	1,767,081	64.1%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

SUMMARY

Customers, Sales and Marketing

Our products are sold nationwide through our extensive sales and distribution network that covers most regions in China. During the Track Record Period, we sold our products to (i) distributors, (ii) retailers, and (iii) e-commerce platforms and end consumers through e-commerce channels. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, the total number of points of sale covered by our distributors and retailers was over 58,000, 67,000, 90,000 and 92,000, respectively. During the Track Record Period, a significant portion of our revenue was generated through sales to our distributors, accounting for 77.6%, 76.7%, 67.5% and 69.4% of our total revenue for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively. Our products are also sold directly on some of the largest e-commerce platforms, such as Tmall, JD.com, and Suning.com, in addition to our own website and mobile application, such as WeChat. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, sales to our five largest customers accounted for 4.4%, 6.1%, 8.1% and 6.2% of our total revenue, respectively.

We have adopted a multi-channel strategy that enables us to market our products to reach a wider consumer base with different purchasing power and habits, including: (i) holding face-to-face seminars for in-depth education, including Mother's Love (媽媽的愛) seminars, Carnival (嘉年華) and Shows (秀), (ii) maximizing online interactivity with consumers, by creating user-oriented virtual communities on our WeChat accounts to serve our member, and (iii) conducting targeted and results-driven exposure on media, by selectively advertising on highly-rated television programs with targeted age-group audiences and appointing international celebrity, Zhang Ziyi (章子怡). We have also established a customer relationship management (CRM) system to understand the needs and preferences to consumers. In 2018, we held over 300,000 face-to-face seminars, including over 5,500 Mother's Love seminars which had over 600,000 attendees in total. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our offline events expenses, which primarily consisted of face-to-face seminars, amounted to RMB233.4 million, RMB441.0 million, RMB865.0 million, RMB38.3 million and RMB41.2 million, respectively.

Suppliers and Raw Materials

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, purchases from our five largest suppliers accounted for 49.2%, 50.6%, 49.6% and 45.5% of our total purchase, respectively. Fresh milk is the primary raw material that we use in our infant milk formula production. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we incurred raw material costs of RMB1,441.9 million, RMB1,826.0 million, RMB2,607.6 million and RMB815.0 million, respectively, representing 85.3%, 87.1%, 77.3% and 82.4% of our cost of sales, respectively. During the Track Record Period, YST Group was our largest supplier. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, purchases from YST Group amounted to RMB456.4 million, RMB531.2 million, RMB762.9 million and RMB182.4 million, respectively, equivalent to 84.2%, 83.5%, 86.8% and 88.1% of our total fresh milk procurement costs, respectively. We believe that our fresh milk supply agreements with YST Group are, and have been, entered into on normal commercial terms that are fair and reasonable. We also procure other raw materials, including whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose, for our infant milk formula products.

Our Production Facilities

As of March 31, 2019, we owned and operated five production facilities to manufacture our products, namely, our Kedong Plant, Gannan Plant, Longjiang Plant, Feihe Zhenlai Plant and Baiquan

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Plant. Other than Feihe Zhenlai Plant which is located in Jilin province, all of our production facilities are located in Heilongjiang province. The total designed annual production capacity of infant milk formula and adult milk powder products increased by 22,000 tonnes from 78,000 tonnes in 2016 and 2017 to 100,000 tonnes in 2018, as we improved and upgraded the production facilities in our Gannan Plant, Longjiang Plant and Feihe Zhenlai Plant in 2018. In the first quarter of 2019, the total utilization rate of our production facilities was 77.2%. We regularly upgrade and expand our production facilities to meet our production needs. The construction of our Kingston Plant, Tailai Plant and Jilin Plant and the expansion of our Kedong Plant and Longjiang Plant have commenced.

Research and Development

During the Track Record Period, our research and development efforts focused on continuing to improve our products in two key areas - making our products closer to the breast milk of Chinese mothers and more suitable for Chinese babies' biological physique. In recent years, we also engaged in a number of research projects with various research entities, including projects to study and build a Chinese breast milk database, to develop infant milk formula that closely resemble breast milk of Chinese mothers. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our research and development costs amounted to RMB13.8 million, RMB14.7 million, RMB108.9 million and RMB29.6 million, respectively. Our research and development costs are charged to our statements of profit and loss as incurred. We expect our investment in research and development to continue at levels in line with our plans to develop new products and enhance our existing products.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

We are committed to sustaining our market leadership with the highest quality and innovative portfolio of products that cater to the development needs of Chinese babies. We believe that our historical success and our ability to capitalize on future growth opportunities are attributable to the following strengths: (i) leading brand with one of the fastest-growing super-premium products among major brands; (ii) well-managed nationwide distribution network with precise inventory tracking; (iii) unique customer experience and creative marketing initiatives; (iv) product innovation and robust pipeline of new launches; (v) stringent safety control standards with proven track record; (vi) consistent commitment to high quality raw materials; and (vii) visionary, experienced and committed management team with a proven record in delivering growth and profitability.

Our vision is to further solidify our market leadership as the most trusted and reputable infant milk formula and nutrition brand, while continuing to expand our product offering. To that end, we intend to implement a business strategy with the following key components: (i) solidify market leadership through accelerating penetration in upper-tier cities and expansion in Southern China; (ii) broaden product offering with new variety to infants throughout their development stage and to pre and post-natal mothers; (iii) innovate and trade-up through new product launches and targeted marketing initiatives creating a "one-stop shop" platform for consumers; and (iv) continue to enhance our production efficiency and invest in new facilities.

RISK FACTORS

There are certain risks relating to an investment in the [REDACTED]. These risks can be characterized as: (i) risks relating to our business; (ii) risks relating to industry; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the [REDACTED].

SUMMARY

The following are some of the major risks that we face: (i) we may not be able to continue to achieve a high rate of growth in revenue and profitability; (ii) we may experience negative publicity or media reports related to product tampering, adulteration, counterfeiting and quality control concerns; (iii) we may experience customer complaints or product liability and recall claims for any undetected defects in our products; (iv) we rely on a limited number of dairy producers as our major suppliers of fresh milk, and any shortage or interruption in supply from such suppliers could delay our production and reduce sales of our products; (v) disruption of our production operations and supply chain could materially and adversely affect our business; (vi) we are exposed to risks relating to our current expansion or plans for future expansion into overseas markets; (vii) our operating results may be materially and adversely affected by changes in prices and quality of raw materials; (viii) we may fail to respond to changes in consumer preferences and market trends and introduce commercially viable products.

SUMMARY OF KEY FINANCIAL INFORMATION

The following tables present our summary of consolidated financial information as of and for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2019. We have derived this summary from our financial information set forth in the Accountants' Report in Appendix I to this document. You should read this summary in conjunction with our consolidated financial information included in the Accountants' Report in Appendix I to this document, including the accompanying notes, and the information set forth in "Financial Information" of this document.

Summary Consolidated Statements of Profit or Loss

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Revenue	3,724,381	5,887,260	10,319,917	1,968,878	2,756,004
Cost of sales	<u>(1,690,421)</u>	<u>(2,096,800)</u>	<u>(3,372,827)</u>	<u>(604,522)</u>	<u>(988,923)</u>
Gross profit	2,033,960	3,790,460	7,019,090	1,364,356	1,767,081
Other income and gains, net	359,235	402,785	555,835	163,227	154,816
Selling and distribution expenses	(1,369,520)	(2,139,107)	(3,661,314)	(570,107)	(664,527)
Administrative expenses	(230,858)	(360,540)	(580,289)	(92,761)	(147,326)
Other expenses	(171,097)	(21,128)	(86,076)	(3,481)	(8,180)
Finance costs	<u>(26,773)</u>	<u>(21,409)</u>	<u>(58,675)</u>	<u>(11,835)</u>	<u>(14,548)</u>
Profit before tax	594,947	1,651,061	3,188,571	849,399	1,087,316
Income tax expense	<u>(188,795)</u>	<u>(490,835)</u>	<u>(946,317)</u>	<u>(228,322)</u>	<u>(316,348)</u>
Profit for the year / period	<u>406,152</u>	<u>1,160,226</u>	<u>2,242,254</u>	<u>621,121</u>	<u>770,968</u>

SUMMARY

The table below sets forth a breakdown of the components of our cost of sales for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	(unaudited)									
Dairy product raw materials	1,441,868	85.3%	1,826,003	87.1%	2,607,596	77.3%	486,079	80.4%	815,028	82.4%
Nutritional Supplement products	-	-	-	-	411,699	12.2%	57,591	9.5%	74,759	7.6%
Manufacturing overheads	146,638	8.7%	146,528	7.0%	186,676	5.5%	28,953	4.8%	44,878	4.5%
Labor costs	56,005	3.3%	56,815	2.7%	57,368	1.7%	8,571	1.4%	25,618	2.6%
Others ⁽²⁾	45,910	2.7%	67,454	3.2%	109,488	3.2%	23,328	3.9%	28,640	2.9%
Total cost of sales	1,690,421	100.0%	2,096,800	100.0%	3,372,827	100.0%	604,522	100.0%	988,923	100.0%

(1) Other raw materials mainly includes DHA powder, lactose, ARA powder, walnut oil and other raw materials used to manufacture our products.

(2) Others represent primarily miscellaneous tax expense.

Summary Consolidated Statements of Financial Position

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	<i>(In thousands of RMB)</i>			
Current assets	3,014,224	4,422,620	7,294,725	7,619,356
Current liabilities	2,039,201	3,089,477	4,860,234	4,409,469
Net current assets	975,023	1,333,143	2,434,491	3,209,887
Non-current assets	1,680,723	2,590,938	4,562,710	4,929,955
Non-current liabilities	278,806	339,068	1,209,717	1,581,535
Total equity	2,376,940	3,585,013	5,787,484	6,558,307

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Summary Consolidated Statements of Cash Flows

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Net cash flows from/(used in) operating activities	129,094	2,205,574	3,121,196	793,059	(126,324)
Net cash flows from/(used in) investing activities	947,343	(1,680,076)	(3,272,449)	(1,025,590)	279,620
Net cash flows from/(used in) financing activities	(395,455)	222,174	(509,032)	169,064	449,232
Net increase/(decrease) in cash and cash equivalents	680,982	747,672	(660,285)	(63,467)	602,528
Cash and cash equivalents at beginning of year/period	133,994	816,769	1,565,574	1,565,574	895,854
Effect of foreign exchange rate changes, net	1,793	1,133	(9,435)	820	(8,124)
Cash and cash equivalents at end of year/period	816,769	1,565,574	895,854	1,502,927	1,490,258

Key financial Ratios

	For the year ended/ As of December 31,			For the three months ended/ As of March 31,
	2016	2017	2018	2019
Gross profit margin ⁽¹⁾	54.6%	64.4%	67.5%	64.1%
Net profit margin ⁽²⁾	10.9%	19.7%	21.6%	28.0%
Return on average equity ⁽³⁾	18.6%	38.9%	47.8%	N/M
Return on average assets ⁽⁴⁾	8.7%	19.8%	23.8%	N/M
Current ratio ⁽⁵⁾	1.5	1.4	1.5	1.7
Quick ratio ⁽⁶⁾	1.3	1.3	1.4	1.6
Gearing ratio ⁽⁷⁾	(0.35)	(0.68)	(0.65)	(0.66)

SUMMARY

- (1) Equals gross profit for the year/period divided by revenue for that year/period and multiplied by 100%.
- (2) Equals profit for the year/period divided by revenue for that year/period and multiplied by 100%.
- (3) Equals profit for the year/period divided by average balance of total equity at the beginning and the end of that year/period and multiplied by 100%.
- (4) Equals profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period and multiplied by 100%.
- (5) Equals current assets divided by current liabilities as of the same date.
- (6) Equals current assets less inventories and divided by current liabilities as of the same date.
- (7) Equals net debt divided by the total equity as of the same date.

OUR CONTROLLING SHAREHOLDERS

Immediately following the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme), Garland Glory will be entitled to exercise voting rights of approximately [REDACTED] of the issued share capital of the Company. Garland Glory is wholly-owned by LYB International, which is in turn held by Harneys Trustees as the trustee of Leng Family Trust, a discretionary trust established by Mr. Leng (as the settlor and the only discretionary object). Accordingly, each of Mr. Leng, LYB International and Garland Glory is our Controlling Shareholder.

[REDACTED] INVESTMENTS

NHPEA subscribed for a total of 6,033,051 DIF Preference Shares in 2013. During 2015 to 2019, certain shareholders of DIF conducted transfer of its DIF Ordinary Shares. See "History, Development and Reorganization — Major Changes in Shareholding of DIF Holding Prior to the Reorganization — [REDACTED] Investments."

[REDACTED] SHARE OPTION SCHEME

Pursuant to the resolution of our then Shareholders passed on [●], 2019, we have adopted the [REDACTED] Share Option Scheme, the principal terms of which are set out in "Appendix IV — Statutory and General Information — D. [REDACTED] Share Option Scheme." As of the Latest Practicable Date, all the options to subscribe for an aggregate of [REDACTED] Shares had been granted under the [REDACTED] Share Option Scheme, and all of them remained outstanding. The exercise price in respect of each Share to be subscribed upon the exercise of the options granted under the [REDACTED] Share Option Scheme is US\$[REDACTED] per Share. The Shares subject to the outstanding options granted under the [REDACTED] Share Option Scheme representing approximately [REDACTED] of the enlarged share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). On the basis that all the Shares which shall be [REDACTED] under the [REDACTED] (assuming the [REDACTED] is not exercised) were deemed to have been in [REDACTED] throughout the three months ended March 31, 2019, the earnings per Share for the three months ended March 31, 2019 would be RMB0.082 (unaudited). Based on the foregoing, assuming that all the [REDACTED] Share Options granted under the [REDACTED] Share Option Scheme had been exercised and additional Shares were deemed to have been in [REDACTED] during the three months ended March 31, 2019, there will be a dilution effect of approximately [REDACTED] on

SUMMARY

the audited earnings per Share for the three months ended March 31, 2019 to RMB[REDACTED] (unaudited). No further [REDACTED] Share Options will be granted under the [REDACTED] Share Option Scheme prior to the [REDACTED].

PRIOR LISTING AND PRIVATIZATION

In April 2005, the shares of Flying Crane U.S. became listed on the NYSE Archipelago Exchange. In June 2009, the shares of Flying Crane U.S. became listed on the NYSE. After completion of the Merger, the shares of Flying Crane U.S. were removed from listing on the NYSE in June 2013. See "History, Development and Reorganization — History and Development — Prior Quotation on the OTCBB and Listing on the NYSE."

RESTRUCTURING

Our Group underwent a series of restructuring steps in 2014 and 2015 for the following reasons: (i) convenience for overseas operation expansion, (ii) attracting international talents, (iii) efficient access to capital markets and fund raising, and (iv) entitlement to domestic benefits, which are further elaborated in "History, Development and Reorganization Change of Group Structure After the FCUS Privatization and During the Track Record Period Restructuring of Companies". The principal steps include the following: (i) Feihe HK and Feihe Nutrition HK were incorporated in Hong Kong as the wholly-owned subsidiaries of Flying Crane U.S. and Feihe Nutrition U.S., respectively, (ii) the Company became the sole shareholder of the newly incorporated Platinum Commerce HLJ (a PRC company), which held the newly incorporated Platinum Holding HLJ (a BVI company), which held the newly incorporated Platinum International HLJ (a BVI company), (iii) the share capital of Feihe HK and Feihe Nutrition HK were reclassified into class "A" preferred shares and class "B" ordinary shares, (iv) Feihe HK acquired the entire equity interest in Feihe Gannan from Flying Crane U.S. in consideration for 99 class "A" preferred shares in Feihe HK being issued to Flying Crane U.S., (v) Feihe Nutrition HK acquired the entire equity interest in Feihe HLJ from Feihe Nutrition U.S. in consideration for 99 class "A" preferred shares in Feihe Nutrition HK being issued to Feihe Nutrition U.S., (vi) the Company transferred the entire equity interest in Flying Crane U.S. to Platinum International HLJ in consideration for 1 share in Platinum International HLJ to Platinum Holding HLJ, and (vii) Platinum Holding HLJ subscribed for 9 class "B" ordinary shares in Feihe HK for a total subscription price of HK\$50,400,000 and 9 class "B" ordinary shares in Feihe Nutrition HK for a total subscription price of HK\$24,900,000. After the completion of these restructuring steps, Platinum Holding HLJ controlled Feihe Gannan and Feihe HLJ through its voting power vested in the class "B" ordinary shares in Feihe HK and Feihe Nutrition HK, respectively.

We engaged a global "big four" accounting firm as our U.S. tax adviser (the "U.S. Tax Adviser") to advise us on the U.S. federal income tax implications of the restructuring steps described above. We obtained a tax opinion from our U.S. Tax Adviser around the completion of the restructuring and a bring-down tax opinion subsequently when we explored various financing options, that the restructuring steps we took (i) were more likely than not qualified as a tax-neutral reorganization within the meaning of the U.S. Internal Revenue Code, and (ii) should not be treated as a "surrogate foreign corporation" (in which case Feihe Gannan and Feihe HLJ would be deemed as domestic U.S. companies) within the meaning of the U.S. Internal Revenue Code for U.S. federal income tax purposes. Based on the advice from our U.S. Tax Adviser, we adopted a tax-neutral treatment corresponding to the applicable U.S. tax laws and regulations set forth in the tax opinion. Tax-neutral treatment means that undertaking such restructuring steps should not result in any tax costs. Based on our discussions with our U.S. Tax Adviser,

SUMMARY

the “more likely than not” and “should” level of confidence language are standard tax opinion language used to indicate that we should be able to rely on their opinion for the purpose of establishing a reasonable belief that the tax treatment outlined in their opinion was the proper treatment. Considering that our restructuring steps more likely than not tax-neutral treatment as of the Latest Practicable Date, we did not make any provision for a tax reserve for the restructuring. We have disclosed the details and basis of the restructuring and relevant tax treatment in our annual tax filings of 2015 with the IRS in September 2016. As advised by our U.S. Tax Adviser, in general, the statute of limitations for the IRS to bring any collection action for corporate income tax is three years from the due date of the tax return or the date on which the return was filed, whichever is later, other than in exceptional circumstances. As of the Latest Practicable Date, save for notices from, and communications with, the IRS in the ordinary course of business, we had not received any notice from the IRS on the restructuring. Nonetheless, we may be subject to certain U.S. federal income tax risks in relation to the 2015 tax filing prior to the expiry of the statute of limitations, which is in March 2020. For more information, see “Risk Factors — Risks Relating to Our Business — We cannot assure you that we will not be challenged by U.S. tax authorities in relation to our restructuring.”

ACQUISITIONS AND DISPOSAL

In January 2018, we acquired the retail health care business of Vitamin World for a consideration of approximately US\$28.0 million. Subsequently, we started to market and sell nutritional supplement from Vitamin World. The consideration was fully settled by the Company by cash payment on January 18, 2018 with bank borrowings and its own funds. The above acquisition has been properly and legally completed and has obtained all necessary regulatory approvals.

In December 2016, we disposed Guanshan Dairy at a consideration of RMB84 million. Such consideration was fully settled by cash payment on April 11, 2017. The above disposal has been properly and legally completed, and no regulatory approval was required for such disposal.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial, operational or trading positions or prospects since March 31, 2019, being the date of our consolidated financial statements as set out in “Appendix I — Accountants’ Report” of this Document, and up to the date of this Document.

SUMMARY

[REDACTED] STATISTICS

The statistics in the following table are based on the assumptions that: (i) the [REDACTED] is completed and [REDACTED] Shares are [REDACTED] and sold in the [REDACTED]; (ii) the [REDACTED] is not exercised and without taking into account any Shares which may be [REDACTED] upon exercised of any options which have been granted under the [REDACTED] Share Option Scheme; and (iii) [REDACTED] Shares are [REDACTED] and outstanding upon completion of the [REDACTED]:

	Based on an [REDACTED] of HK\$[REDACTED] per Share	Based on an [REDACTED] of HK\$[REDACTED] per Share
Market capitalization of Share after completion of the [REDACTED]	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited pro forma adjusted consolidated net tangible assets of the Company attributable to the owners of the Company per Share ⁽¹⁾	HK\$[REDACTED]	HK\$[REDACTED]

Note:

- (1) The unaudited pro forma adjusted consolidated net tangible assets of the Company attributable to the owners of the Company per Share was calculated after adjustments as specified in “Appendix II — Unaudited Pro Forma Financial Information.”

USE OF PROCEEDS

Assuming an [REDACTED] of HK\$[REDACTED] per Share (being the mid-point of the stated range between HK\$[REDACTED] and HK\$[REDACTED] per Share), we estimate that we will receive net proceeds of approximately HK\$[REDACTED] million from the [REDACTED] after deducting the [REDACTED] commissions and other estimated expenses in connection with the [REDACTED], assuming the [REDACTED] is not exercised. In line with our strategies, we intend to use our proceeds from the [REDACTED] for the purposes and in the amounts set out below: [REDACTED] See “Future Plans and [REDACTED]” of this document for details of our use of proceeds from the [REDACTED].

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DIVIDEND

We did not pay or declare any dividend during the Track Record Period. On [●], 2019, the Company declared a special dividend of HK\$3 billion out of its historical retained profit to its shareholders. We intend to distribute to our Shareholders no less than 30% of our net profit for each financial year going forward after [REDACTED], subject to our future investment plans. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law.

DISTRIBUTABLE RESERVES

As of March 31, 2019, our Group had retained profit of RMB5,503.7 million under IFRS, as reserves available for distribution to our equity shareholders.

[REDACTED] EXPENSES

The [REDACTED] commission, SFC transaction levies and Hong Kong Stock Exchange trading fees shall be shared by us and the [REDACTED] on a pro rata basis, and we shall be solely responsible for other [REDACTED] expenses. [REDACTED] expenses to be borne by us are estimated to be approximately RMB[REDACTED] (including [REDACTED] commission). [REDACTED] expenses to be borne by the [REDACTED] are estimated to be approximately RMB[REDACTED], assuming that the [REDACTED] is not exercised. As of March 31, 2019, approximately RMB[REDACTED] has been charged to our consolidated statements of profit or loss as administrative expenses, and approximately RMB[REDACTED] was capitalized as deferred expenses, which is expected to be charged against equity upon successful [REDACTED] under the relevant accounting standards. We expect to incur additional [REDACTED] expenses of approximately RMB[REDACTED] after March 31, 2019, of which RMB[REDACTED] is expected to be recognized as administrative expenses and RMB[REDACTED] is expected to be recognized as a deduction in equity. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] expenses to have a material adverse impact on our results of operation for the year ending December 31, 2019.

HISTORICAL NON-COMPLIANCES

Except for the non-compliance incidents disclosed below, we are advised by our PRC Legal Advisers that, during the Track Record Period, we had complied with relevant PRC laws and regulations in all material respects:

- **Administrative Sanctions on Feihe Zhenlai.** We acquired Feihe Zhenlai on December 24, 2015. Prior to our acquisition of Feihe Zhenlai and on December 8, 2015, Feihe Zhenlai was ordered by Jilin FDA to suspend production and sales and to rectify issues relating to production facility conditions, raw materials procurement, production process control, inventory and testing and inspection, among others. Feihe Zhenlai was notified that it could resume production on January 6, 2016. On April 6, 2016, Feihe Zhenlai received notices of administrative sanctions from Jilin FDA citing that an inspection conducted prior to our acquisition and on December 9, 2015 found (i) that certain products manufactured by Feihe Zhenlai were mislabeled with incorrect expiration dates, and (ii) that Feihe Zhenlai had

SUMMARY

added self-produced nitrogen in its products as food additives without obtaining the relevant nitrogen production permits. In relation to the above incidents, Feihe Zhenlai was ordered by Jilin FDA to suspend production and pay a total administrative penalty of approximately RMB0.7 million, which was fully paid on April 13, 2016. We also applied for and obtained the relevant production permit for food additives after receipt of such notice.

- ***Social insurance and housing provident fund contributions.*** Prior to April 2016, we did not make full contributions to social insurance and housing provident funds for a certain number of our employees.
- ***Inter-company loans.*** During the Track Record Period, we entered into certain agreements to provide inter-company loans directly to Independent Third Parties, which did not comply with the Lending General Provisions (貸款通則). For the year ended December 31, 2016, our other receivables in relation to inter-company loans amounted to RMB128.0 million. We have ceased to provide inter-company loans since May 2017 and do not plan to provide any inter-company loans going forward. As of December 31, 2018, all of our inter-company loans had been settled and repaid in full. Interest income we received in relation to inter-company loans amounted to RMB22.5 million for the year ended December 31, 2016.

To address historical incidents of non-compliance, we implemented a number of internal control and risk management measures. For a detailed discussion of our non-compliance incidents and measures taken to rectify them as well as to improve our internal control and risk management, see “Business – Legal Proceedings and Non-compliances — Non-compliances” and “Business — Risk Management and Internal Control.”

DEFINITIONS

“Adroit Shipping”	Adroit Shipping Limited, a company established in BVI on November 12, 2015, wholly-owned by Mr. Cai Fangliang, and a 1.33% shareholder of DIF Holding as of the Latest Practicable Date
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Aiben HLJ”	Heilongjiang Aiben Nutritional Food Co., Ltd.* (黑龍江愛本營養食品有限公司), a company established in November 2015 that was a distributor controlled by Mr. Cai Fangliang and a connected person until it became an Independent Third Party in April 2017 due to a change in shareholding
“Aiyingquan HLJ”	Heilongjiang Aiyingquan International Trading Co., Limited (黑龍江愛嬰全國際貿易有限公司), a company established in the PRC on October 30, 2009 and an indirect wholly-owned subsidiary of our Company until its deregistration on April 13, 2015
	[REDACTED]
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), a summary of which is set out in “Appendix III – Summary of the Constitution of the Company and Cayman Companies Law” to this Document
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Baby Mom HLJ”	Baby Mom (Heilongjiang) Technology Co., Limited* (母愛時光(黑龍江)科技有限公司), a company established in the PRC on May 13, 2010, which is a direct wholly-owned subsidiary of Baby Mom Holding Limited* (母愛時光控股有限公司) and an Independent Third Party
“Baby Mom QQH”	Baby Mom (Qiqihar) Nutraceutical Food Co., Limited* (母愛時光(齊齊哈爾)營養食品有限公司), a company established in the PRC on September 23, 2014 and an indirect wholly-owned subsidiary of the Company until its deregistration in October 12, 2017

DEFINITIONS

"Baiquan Plant"	our production facility located in Baiquan county, Qiqihar city, Heilongjiang province, the PRC, which we acquired from Zhonghegu Nutraceutical Food in December 2015
"Beijing Biotech"	Beijing Feihe Biotechnology Scientific and Commercial Co., Limited (北京飛鶴生物科技有限公司), a company established in the PRC on June 8, 2004, and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
"Blessedness Cipher"	Blessedness Cipher Limited, a company incorporated in BVI on June 7, 2017, wholly-owned by Mr. Zhu Tianlong (朱天龍), and a 0.11% shareholder of DIF Holding as of the Latest Practicable Date
"Blingbling Treasure"	Blingbling Treasure Limited, a company incorporated in BVI on November 30, 2018, wholly-owned by Mr. Li Chen (李晨), and a 0.18% shareholder of DIF Holding as of the Latest Practicable Date
"Blossoming Lotus"	Blossoming Lotus Investment Co. Ltd., a company incorporated in BVI on May 13, 2011, wholly-owned by Ms. Lin Lan (林嵐), and a 0.67% shareholder of DIF Holding as of the Latest Practicable Date
"Board" or "Board of Directors"	our board of Directors
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"C\$"	Canadian dollars, the lawful currency of Canada
"CAGR"	compound annual growth rate
"Canada Kingston Dairy"	Canada Kingston Dairy ULC, a company incorporated under the laws of British Columbia, Canada on October 31, 2016 and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
"Canada Royal Milk"	Canada Royal Milk ULC, a company incorporated under the laws of British Columbia, Canada on October 31, 2016 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date

DEFINITIONS

“Canada Royal Milk HK”	Canada Royal Milk (Hong Kong) Limited (加拿大皇家妙克(香港)有限公司), a company incorporated in Hong Kong on June 21, 2019 and an indirectly wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Canadian Dairy Commission”	a Canadian government Crown corporation under Canada’s Ministry of Agriculture
“Catalogue”	the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) jointly issued by the NDRC and the MOFCOM, as amended from time to time
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant
“CCASS Operational Procedure”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA”	China Food and Drug Administration (國家食品藥品監督管理局), whose duty has recently been integrated and brought under the SAMR according to the Decision of the First Session of the 13th National People’s Congress on the Institutional Reform Plan of the State Council 《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》 issued by the NPC on March 17, 2018, and, if the context requires, includes its successor, the SAMR
“Chairman”	the chairman of the Board

DEFINITIONS

“China” or “PRC”	the People’s Republic of China, except where the context requires otherwise excluding Hong Kong, Macau and Taiwan
“Circular 37”	the Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles 《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》
“Circular 7”	the Announcement of SAT on Several Issues Concerning Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises 《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》
“Clear Stage”	Clear Stage Limited, a company established in BVI on August 25, 2014, wholly-owned by Ms. Leng Shuang, and is a 4.15% shareholder of DIF Holding as of the Latest Practicable Date
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Leng, LYB International and Garland Glory
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Dalian Hewang”	Dalian Hewang Commerce Co., Limited* (大連鶴王商貿有限公司), a company established in February 2007 that was a distributor controlled by Ms. Leng Youhua (冷有華) (a sister of Mr. Leng) and a connected person as of the Latest Practicable Date
“Dasheng Limited”	Dasheng Limited (達生有限公司), a company established in the BVI on September 3, 2009 with limited liabilities. Mr. Leng, Mr. Liu Shenghui and Mr. Lin Hua each hold approximately 33.33% equity interests in it
“DIF Holding”	Diamond Infant Formula Holding Limited, an exempted company incorporated in the Cayman Islands with limited liability on October 24, 2012 and the sole registered Shareholder of the Company as of the Latest Practicable Date
“DIF Ordinary Share(s)”	ordinary share(s) in the share capital of DIF Holding
“DIF Preference Share(s)”	preference share(s) in the share capital of DIF Holding
“DIF Share Options”	options 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
“DIF Share Swap”	the swap of the entire issued share capital of our Company to the existing shareholders of DIF Holding as further described in the section headed “History, Development and Reorganization – Reorganization” in this Document
“Director(s)”	director(s) of our Company
“Dream Lantern”	Dream Lantern Limited, a company incorporated in BVI on June 12, 2017, wholly-owned by Mr. Lu Guang (盧光) and a 0.22% shareholder of DIF Holding as of the Latest Practicable Date
“EIT Law”	the PRC Enterprise Income Tax Law 《中華人民共和國企業所得稅法》 as amended from time to time
“FCUS Privatization”	the privatization of Flying Crane U.S., which was completed on June 27, 2013
“FCUS Privatization Proposal”	the proposal submitted by Mr. Leng and NHPEA to Flying Crane U.S. on October 3, 2012 for the FCUS Privatization

DEFINITIONS

“Feihe Gannan”	Gannan Flying Crane Dairy Products Co., Ltd.* (飛鶴(甘南)乳品有限公司), a company established in the PRC on March 22, 2006 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Harbin”	Feihe (Harbin) Dairy Co., Ltd* (飛鶴(哈爾濱)乳品有限公司), a company established in the PRC on April 24, 2019 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe HK”	Feihe International (HK) Limited (飛鶴國際(香港)有限公司), a company incorporated in Hong Kong with limited liability on April 22, 2014 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe HLJ”	Heilongjiang Feihe Dairy Co., Limited* (黑龍江飛鶴乳業有限公司), a company established in the PRC on August 21, 1996 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe International”	Feihe International, Inc., a corporation incorporated in the state of Delaware, the United States on December 23, 2014 and a direct wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Jilin”	Feihe (Jilin) Dairy Products Co., Limited* (飛鶴(吉林)乳品有限公司), a company established in the PRC on June 5, 2017 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Longjiang”	Feihe (Longjiang) Dairy Products Co., Limited* (飛鶴(龍江)乳品有限公司), a company established in the PRC on September 27, 2013 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Meiweishi”	Meiweishi (Beijing) Health Management Co., Ltd.* (美維仕(北京)健康管理有限公司), a company established in the PRC on August 7, 2018 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date

DEFINITIONS

“Feihe Nutrition HK”	Feihe China Nutrition (Hong Kong) Limited* (飛鶴中國營養(香港)有限公司), a company incorporated in Hong Kong with limited liability on December 23, 2014 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Nutrition Laboratory”	the joint research laboratory we sponsored to establish at the Beth Israel Deaconess Medical Center of Harvard Medical School
“Feihe Nutrition U.S.”	Feihe China Nutrition Company (飛鶴中國營養公司*) (formerly known as American Flying Crane Corporation and American Dairy Holdings, Inc.), a corporation incorporated in the state of Delaware, the United States, on January 15, 2002 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe QQH”	Qiqihar Feihe Soybean Co., Limited* (齊齊哈爾飛鶴大豆食品科技有限公司), a company established in the PRC on September 29, 2007 and an indirect wholly-owned subsidiary of the Company until its deregistration on January 27, 2015
“Feihe Tailai”	Feihe Tailai Dairy Co., Limited* (飛鶴(泰來)乳品有限公司), a company established in the PRC on July 25, 2016 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Zhenlai”	Feihe Zhenlai Dairy Co., Limited* (飛鶴(鎮賚)乳品有限公司) formerly known as Jilin Feihe Alfbeta Dairy Co., Limited* (吉林飛鶴艾倍特乳業有限公司), a company established in the PRC on November 4, 2013 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Feihe Zhenlai Plant”	our production facility located in Zhenlai county, Baicheng city, Jilin province, the PRC
“FIDA Promotion”	FIDA Promotion Limited, a company established in the BVI on November 26, 2015, wholly-owned by Ms. Zhu Hongli (朱紅莉), sister of Mr. Leng’s spouse and a 0.45% shareholder of DIF Holding as of the Latest Practicable Date
“First DIF Share Option Scheme”	the first share option scheme adopted by DIF Holding on December 18, 2013

DEFINITIONS

“Flying Crane Langfang”	Langfang Flying Crane Dairy Products Co., Limited* (廊坊飛鶴乳業有限公司), a company established in the PRC on June 5, 2006 and an indirect wholly-owned subsidiary of our Company until its deregistration on October 9, 2014
“Flying Crane U.S.”	Flying Crane International, Inc. (formerly known as Feihe International, Inc., American Dairy, Inc. and Lazarus Industries, Inc.), a corporation incorporated in the state of Utah, the United States, on December 31, 1985, whose shares were listed on the OTCBB, the NYSE Archipelago Exchange and the NYSE, and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“F&S Report”	the report, written by Frost & Sullivan as commissioned by the Company containing an analysis of the dairy market and infant milk formula market in China for the period from 2014 to 2023 and other relevant economic data, as referred in the section headed “Industry Overview” in this Document
“Gannan Feedlots”	Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), formerly known as Heilongjiang Feihe Gannan Oumei Feedlots Co., Limited* (黑龍江飛鶴甘南歐美養殖牧場有限公司), a company established in the PRC on July 9, 2007; the entire equity interest in Gannan Feedlots was disposed of by us to the YST Group in September 2011
“Gannan Plant”	our production facility located in Gannan county, Qiqihar city, Heilongjiang province, the PRC
“Garland Glory”	Garland Glory Holdings Limited, a company incorporated in BVI with limited liability on October 23, 2012, which is wholly owned by LYB International, which in turn is wholly-owned by Harneys Trustees (the trustee of the Leng Family trust), a 50.64% shareholder of DIF Holding as of the Latest Practicable Date and is a Controlling Shareholder
“GDP”	gross domestic product (except as otherwise specified, all references to GDP growth rates are to real, as opposed to nominal, rates of GDP growth)

DEFINITIONS

“[REDACTED]”	the [REDACTED] and the [REDACTED]
“Grand Thrive”	Grand Thrive Group Limited (盛宏集團有限公司), a company incorporated in BVI with limited liabilities on April 23, 2018, which was wholly-owned by Mr. Wang Xuxiang (王續翔), an Independent Third Party
“Great Dipper”	Great Dipper Limited, a company incorporated in BVI with limited liabilities on March 1, 2019, wholly-owned by XN Crane as of the Latest Practicable Date and a 1.69% shareholder of DIF Holding as of the Latest Practicable Date
	[REDACTED]
“Green Energy BVI”	Green Energy Agricultural Company Limited, a company established in BVI on August 18, 2014 and a direct wholly-owned subsidiary of the Company until it was struck off by the Registrar of Corporate Affairs of BVI in May 2016
“Group”	our Company and its subsidiaries
“Guanshan Dairy”	Shaanxi Xiaoyang Miaoke Dairy Co., Ltd.* (陝西小羊妙可乳業有限公司), formerly known as Shaanxi Guanshan Longzhou Dairy Co., Limited* (陝西關山隴州乳業有限責任公司) and Shaanxi Feihe Guanshan Dairy Co., Limited* (陝西飛鶴關山乳業有限責任公司), a company established in the PRC on May 20, 2014 and a former 70%-owned subsidiary of Feihe HLJ prior to its disposal by the Group in December 2016. It is an Independent Third Party as of the Latest Practicable Date
“Guanshan Dairy Incident”	the administrative sanctions on Guanshan Dairy in relation to five batches of goat milk infant formula products failing to meet the relevant national standards during a quarterly inspection in 2015
“Guo Xin Investments”	Guo Xin Investments Limited (國鑫投資有限公司), a company incorporated in BVI with limited liability on March 7, 2012, which was wholly-owned by Mr. Xia JI, and a 1.44% shareholder of DIF Holding as of the Latest Practicable Date

DEFINITIONS

“Harneys Trustees”	Harneys Trustees Limited, a company incorporated in BVI, professional trustee appointed by Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui to act as the trustee of the Leng Family Trust, the LH Family Trust and the Liu Family Trust, respectively
“Heaven Baby”	Heaven Baby Limited, a company established in BVI on November 9, 2015, wholly-owned by Ms. Ma Ju (馬菊), and a 0.91% shareholder of DIF Holding as of the Latest Practicable Date
“HK\$” or “Hong Kong dollar(s)” or “HKD”	Hong Kong dollars respectively, the lawful currency for the time being of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HLJ Feihe E-commerce”	Heilongjiang Feihe E-commerce Co., Limited* (黑龍江飛鶴電子商務有限公司), a company established in the PRC on May 9, 2016 and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“HLJ Shanghegu Nutraceutical Food”	Heilongjiang Shanghegu Nutraceutical Food Co., Limited* (黑龍江尚禾穀營養食品有限公司), a company established in the PRC on August 18, 2015 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Hocrane Investment”	Hocrane Investment Ltd., a company incorporated in Cayman Islands on May 8, 2019 with limited liability, which is wholly-owned by Hosen Investment Fund III, L.P. and is a 0.65% shareholder of DIF Holding as of the Latest Practicable Date
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Takeovers Code” or “Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

[REDACTED]

“Icon Center”	Icon Center Limited, a company established in BVI on November 26, 2015, wholly-owned by Mr. Liu Yirong (劉義榮), father of Mr. Liu Hua
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not a connected person of the Company as far as our Directors are aware after having made all reasonable enquiries

DEFINITIONS

[REDACTED]

"IRS"	United States Internal Revenue Service
"JD.com"	京東商城, an e-commerce retail website in China
"JD.hk"	京東全球購, an e-commerce retail website registered in Hong Kong
"Jilin FDA"	Jilin Province Food and Drug Administration (吉林省食品藥品監督管理局)
"Jilin Plant"	our production facility located in Zhenlai county, Baicheng city, Jilin province, the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”	J.P. Morgan Securities (Far East) Limited, China Merchant Securities (HK) Co., Limited and CCB International Capital Limited
“J.T. Living Trust”	the J.T. Living Trust where Ms. Tu is its settlor, trustee and the only discretionary object
“Kedong Feedlots”	Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd.* (黑龍江克東和平原生態牧業有限公司), formerly known as Heilongjiang Feihe Kedong Oumei Feedlots Co., Limited* (黑龍江飛鶴克東歐美養殖牧場有限公司), a company established in the PRC on July 3, 2007; the entire equity interest in Kedong Feedlots was disposed of by us to the YST Group in September 2011
“Kedong Plant”	our production facility located in Kedong county, Qiqihar city, Heilongjiang province, the PRC
“Kingston Plant”	our planned production facility to be constructed in the city of Kingston, Ontario, Canada
“Latest Practicable Date”	[June 24], 2019 being the latest practicable date prior to the printing of this Document for the purpose of ascertaining certain information contained in this Document
“Leng Family Trust”	the Leng Family Trust where Mr. Leng is its settlor and the only discretionary object
“LH Capital”	LH Capital Holding Limited, a company incorporated in BVI on November 12, 2015 with limited liability, which is directly owned by Harneys Trustees (the trustee of the LH Family Trust)
“LH Family Trust”	the LH Family Trust where Mr. Liu Hua is its settlor and the only discretionary object
“LH Financial”	LH Financial Holding Limited, a company incorporated in BVI on November 12, 2015 with limited liability, which is wholly owned by LH Capital, which in turn is wholly-owned by Harneys Trustees (the trustee of the LH Family Trust) and is a 4.52% shareholder of DIF Holding as of the Latest Practicable Date
“[REDACTED]”	the [REDACTED] of the Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
	[REDACTED]
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Liu Family Trust”	the Liu Family Trust where Mr. Liu Shenghui is its settlor and the only discretionary object
“Longjiang Plant”	our production facility located in Longjiang county, Qiqihar city, Heilongjiang province, the PRC
“Long County FDA”	Long County Food and Drug Administration (隴縣食品藥品監督管理局)
“LSH International”	LSH International Holding Limited, a company incorporated in BVI on November 11, 2015 with limited liability, which is directly owned by Harneys Trustees (the trustee of the Liu Family Trust)
“LSH Investment”	LSH Investment Holding Limited, a company incorporated in BVI on November 11, 2015 with limited liability, which is wholly owned by LSH International, which in turn is wholly-owned by Harneys Trustees (the trustee of the Liu Family Trust), and a 2.96% shareholder of DIF Holding as of the Latest Practicable Date
“LYB International”	LYB International Holding Limited, a company incorporated in BVI on November 11, 2015 with limited liability, which is directly owned by Harneys Trustees (the trustee of the Leng Family Trust)
“M&A Provisions”	The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in “Appendix III – Summary of the Constitution of the Company and Cayman Companies Law” to this Document
“Merger”	the merger of Merger Sub with and into Flying Crane U.S. pursuant to the Merger Agreement, with Flying Crane U.S. continuing as the surviving company resulting from the Merger
“Merger Agreement”	the merger agreement dated March 3, 2013 relating to the Merger entered into by, amongst others, Flying Crane U.S. and the Merger Sub, as further described in the section headed “History, Development and Reorganization – Prior Quotation on the OTCBB and Listing on the NYSE – Listing on the NYSE, Privatization and Delisting from the NYSE”
“Merger Sub”	Infant Formula Merger Sub Holding Inc., a company incorporated in the state of Utah, the United States, with limited liability on November 8, 2012 as a wholly-owned subsidiary of our Company; Merger Sub was merged with and into Flying Crane U.S. in the course of the FCUS Privatization
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Morgan Stanley”	Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, advises, originates, trades, manages and distributes capital for governments, corporations, institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. Morgan Stanley is a financial holding company regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 (as amended), and its common stock trades under the symbol “MS” on the NYSE. Morgan Stanley conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers

DEFINITIONS

“Mr. Cai Fangliang”	Mr. Cai Fangliang (蔡方良), an executive Director and our President, and is interested in approximately 1.33% of the issued shares in DIF Holding as of the Latest Practicable Date
“Mr. Leng”	Mr. Leng Youbin (冷友斌), one of our Controlling Shareholders, an executive Director, the Chairman of the Board and our Chief Executive Officer, and is interested in approximately 50.64% of the issued shares in DIF Holding as of the Latest Practicable Date
“Mr. Liu Hua”	Mr. Liu Hua (劉華), an executive Director, our Vice Chairman and our Chief Financial Officer and is interested in approximately 4.52% of the issued shares in DIF Holding as of the Latest Practicable Date
“Mr. Liu Shenghui”	Mr. Liu Shenghui (劉聖慧), is an executive Director and our Vice President of Finance and is interested in approximately 2.96% of the issued shares in DIF Holding as of the Latest Practicable Date
“Ms. Leng Shuang”	Ms. Leng Shuang (冷霜), the daughter of Mr. Leng, and a connected person of our Company and is interested in approximately 4.15% of the issued shares in DIF Holding as of the Latest Practicable Date
“Ms. Tu”	Ms. Judy Fong-Yee TU (涂芳而), an executive Director, a Vice President and a Joint Company Secretary of our Company, is interested in approximately 0.31% of the issued shares in DIF Holding as of the Latest Practicable Date
“MSPEA III”	Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd, an exempted company incorporated in Cayman Islands with limited liability on May 9, 2007, which is controlled by NH LP, and is a substantial shareholder
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NH LP”	North Haven Private Equity Asia III, L.P. (formerly known as Morgan Stanley Private Equity Asia III, L.P.), a fund managed by the private equity arm of Morgan Stanley and is a substantial shareholder

DEFINITIONS

"NHPEA"	North Haven Private Equity Asia IMF Holding Limited (formerly known as MSPEA IMF Holding Limited and MSPEA Fortune Holding (Cayman) Limited), a company incorporated in Cayman Islands with limited liability on October 11, 2011, which is wholly-owned by MSPEA III, and is a substantial shareholder
"Nomination Committee"	the nomination committee of the Board
"non-corporate entities"	個體工商戶, refers to individuals conducting business within the scope permitted by law under its own trade name
"Notice 25"	the Notice of the State Council on Matters Relating to Preferential Policies for Taxation and Other Aspects 《國務院關於稅收優惠政策相關事項的通知》
"Notice 62"	the Notice of the State Council on Reviewing and Regulating Preferential Policies for Taxation and Other Aspects 《國務院關於清理規範稅收等優惠政策的通知》
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"NYMPH Investments"	Nymph Investments Cayman Limited, a company incorporated in Cayman Islands with limited liability on May 14, 2019, which controlled by Mr. Liu Yonghao (劉永好) and is interested in approximately 2.18% of the issued shares in DIF Holding as of the Latest Practicable Date
"NYSE"	The New York Stock Exchange
	[REDACTED]
"OMAFRA"	the Ontario Ministry of Agriculture, Food and Rural Affairs

DEFINITIONS

[REDACTED]

“OTCBB”	Over-the-Counter Bulletin Board, an interdealer quotation system operated by the Financial Industry Regulatory Authority (FINRA), which regulates member brokerage firms and exchange markets in the United States
“PBOC”	People’s Bank of China (中國人民銀行)
“Platinum Commerce HLJ”	Heilongjiang Platinum Commerce Co., Limited (黑龍江白金商貿有限公司), a company established in the PRC on May 13, 2015 and a direct wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Platinum Holding HLJ”	Heilongjiang Platinum Holding Limited (黑龍江白金控股有限公司), a company incorporated in BVI with limited liability on May 28, 2015 and an indirect wholly-owned subsidiary of the Company as of the Latest Practicable Date
“Platinum International HLJ”	Heilongjiang Platinum International Limited, a company incorporated in BVI with limited liability on November 30, 2015 and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Pluto Fan”	Pluto Fan Limited, a company established in BVI on November 26, 2015, wholly-owned by Mr. Liu Yaohua (劉耀華), and a 0.22% shareholder of DIF Holding as of the Latest Practicable Date
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended from time to time

DEFINITIONS

“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the content requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng
	[REDACTED]
“Principal Share Registrar”	Maricorp Services Ltd.
“[REDACTED]”	this Document being issued in connection with the [REDACTED]
“province”	the administrative regions at the provincial level in the PRC
“Qianqi SH”	Qianqi (Shanghai) E-commerce Co., Ltd.* (千畦(上海)電子商務有限公司), a company established in January 2015 that was one of our distributors in 2015 and 2016 and controlled by Mr. Leng until its deregistration in March 2019
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the reorganization arrangements undergone by the Group in preparation for the [REDACTED] as described in the section headed “History, Development and Reorganization – Reorganization” in this Document

DEFINITIONS

“Right Time SPC”	Right Time Global Investment SPC, a segregated portfolio company incorporated in the Cayman Islands with limited liabilities on April 13, 2017, which is 80.02% owned by Mr. Chen Dong (陳東), and a 0.72% shareholder of DIF Holding as of the Latest Practicable Date
“RMB” or “Renminbi”	the lawful currency of the PRC
“RMC Trading”	RMC Trading Limited, a company established in BVI on January 20, 2015, wholly-owned by Ms. Huang Xiaobin (黃曉彬), and a 1.59% Shareholder of DIF Holding as of the Latest Practicable Date
“Ruixinda”	Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司), a company established in the PRC on December 9, 2010 and it was a member of the YST Group as of the Latest Practicable Date
“Rule 144A”	Rule 144A under the Securities Act
“SAFE” or “State Administration of Foreign Exchange”	the State Administration of Foreign Exchange of PRC (中華人民共和國國家外匯管理局), a PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), whose duty has recently been integrated and brought under the SAMR according to the Decision of the First Session of the 13th National People’s Congress on the Institutional Reform Plan of the State Council《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》 issued by the NPC on March 17, 2018, and, if the context requires, includes its successor, the SAMR
“SAMR”	State Administration for Market Regulation (國家市場監督管理總局), a regulatory authority established via the integration of certain duties of various departments, including but not limited to the duties of SAIC and CFDA, regarding the Decision of the First Session of the 13th National People’s Congress on the Institutional Reform Plan of the State Council《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》 issued by the NPC on March 17, 2018

DEFINITIONS

[REDACTED]

“SAT”	State Administration of Taxation of the PRC (中國國家稅務總局)
“SEC”	the U.S. Securities and Exchange Commission
“Second DIF Share Option Scheme”	the second share option scheme adopted by DIF Holding on January 1, 2017
“Securities Act”	the U.S. Securities Act of 1933, as amended

[REDACTED]

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shaanxi FDA”	Shaanxi Province Food and Drug Administration (陝西省食品藥品監督管理局)
“Shaanxi Shangde”	Shaanxi Shangde Commercial Trading Co, Limited* (陝西尚德創盟商貿有限公司), formerly known as Shaanxi Guanshan Dairy Co., Limited* (陝西關山乳業有限公司), a company established in the PRC on December 15, 2003 and an Independent Third Party as of the Latest Practicable Date
“Shanxi Biotech”	Shanxi Hexin Biotech Co., Ltd.* (山西核鑫生物科技股份有限公司), formerly known as Shanxi Flying Crane Biotech Co., Limited* (山西飛鶴生物科技股份有限公司) and Shanxi Feihesantai Biotechnology Scientific and Commercial Co., Limited* (山西飛鶴三泰生物科技股份有限公司), a company established in the PRC on January 15, 2004 and an indirect wholly-owned subsidiary of our Company until its disposal on August 10, 2015
“Share(s)”	ordinary share(s) in the capital of our Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Shenzhen Yueyou”	Shenzhen Yueyou Industrial Development Co., Limited* (深圳岳佑實業發展有限公司), a company established in the PRC on December 13, 2016 and an Independent Third Party
“SinoMedia”	SinoMedia Holding Limited (中視金橋國際廣告(香港)有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 623) and a 0.12% Shareholder of DIF Holding as of the Latest Practicable Date
“Sino Sky”	Sino Sky International Holdings Limited, formerly known as Sky International Holdings Limited (天華國際集團有限公司), a company established in BVI on March 23, 2004, wholly-owned by Mr. Wang Xuxiang, an Independent Third Party
	[REDACTED]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiaries”	has the meaning ascribed thereto under the Listing Rules, unless the context otherwise requires
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Suning.com”	蘇寧易購, a website for business-to-consumer online retail in China
“Tailai Plant”	our planned production facility to be constructed in Tailai county, Heilongjiang province, the PRC
“Tiantu Xinghe”	Tiantu Xinghe Investment Limited Company, a company established in Cayman Islands on April 11, 2019, wholly-owned by Shenzhen Tiantu Investment Management Co., Ltd. (深圳市天圖投資管理有限公司), which was 59.8% controlled by Mr. Wang Yonghua (王永華), and a 2.18% shareholder of DIF Holding as of the Latest Practicable Date
“Tmall”	天貓, a website for business-to-consumer online retail in China
“Tmall Global”	天貓國際, a website for business-to-consumer online retail registered in Hong Kong
“Track Record Period”	the period comprising the years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019

DEFINITIONS

[REDACTED]

“United States” or “U.S.”	the United States of America and its territories
“us,” “we,” “Company,” “our Company” or “the Company”	China Feihe Limited (中國飛鶴有限公司) (formerly known as Platinum Infant Formula Holding Limited), an exempted company incorporated in the Cayman Islands with limited liability on October 26, 2012 and a directly wholly-owned subsidiary of DIF Holding as of the Latest Practicable Date, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company thereof, the Company’s present subsidiaries
“US\$,” “USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“Vista Associates”	Vista Associates Corporation, a company incorporated in BVI on December 29, 2004, wholly-owned by Mr. Mao Dai (毛岱), and a 0.27% shareholder of DIF Holding as of the Latest Practicable Date
“Vitamin World”	Vitamin World, Inc., a Delaware corporation wholly-owned on October 31, 1977 by CLP VW Holdings, LLC, and is an Independent Third Party
“Vitamin World International”	Vitamin World International Co., Ltd. (維他命世界國際有限公司), a company incorporated in the Cayman Islands with limited liabilities on March 6, 2018 and as wholly owned subsidiary of the Company
“Vitamin World USA”	Vitamin World USA Corporation, a company incorporated in Delaware on December 13, 2017 and as wholly owned subsidiary of the Company
“Wang Jian Guo Holdings”	Wang Jian Guo Holdings Limited, a company incorporated in BVI on March 13, 2012, wholly-owned by Mr. Wang Jian Guo (汪建國), and is a 0.77% shareholder of DIF Holding as of the Latest Practicable Date

DEFINITIONS

[REDACTED]

“XN Crane” XN Crane International Limited (星納鶴國際有限公司), a company incorporated in BVI on February 22, 2019, wholly-owned by Jiangsu Jiequan Emerging Industries Development Fund (Limited Partnership) (江蘇捷泉新興產業發展基金(有限合夥)), and a 1.69% shareholder of DIF Holding as of the Latest Practicable Date

[REDACTED]

“YST” YuanShengTai Dairy Farm Limited (原生態牧業有限公司), a company incorporated in Bermuda on May 1, 2012 and is listed on the main board of the Hong Kong Stock Exchange (stock code: 1431), and an Independent Third Party

“YST Group” the group of companies comprising YST and its subsidiaries, being one of our suppliers, and an Independent Third Party

“Zhaoguang Dairy” Heilongjiang Province Zhaoguang Dairy Plant* (黑龍江省趙光乳品廠), a company established in the PRC on December 10, 1984 as a state-owned enterprise, it was subordinate to Heilongjiang Province Zhaoguang Farm* (黑龍江省趙光農場), a state-owned enterprise, until its deregistration in 2000

* For identification purpose only

If there is any inconsistency between the Chinese names of entities or enterprises established in PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese is for identification purpose only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this Document as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“alpha-lactalbumin”	a protein present in the milk of mammalian species
“ARA”	arachidonic acid, one of the most abundant fatty acids in the brain necessary for the repair and growth of skeletal muscle tissue and beneficial to early neurological development
“bovine tuberculosis” or “bovine TB”	a chronic, highly infectious disease that primarily affects cattle but can be transmitted to humans, and is caused by <i>Mycobacterium bovis</i> , a group of bacteria that usually affects the respiratory system
“brucellosis”	a highly contagious disease that is spread by infected material at time of calving or abortion and that can result in infertility, habitual miscarriage and reduced milk yield
“customers”	include (1) distributors, (2) retailers, (3) online e-commerce platforms and (4) end consumers to whom we directly sell our products
“DHA”	docosahexaenoic acid which is a primary structural component of brain tissue with a crucial role in helping brain cells better communicate with each other
“DRP”	distribution requirement planning, a systematic process used to enhance the efficiency of delivery of goods
“end consumers”	our consumers who buy our products through offline points of sale and/or e-commerce channels and use our products
“folic acid”	distinct forms of folate, one of the B vitamins
“FMD”	foot and mouth disease, a highly infectious and contagious livestock disease affecting cattle, pigs, sheep, goats, deer, elk and other cloven hoofed animals which can cause significant loss of productivity, such as reduced milk yields or lameness, and even fatality in young animals
“fresh milk”	also known as pasteurized milk, which has been exposed briefly to temperatures between 60-90°C to destroy micro-organisms that can cause diseases and to improve its quality and shelf life

GLOSSARY OF TECHNICAL TERMS

“GMP”	Good Manufacturing Practices regulations enforced by the U.S. Food and Drug Administration
“HACCP”	Hazard Analysis & Critical Control Points, a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product
“hydrolyzed whey protein”	whey protein that is predigested and partially hydrolyzed for the purpose of easier metabolizing
“infant milk formula”	a manufactured food designed for feeding babies and infants with special dietary use solely as a food for infants by reason of its simulation of human milk or its suitability as a complete or partial substitute for human milk
“ISO9001”	International Organization for Standardization related to quality management
“lactoferrin”	a globular glycoprotein that is one of the components of the immune system of the body and provides antibacterial activity to infants
“lutein”	a xanthophyll naturally occurring carotenoids, acting to modulate light energy and serving as non-photochemical quenching agents to deal with triplet chlorophyll
“maltodextrin”	dextrin containing maltose, used as food additives
“mastitis”	inflammation of the mammary gland that, when infected, can significantly reduce milk production and, in some circumstances, fertility, as well as delay the onset of heat cycles in cattle
“melamine”	an industrial chemical used for the production of melamine resins which, in 2008, was found to have been illegally added to milk-based products in China by certain operators of milk stations to increase the apparent protein content of such products
“MES”	manufacturing execution system, a computerized control system used in manufacturing to track and document the transformation of raw materials to finished goods in real time to enable the control of multiple elements of the production process

GLOSSARY OF TECHNICAL TERMS

“microbe count”	the count of microbes in milk, an important safety indicator of milk
“milking cows”	milkable cows that are in the lactation period of a lactation cycle, during which they produce milk
“ml”	milliliter
“Monde Selection”	an annual award for food, drinks, and cosmetics products and selected by the International Quality Institute in Belgium
“MSRP”	manufacturer’s suggested retail price
“New Tier 1 cities”	15 cities including Chengdu, Hangzhou, Wuhan, Chongqing, Nanjing, Tianjin, Suzhou, Xi’an, Changsha, Shenyang, Qingdao, Zhengzhou, Dalian, Dongguan and Ningbo
“nucleotide”	an organic molecule that serves as the monomer unit for forming the nucleic acid polymers deoxyribonucleic acid and ribonucleic acid
“offline customers”	our distributors and retailers
“One-Child Policy”	a birth planning program designed to control the size of population in China, which has been eliminated at the end of 2015
“OPO structured fat”	oleic and palmitic fatty acid structure, which is found in breast milk and plays a key role in helping babies digest and absorb milk
“PEOP”	Protected Eco-Origin Product by China (中華人民共和國生態原產地保護產品)
“prebiotics”	a non-digestible food ingredient that brings about specific changes in the composition and/or activity of the gastrointestinal microbiota which confers benefits upon the host’s well-being and health
“probiotics”	live microorganisms which, when administered in adequate amounts, confer a health benefit on the host
“retail sales value”	the gross sales made to consumers, which is equal to the retail price multiplied by total sales volume

GLOSSARY OF TECHNICAL TERMS

“somatic cell count”	the number of somatic cells (mainly consists of white blood cells) per milliliter of milk; as an indicator of udder health, somatic cell count in milk has an impact on the production volume and quality of milk and the storage life of dairy products
“sq.m.”	square meters
“Stage 1”	infant milk formula for infants from newborn to six months old
“Stage 2”	infant milk formula for infants from six to twelve months old
“Stage 3”	infant milk formula for infants from one to three years old
“sucrose”	a compound which is the chief component of cane or beet sugar
“Tier 1 cities”	Beijing, Shanghai, Guangzhou and Shenzhen
“Tier 2 cities”	30 cities including Xiamen, Fuzhou, Wuxi, Hefei, Kunming, Harbin, Jinan, Foshan, Changchun, etc.
“tonne”	metric ton, represents 1,000 kilograms
“Universal Two-Child Policy”	a government-imposed limit of two children allowing per family to have two children in China, replacing its previous One-Child Policy
“vanillin”	the primary component of the extract of the vanilla bean, often used as a flavoring agent in foods, beverages and pharmaceuticals
“wet blending-spray drying”	a process in which ingredients are blended together, homogenized, pasteurized and spray dried to produce a powdered product and ensures the uniform distribution of nutrients throughout the batch
“whey”	a liquid by-product of cheese, which contains high level of protein
“%”	percent

FORWARD-LOOKING STATEMENTS

This Document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Document, the words "aim," "anticipate," "believe," "could," "estimate," "expect," "going forward," "intend," "may," "might," "ought to," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this Document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects;
- future developments, trends and conditions in the industries and markets in which we operate;
- our business strategies and ability to implement these strategies;
- general economic, political and business conditions in the PRC;
- changes to the regulatory environment, policies, operating conditions and general outlook in the industries and markets in which we operate;
- the actions of and developments affecting our major customers and suppliers;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to control or reduce costs;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- financial market developments;
- our future debt levels and capital needs;
- competitive environment of the industries and markets in which we operate;
- the actions of and developments affecting our competitors; and

FORWARD-LOOKING STATEMENTS

- certain statements included in the section headed "Financial Information" in this Document with respect to operations, margins, overall market trends, risk management and exchange rates.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize or should underlying assumptions prove to be incorrect, our financial condition and actual results of operations may be materially and adversely affected and may vary significantly from those estimated, anticipated or projected, as well as from historical results.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this Document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Document might not occur in the way we expect or at all. Accordingly, the forward-looking statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized. All forward-looking statements in this Document are qualified by reference to the cautionary statements in this section.

In this Document, statements of or references to our intentions or those of the Directors are made as of the date of this Document. Any such information may change in light of future developments.

RISK FACTORS

You should consider carefully all of the information in this Document, including the risks and uncertainties described below, before making an investment in our Shares. Our business, results of operations or financial condition could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We may not be able to continue to achieve a high rate of growth in revenue and profitability.

Driven by sales of our high-end brands, our revenue increased from RMB3,724.4 million in 2016 to RMB5,887.3 million in 2017 and further to RMB10,391.9 million in 2018 and from RMB1,968.9 million in the three months ended March 2018 to RMB2,756.0 million in the same period of 2019. There is no guarantee that demand for our high-end products will continue to grow at a similar rate in the future, or that we will not experience slower growth in the future due to market saturation as well as increased competition from new market entrants and alternative products.

As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, the total number of points of sale amounted to over 58,000, 67,000, 90,000 and 92,000, respectively. Our sales to distributors and retailers have grown from RMB3,603.7 million in 2016 to RMB5,500.0 million in 2017, and further to RMB8,664.1 million in 2018, and increased significantly from RMB1,700.7 million for the three months ended March 31, 2018 to RMB2,418.8 million in the same period of 2019. In addition, our revenue from our e-commerce sales amounted to RMB120.7 million, RMB387.2 million, RMB1,085.4 million, RMB143.4 million and RMB179.0 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019. There is no guarantee that our sales and distribution network will grow at a similar rate or our sales will continue to grow at a similar rate in the future, or that we will not experience slower growth in the future due to market saturation as well as increased competition from competitors. There is also no guarantee that we will be able to manage our expanded sales and distribution network effectively. If we fail to sustain our growth in sales to distributors and retailers or fail to manage our expanded sales and distribution network effectively, our business, financial condition and results of operations could be adversely affected.

Our ability to continue to achieve a high rate of growth will require us to continue (i) improving our operational, financial and management systems; (ii) managing our liquidity position while committing substantial resources to market expansion, business development, and product development efforts; (iii) developing our sales and marketing channels; (iv) innovating and developing new products; (v) developing the skills of our management team; (vi) training, motivating, managing and retaining our employees; (vii) maintaining adequate facilities and equipment; (viii) enhancing our risk monitoring to assess the financial condition and business potential of new and existing customers; (ix) managing the increased complexity and costs associated with expanded operations, which may divert our resources and require substantial capital commitment; and (x) selectively diversifying our customer base to improve our working capital management. In addition, we may face increased competition as we expand our product lines and distribution areas, which could result in lower sales, margins and market share. If we fail to sustain our profitability or manage our growth effectively, our business, financial condition and results of operations could be adversely affected.

RISK FACTORS

We may experience negative publicity or media reports related to product tampering, adulteration, counterfeiting and quality control concerns.

We produce and sell dairy products and we also sell nutritional supplements. Our business is highly sensitive to consumers' perception of safety, quality, hygiene and awareness for health. Any tampering, adulteration, counterfeiting or other quality control concerns relating to any infant milk formula and nutritional supplements, whether real or perceived and whether or not manufactured by us, may result in negative publicity that could adversely affect us. In 2015, we experienced negative publicity in relation to the recall of products manufactured by our then-subsiary, Guanshan Dairy. Although we promptly took rectification measures and were notified that we could resume production at Guanshan Dairy, we received negative media coverage and publicity regarding this incident, which we believe may have had an impact on our business and results of operations to an extent. Any substantial and sustained negative publicity concerning the infant milk formula and nutritional supplement markets could lead to loss of consumer confidence, reduction in sales and prices of our products, or a widespread recall of infant milk formula products or nutritional supplement involved in such incident, thereby potentially having a material and adverse effect on our business, reputation and results of operations.

In 2008, substandard infant milk formula contaminated with melamine caused the death of six infants as well as illness of nearly 300,000 other infants in China. Furthermore, in 2010 there were widely publicized claims that certain Chinese infant milk formula products were linked to precocious puberty in female infants. We were not involved in either of these incidents. However, the occurrence of such incidents or claims may have an adverse effect on our business, regardless of our involvement and the merits of such claims.

We may experience customer complaints or product liability and recall claims for any undetected defects in our products.

We consider quality and reliability of our products to be vital to our business. There may be a risk that contamination or spoilage could take place during the production and transportation of our products due to factors that may or may not be within our control. While we have internal control policies and procedures in place to minimize such risk and have made it mandatory for all of our employees to follow such policies and procedures, we cannot assure you that all of our employees will abide by our internal control policies and procedures at all times, nor can we guarantee against human error or employee mistakes, negligence or disregard for our mandatory procedures, which may lead to defects in our products. Moreover, we cannot assure you that our suppliers will not intentionally or inadvertently provide us with contaminated or substandard raw materials that may adversely affect the quality of our products. Some raw materials used in our production may contain harmful chemicals or substances that are currently unknown to us, that we may fail to detect during inspection or that are undetectable even with current technology, and cause undesirable effects or injury to end consumers of our products. In the event our products are found to be contaminated, spoiled, or defective, or to possess any quality or safety problems, we may experience sales returns, be required to recall products from the market, or be exposed to liability claims, reduced sales volumes, imposition of penalties against us by relevant authorities or compensation awards by courts, any of which could damage our brand image, reputation and relationships with our customers.

RISK FACTORS

In February 2014, we entered into an agreement to invest in Guanshan Dairy in order to develop our goat milk infant formula business. On June 19, 2015, Guanshan Dairy, which was our subsidiary at the time until our disposal in December 2016, received a notice from Long County FDA that five batches of goat milk infant formula products produced by Guanshan Dairy did not meet the relevant national infant milk formula food standards during a quarterly inspection. The results showed that two batches examined contained excessive amounts of nitrates, and three batches contained insufficient amounts of selenium. Long County FDA ordered Guanshan Dairy to suspend production and sales immediately and to recall defective products. We immediately suspended production at the relevant facilities and conducted a thorough investigation into the matter. We also activated voluntary product recall procedures for all Guanshan Dairy products, including the five batches of implicated products, destroyed the relevant products, turned over all profits from sales of the implicated products to Long County FDA as ordered by Long County FDA and paid administrative penalties in relation to this incident. As a result of Guanshan Dairy Incident, we incurred expenses of RMB155.3 million. Considering the administrative sanctions on Guanshan Dairy, we disposed of Guanshan Dairy in December 2016. As of the Latest Practicable Date, we had not incurred any further expenses in connection with Guanshan Dairy Incident, and we had not received any product liability claim against us by the end consumers of these batches of infant milk formula products or any other Guanshan Dairy products.

On December 8, 2015, before our acquisition of Feihe Zhenlai on December 24, 2015, Feihe Zhenlai was ordered by the Jilin FDA to suspend production and sales and to rectify certain non-compliance issues found during an inspection. Feihe Zhenlai suspended production to rectify the issues and was notified that production could be resumed on January 6, 2016. On April 6, 2016, Feihe Zhenlai received notices of administrative sanctions from the Jilin FDA stating that an inspection conducted on December 9, 2015 found that (i) certain products manufactured by Feihe Zhenlai were mislabeled with incorrect expiration dates, and (ii) Feihe Zhenlai had added self-produced nitrogen in its products as a food additive without obtaining the relevant nitrogen production permits. As a result of this incident, we paid an administrative penalty of approximately RMB0.7 million. As of the Latest Practicable Date, we had not incurred any further expenses in connection with the incident. For further details, see "Business — Legal Proceedings and Non-compliance — Non-compliances — Administrative Sanctions on Feihe Zhenlai."

We cannot assure you that similar or more serious incidents relating to our product quality will not arise or that we will not be subject to product liability claims in the future. Consistent with the customary practice in China, we do not maintain product liability insurance for the products we manufacture. As a result, we may not have adequate resources to satisfy any demands resulting from a successful claim brought against us in China. See "— Our insurance coverage may not be sufficient to cover all of our potential losses." Even if a product liability claim is not successfully pursued to judgment by a claimant, we may still incur substantial legal expenses defending against such a claim and our brand and reputation may suffer. Serious product quality concerns could result in governmental action against us, which could result in the suspension of production or distribution of our products, loss of certain licenses, or other governmental penalties.

RISK FACTORS

We rely on a limited number of dairy producers as our major suppliers of fresh milk, and any shortage or interruption in supply from such suppliers could delay our production and reduce sales of our products.

Fresh milk is the primary raw material used in the production of our infant milk formulas. Our business is significantly dependent on the supply of fresh milk from a limited number of dairy producers, including YST Group, our largest supplier during the Track Record Period. During the Track Record Period, we also procured fresh milk from several suppliers other than YST Group. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our fresh milk costs accounted for 33.7%, 31.8%, 26.4% and 27.0% of our total cost of sales, respectively. For the same periods, purchases from YST Group was equivalent to 84.2%, 83.5%, 86.8% and 88.1% of our total fresh milk procurement costs, respectively. As a result, our business and results of operations are dependent on the continued supply of fresh milk from these suppliers, especially YST Group.

There is no assurance that the supply of fresh milk will be sufficient to meet our increasing demands associated with our growth strategy. We entered into a new framework agreement with YST on May 12, 2017 (the "**New Framework Agreement**") pursuant to which we shall have priority to fresh milk supplies from YST until December 31, 2019, after which the New Framework Agreement may be renewed for a period of three years upon approval by the independent shareholders of YST. This New Framework Agreement was approved by the independent shareholders of YST on July 17, 2017. We also cannot guarantee that our fresh milk suppliers will keep us supplied or not breach their contractual obligations to supply fresh milk to us, or that our supply agreement will not be suspended, terminated or otherwise expired without renewal. If any of our fresh milk suppliers fails to meet our needs on time or at all, and we are unable to procure fresh milk of similar quality from alternative sources at commercially acceptable prices in a timely manner or at all, we may be subject to production delays, late shipments of our products to customers, decrease in sales, breach of contract claims and liability and increased costs, which may have material and adverse effects on our business, financial condition and results of operations.

In addition, our supplies of fresh milk from current suppliers or any other fresh milk suppliers we may identify in the future are influenced by a number of factors that are beyond our control, including:

- any adverse changes to the environmental, climatic, economic, political and social conditions in China and in the province and municipality where our suppliers are located, may have an adverse effect on our ability to obtain sufficient supplies of fresh milk within the required time period and/or at reasonable prices, which may have a material and adverse effect on our business, financial condition and results of operations; and
- any extended or unreasonably cold weather or intense heat may potentially lead to lower than expected milk production, which may have a material and adverse effect on our business, financial condition and results of operations.

RISK FACTORS

Disruption of our production operations and supply chain could materially and adversely affect our business.

Our ability to efficiently manufacture, market and sell products is critical to our success. The manufacture of our products is an exact and complex process, partly due to strict quality and safety requirements. In particular, certain stages of our production process must occur in sterile or temperature-controlled environments to preserve the quality of fresh milk and other ingredients as well as to reduce the risk of contamination. Problems may arise during the production process for a variety of reasons, including equipment malfunction, power outages, failure to follow specific protocols and procedures, and quality defects in raw materials, which could compromise the quality of our products.

In addition, any natural disasters or other unanticipated catastrophic events, including adverse weather, natural disasters, fires, technical or mechanical difficulty, storms, explosions, earthquakes, strikes, acts of terrorism, wars and outbreaks of epidemics could impair our operations or the operations of our suppliers, and impede our ability to manufacture and deliver our products to customers in a timely manner. We rely on the timely supply of our raw materials, such as fresh milk, whey powder, lactoferrin, in order to carry out our production plans as scheduled. Any delays or disruptions in raw material supplies from our suppliers, may have a material and adverse impact on our ability to meet our contractual obligations to customers. We have experienced a temporary shortage in the supplies of lactoferrin in the second half of 2018, which impacted the production of premium product series during such period. Save as disclosed in this Document, we have not experienced any material delays or disruptions in our supply chain during the Track Record Period. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single facility or supplier, could materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks relating to our current expansion or plans for future expansion into overseas markets.

We plan to invest a total of approximately C\$330.0 million for the construction of a goat milk and cow milk infant formula production facility in Kingston, Ontario, Canada. We plan to market and sell the infant milk formula products manufactured at the Kingston Plant primarily in the North American and Asian markets. We acquired the retail health care business of Vitamin World for a consideration of approximately US\$28.0 million. Subsequently, we started to market and sell nutritional supplement from Vitamin World. We have not had any prior experience in establishing, constructing and managing the design, manufacture and sales operations that is contemplated at the Kingston Plant, nor do we have any prior experience in the sales operations that is contemplated at Vitamin World. Despite our extensive market research and preparation for these overseas projects, we cannot assure you that our investments will be as successful as we have anticipated. Our assessment of the costs for these projects at this early stage may not be accurate and we may incur higher costs than anticipated as these projects advance.

RISK FACTORS

In addition, we may consider to further expanding our operations overseas in the future. Overseas operations will expose us to various risks associated with conducting business in foreign countries and territories, which may include, among others:

- an increase in competition from foreign players or failure to anticipate changes to the competitive landscape in overseas markets due to lack of familiarity with the local business environment;
- the infringement of our intellectual property rights in foreign jurisdictions;
- political risks, including civil unrest, acts of terrorism, acts of war, regional and global political or military tensions and strained or altered foreign relations, which may lead to interruptions in our business operations and/or loss of property;
- economic, financial and market instability and credit risks;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- inability to obtain or maintain the requisite licenses, permits, approvals and certificates in foreign jurisdictions;
- economic sanctions, trade restrictions, discrimination, protectionism or unfavorable policies against companies from China;
- difficulties with staffing and managing overseas operations after localization, including with respect to compliance with local labor laws;
- exposure to litigation or third-party claims outside of China;
- foreign currency exchange controls and fluctuations;
- uncertainties in the interpretation and application of tax laws and regulations, more onerous tax obligations and unfavorable tax conditions;
- potential disputes with foreign customers or other foreign parties we work with;
- cultural and language difficulties; and
- lack of a well-developed or independent legal system in certain foreign countries in which we conduct our business, which may create difficulties in the enforcement of legal rights.

Any of the above factors could lead to, among others, business disruptions and loss of sales, which could have a material and adverse effect on our business, results of operations and overall growth strategies.

RISK FACTORS

Our operating results may be materially and adversely affected by changes in prices and quality of raw materials.

Our production and profitability depend on our ability to purchase key raw materials from our suppliers at reasonably acceptable prices. The primary ingredient for our infant milk formula production is fresh milk, which we source locally. The cost of fresh milk we procure is approximately one and a half times of the cost of milk powder, according to the F&S Report. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our cost of sales of fresh milk amounted to RMB569.9 million, RMB666.4 million, RMB888.1 million, RMB167.8 million and RMB266.7 million, respectively, accounting for 33.7%, 31.8%, 26.4%, 27.8% and 27.0% of our total cost of sales, respectively. As we continue to expand our business and operations, we expect our cost of fresh milk procurement to continue to account for a significant portion of our total cost of sales. While global dairy prices have declined since 2014 and have not rebound since then, we can give no assurance that changes in global dairy supply and demand patterns in the future will not lead to a sharp increase in fresh milk prices, or even a rebound to the high average milk prices before 2014.

The market for our fresh milk and other raw materials may be subject to price volatility depending on a variety of factors beyond our control, including the global and PRC economy and related government policies. There is no guarantee that we will be able to secure favorable prices to protect us against the risk of price fluctuations, or pass on increased costs to our end customers. Any increase in the prices we are required to pay for raw materials may require us to adjust our pricing strategies which could result in a less competitive product, or compel us to identify less costly sources which may be of a lower quality. In addition, our ability to pass on part or all of our cost increases to end consumers depends largely on market conditions. To maintain our competitiveness, we may decide not to increase the price of our products despite the increase in costs, and we may experience lower profitability as a result.

Our operations are also affected by our ability to secure raw materials that meet our quality standards and to maintain a stable and sufficient supply. We depend on suppliers to supply a large volume and variety of raw materials for our products. The quality of such procured raw materials is key to our overall product quality, and we inspect each batch of raw materials to ensure their quality. For more information about our quality control measures, see "Business — Quality Control." However, we do not have direct control over our suppliers and may be unable to make assurances as to the integrity of their quality control systems. We may not always be able to detect defects in time as certain defects may in some cases become evident only after acceptance of delivery. Any quality defects in our raw materials may subject us to product liability claims and significantly affect our business, reputation and results of operations.

We may fail to respond to changes in consumer preferences and market trends and introduce commercially viable products.

Our success depends on our ability to anticipate, identify, interpret and react to the evolving tastes, dietary habits and nutritional needs of end consumers and to offer products that appeal to them. We devote significant efforts to develop product formulations that we believe would respond to end consumer needs and preferences. For instance, we endeavor to develop products that are more suitable for Chinese babies' biological composition and that closely resemble breast milk of Chinese mothers, which we believe is in line with market trends in China. We use high quality ingredients such as OPO structured fats, hydrolyzed whey protein, lactoferrin, among others, and manufacture all of our products using high quality fresh milk without adding any artificial flavoring. However, sales of our products could be affected by

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nutritional and health-related concerns about our products, such as fat, cholesterol, calorie, sodium, lactose, sucrose, bacteria and other ingredients contained in the products. Consumer trends in the infant milk formula and nutritional supplement markets are constantly changing and our failure to anticipate, identify, interpret and react to these changes, or our failure to generate consumer acceptance or recognition of our new products, could lead to, among others, reduced demand for and price reductions of our products, inventory obsolescence, write-downs or write-offs, which could materially and adversely affect our business, financial condition and results of operations.

Even if we do correctly anticipate, identify, interpret and react to these changes, there can be no assurance that we will be able to successfully compete, that demand for our new products will grow to the extent that we expect, or that these new products will provide the returns that we expect. The new products we develop may not be commercially viable due to factors such as inadequate technical, managerial and capital resources, as well as downturns in general economic conditions, declines in market demand and other factors beyond our control. In addition, any new products that we successfully launch may not gain market acceptance or be effective in meeting consumer needs, or result in increased profits. If we are unable to respond to rapid changes in consumer preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively or efficiently, our business, financial condition and results of operations could be materially and adversely affected.

Failure to grow our marketing capabilities and effectively maintain or promote our brands may adversely affect our future success or the brand name and reputation of our products.

Our Feihe and Vitamin World brands have gained wide recognition in China and the U.S. respectively, and the reputation and integrity of our brand is important to our business. The willingness of consumers to purchase our products depends on our ability to continue offering an attractive value proposition. If the difference between value attributed to our products as compared to those of our competitors narrows or is perceived to narrow, consumers may choose not to purchase our products. If we are unable to market and maintain the brand equity of our products, consumer perception of our products may be diminished and our business may be materially and adversely affected.

In addition, the success of our products depends significantly on the effectiveness of our marketing activities. We market our infant milk formula and nutritional supplement products mainly through online and offline channels as well as traditional media. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our selling and distribution expenses amounted to RMB1,369.5 million, RMB2,139.1 million, RMB3,661.3 million, RMB570.1 million and RMB664.5 million, respectively. We cannot assure you that our current and planned spending on advertising and marketing activities will be adequate, or that our marketing strategies will enable us to achieve our sales targets. Any factors adversely affecting our ability to grow our marketing capabilities or our ability to maintain adequate spending for marketing activities, such as the availability of resources or implementation of new governmental regulations, will have an adverse effect on the market share, brand name and reputation of our products, which may result in decreased demand for our products and negatively affect our business and results of operations.

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We rely primarily on Independent Third Party distributors and retailers over whom we have limited control.

During the Track Record Period, we sold a substantial majority of our products to distributors and retailers. The performance of our distributors and retailers and their abilities to sell our products, uphold our brand, expand their businesses and their sales network are crucial to the future growth of our business and may directly affect our sales volume and profitability. Our distributors and retailers may engage in activities that violate applicable laws and regulations in connection with the sales or marketing of our products. If our distributors or retailers violate laws or otherwise engage in unlawful practices, we could be liable for damages or fines, which could negatively affect our financial condition and results of operations. During the Track Record Period, certain distributors conducted their business under our trade name. As of the Latest Practicable Date, these distributors have, pursuant to our request, ceased using our trade name. We cannot guarantee that there will not be any improper or unauthorized use of our trade name by any of our distributors in the future. In addition, our distributors and retailers are required to abide by geographic selling restrictions stipulated in the distribution agreement but are not required to exclusively distribute our products. We have limited control over daily business activities of our distributors and retailers as they are generally Independent Third Parties. Non-compliance by any of our distributors with our distribution agreements or our sales policies may harm our brand reputation and image and disrupt our sales, resulting in a failure to meet sales targets. In light of the above, our brand and reputation, our sales activities or the price of our Shares could be adversely affected if we become the target of any negative publicity as a result of any actions taken by our distributors or retailers.

Due to our dependence on distributors and retailers for the sale and distribution of our products, any (i) reduction, delay or cancellation of orders from our distributors or retailers, (ii) sale of our competitors' products by our distributors, (iii) failure to renew distribution agreements or maintain good relationships with existing distributors, and (iv) inability to timely identify and appoint additional or replacement distributors or retailers upon the loss of one or more of our distributors and retailers, may cause material fluctuations or declines in our revenue and have a material and adverse effect on our financial condition and results of operations.

We may not be able to develop and maintain good relationships with our distributors and retailers.

We have developed and maintained good relationships with distributors and retailers. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, 77.6%, 76.7%, 72.0%, 74.4% and 73.7% of our total revenue from dairy products, respectively, was generated from our sales to distributors. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, 19.2%, 16.8%, 16.9%, 17.8% and 19.4% of our total revenue from dairy products, respectively, was generated from our sales to retailers.

The competition for distributors and retailers is intense in our industry and many of our competitors are expanding their distribution networks. We may not be able to offer the most favorable arrangements with distributors as compared to competitors who may be larger and have better-funded sales campaigns. We regularly evaluate our distributors and retailers and terminate or engage distributors and retailers in line with our business strategies. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we terminated a total of 412, 165, 197 and 45 distributors, respectively. See "Business — Sales and Distribution Channels — Our Distributors — Our Relationship with Distributors." Finding replacement distributors and retailers may be time-consuming and any resulting delay may be disruptive and costly to our business. In addition, we may not be able to

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successfully manage our distributors and retailers and the cost of any consolidation or further expansion of our distribution and retail network may exceed the revenue generated from these efforts. We may experience challenges when developing our distribution and retail network in regions where we have relatively low or no presence, such as unfamiliarity with local business and market practices and local laws and regulations, as well as fierce competition with other infant milk formula brands. Moreover, from time to time we may terminate certain distributors and retailers for strategic business reasons and based on the performance of different sales channels and regional markets, and we may incur penalties for such termination. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products, cause us to incur penalties or limit our growth, any of which could materially harm our financial condition and results of operations.

We may not be able to effectively manage any competition among our distributors, retailers and e-commerce channels.

During the Track Record Period, we sold our products to distributors and retailers as well as through e-commerce channels. Although we have implemented measures such as placing geographic selling restrictions, pricing our products similarly and providing similar MSRPs to all of our sales channels, to manage any competition among our sales channels, we cannot assure you that these measures will be effective or sufficient to manage the competition among our sales channels, in part due to our limited control over our distributors, retailers and e-commerce channels. Any adverse competition or cannibalization among our sales channels will have a negative impact on the stability of our sales network and retail prices of our products, which may have a material and adverse effect on our profitability, business, financial condition and results of operations.

We are exposed to risks in connection with our wealth management products.

During the Track Record Period, we invested from time to time in structured deposits, which represent wealth management products issued by banks. We purchased these products using cash flows from operations. As of December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, the balance of our structured deposits was RMB443.4 million, RMB806.5 million, RMB1,183.7 million and RMB158.7 million, respectively, and our accrued interest, which represents fair value changes, amounted to RMB3.4 million, RMB21.5 million, RMB7.7 million and RMB3.7 million, respectively, as of the same dates. Our interest income from these structured deposits amounted to RMB31.0 million, RMB34.8 million, RMB51.5 million, RMB13.5 million and RMB17.0 million, respectively, in 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019. We plan to continue to invest in these and other similar types of products in the future when we believe that we have surplus cash on-hand and the potential investment returns are attractive. We have put in place certain internal control procedures aimed at reducing risk in relation to these investments. However, there can be no assurance that these procedures will be effective and adequate. We cannot guarantee that we will not experience losses with respect to these investments in the future or that such losses or other potentially negative consequences due to such investments will not have material adverse effects on our business, financial condition, results of operations and prospects.

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We plan to invest our goat milk infant formula business; however, our strategy may not be successful and the market for goat milk may not develop as expected.

We believe the goat milk infant formula business is an attractive and under-penetrated market and we have continued to explore the optimal approach to enter the goat milk infant formula market. In line with our business strategy to diversify our product portfolio to include other high-end products and our continued efforts to design and develop products that closely resemble breast milk of Chinese mothers, and through our in-house research and development efforts, we plan to develop our own premium goat milk infant formula. In China, we plan to invest a total of approximately RMB400.0 million in a production facility in Tailai county, Heilongjiang province. The Tailai Plant is expected to have a designed annual production capacity of 20,000 tonnes. In addition, we plan to invest a total of approximately C\$330.0 million for the construction of a goat milk and cow milk infant formula production facility in Kingston, Ontario. The Kingston Plant is expected to have a designed annual production capacity of 20,000 tonnes for cow milk infant formula products and 20,000 tonnes for goat milk infant formula products. We expect to complete the construction of Tailai Plant and Kingston Plant in the second half of 2019 and the first half of 2020, respectively.

We cannot guarantee that we will be able to complete construction of the Tailai Plant and Kingston Plant on a timely basis, or at all, or within projected budgets. As of the Latest Practicable Date, we were in the process of obtaining the requisite licenses, permits and approvals from the relevant authorities for the construction and operation of these two plants. However, we can give no guarantee that such licenses, permits and approvals can be successfully obtained. We will also be required to hire a significant number of employees, including managerial, engineering, technical and operational personnel, as well as establish a regional sales and distribution network for our new goat milk infant formula products. Our senior management members and key personnel will need to devote substantial time and resources to facilitate the commencement and growth of operations at the Tailai Plant and Kingston Plant, which could result in the diversion of management resources away from our existing operations in China. Furthermore, we expect that we will need to continue investing significant financial resources in the Tailai Plant and Kingston Plant during their early stages of operations.

In order for us to recoup our costs and realize returns on investment, our goat milk operations will need to be profitable. However, we can give no guarantee that such operations will be successful. In addition to the risks mentioned above, the success of our goat milk strategy is in large part dependent on the goat milk market. The goat milk infant formula market in China is forecasted to grow from RMB17.2 billion in 2018 to RMB37.6 billion in 2023, with a CAGR of 16.9%, according to the F&S Report. While the goat milk infant formula market is forecasted to experience steady growth globally and in China, we cannot guarantee that the market will grow as projected, that the market will not be affected by other factors, or that there will be sufficient demand or at all for our goat milk infant formula products.

RISK FACTORS

We cannot assure you that we will not be challenged by U.S. tax authorities in relation to our restructuring.

In December 2015, we completed certain restructuring steps, the details of which are set out in "History, Development and Reorganization — History and Development — Restructuring of Companies." We were advised by our U.S. tax adviser, one of the "big four" accounting firms, that the restructuring steps we took (i) were more likely than not qualified as a tax-neutral reorganization within the meaning of the U.S. Internal Revenue Code, and (ii) should not be treated as a "surrogate foreign corporation" (in which case Feihe Gannan and Feihe HLJ would be deemed as domestic U.S. companies) within the meaning of the U.S. Internal Revenue Code for U.S. federal income tax purposes. Tax-neutral treatment means that undertaking such restructuring steps should not result in any tax costs. We cannot guarantee, however, that the IRS will not challenge the relevant tax treatment and the conclusion in respect of the restructuring. If challenged, we may be required to devote time, management attention and costs to respond to the IRS. Moreover, if the IRS disagrees with us on the tax treatment and conclusion of our restructuring steps, we may be required to pay any potential federal income tax with respect to the restructuring, be subject to higher tax rates for any dividends paid on the class "B" ordinary shares of Feihe HK and Feihe Nutrition HK and be subject to accuracy-related penalties for any potential additional federal income tax. Any such challenges, rulings against us or penalties imposed by the IRS may have a material and adverse effect on our business, financial condition and results of operations.

We received government grants during the Track Record Period, and any significant reduction or discontinuation of government grants offered to us may materially and adversely affect our financial condition and results of operations.

During the Track Record Period, we recorded government grants in the form of cash subsidies from local government authorities in Heilongjiang and Jilin provinces. Except for two agreements that stipulate the relevant grant shall be used for construction and acquisition purposes in relation to the production lines at the Kedong Plant and Jilin Plant, these government grants have been provided in support of our business development generally. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, we recognized government grants of RMB280.8 million, RMB253.0 million, RMB411.9 million, RMB103.2 million and RMB113.2 million, respectively. During the Track Record Period, we primarily received such government grants pursuant to agreements we entered into with local government authorities. As of the Latest Practicable Date, we had seven agreements in effect with local government authorities with respect to government grants. See "Financial Information — Description of Key Components of Results of Operations — Other Income and Gains, Net" for details. Based on Notice 25, our PRC Legal Advisers have advised us that such agreements remain in effect are valid and binding, save for (i) one of our government grant agreements that was extended for a one-year period after the promulgation of Notice 25 in 2015, where the possibility that we cannot receive government grants in the one-year extension from 2019 to 2020 is remote, and (ii) one government grant agreement that was entered into after the promulgation of Notice 25, where the possibility that we cannot receive government grants pursuant to such agreement is remote. Our PRC Legal Advisers have further advised us that, (i) according to Notice 25, we would not be required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreements entered into before the promulgation of Notice 25, and (ii) the possibility that we were required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreement entered into after the promulgation of Notice 25 is remote.

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We cannot assure you that we will continue to be eligible to receive such government grants or that the amount of such grants will not be reduced in the future. Our ability to continue to enjoy government grants is subject to changes in national or local policies that affect the validity of our agreements with the relevant local government authorities and the availability of similar preferential arrangements, and may be affected by the termination of, or amendments to, such agreements for any number of reasons, including those beyond our control. Moreover, we cannot assure you that we will be able to enter into new agreements with local government authorities that provide government grants to us on similar terms. Considering the significant contribution of such government grants to our adjusted profit before tax during the Track Record Period, any significant decrease in or termination of such government grants in the future may have a material and adverse effect on our financial condition and results of operations.

Our acquisition strategies may not succeed.

We may from time to time pursue acquisitions that we believe would benefit our business. Our ability to grow through such means depends upon our ability to identify, negotiate, complete and integrate suitable opportunities as well as to obtain the necessary financing and required governmental or third-party consents, approvals and permits in a timely manner. Even if we engage in such acquisitions, we may have limited experience and we may be exposed to:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business, particularly integrating different quality control procedures and measures, business, operations, financial and risk management, information systems, customer service and other business functions;
- challenges in procuring and allocating resources to fuel our expansion, including sufficient raw materials, adequate manufacturing, warehousing and transportation infrastructure and increased distribution and marketing channels;
- difficulties in implementing and enforcing our management and internal control mechanisms as well as quality assurance program and safety measures that timely and adequately respond to our expanded scope of operations;
- disputes or breaches by our joint venture partners or strategic business partners, or the inability of our joint venture partners or strategic business partners to fulfill contractual obligations due to their businesses or financial condition;
- delays or failures in realizing the benefits of the acquired businesses or products, which could result from, for instance, delays in customer acceptance of products developed or manufacturing processes employed by acquired businesses;
- diversion of our management's time and attention from other business concerns;
- higher costs of integration than we anticipated; or
- difficulties in retaining key employees of the acquired businesses who are necessary to manage these acquired businesses.

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In 2014, we invested in Guanshan Dairy to develop our goat milk infant formula business. We were notified by the Long County FDA that five batches of our goat milk infant formula products did not meet the relevant national infant milk formula food standards. Guanshan Dairy was ordered by Long County FDA to suspend operations for rectification, and incurred expenses of RMB155.3 million in relation to this incident, which included a RMB79.1 million write-down of inventories. Guanshan Dairy was also ordered by Shanxi FDA to suspend production to rectify issues found during a food safety audit from November 2 to 4, 2015, and it resumed production after passing re-inspections in December 2015. We cannot guarantee that we will not discover product liabilities and deficiencies in internal controls, product quality and regulatory compliance in acquired businesses which we did not uncover prior to such acquisition. Furthermore, upon the disposal of Guanshan Dairy in December 2016, the distribution channels and other intangible assets of Baby Mom QQH were written down as an impairment of goodwill of RMB22.1 million and amortization of intangible assets of RMB13.9 million. See "Financial Information — Key Factors Affecting Our Results of Operations — Recent Acquisition and Disposal" for details. In addition, we wrote down the inventories of RMB12.9 million in 2016 in relation to Guanshan Dairy's inventories as its business declined following the Guanshan Dairy incident. As such, businesses that we acquire as part of our growth strategies may subject us to additional expenses, write-down of inventories and impairments, may not succeed and may subject us to penalties, lawsuits or other liabilities, which may have a material and adverse impact on our business, reputation, financial condition and results of operations.

Resources devoted to research and development may not yield new products that achieve commercial success, and failure to innovate or to introduce new products may reduce our future sales and market share, hinder our business expansion plans and impair our profitability.

Our mission is to continue to make new scientific discoveries and improvements to our products so that our infant milk formula simulates the breast milk of Chinese mothers as much as possible. Our ability to continue to achieve advancements depends on the success of our in-house research and development efforts and our research collaborations with research institutes and other organizations. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our research and development costs amounted to RMB13.8 million, RMB14.7 million, RMB108.9 million, RMB0.9 million and RMB29.6 million, respectively. The research and development process can be expensive and prolonged, and entails considerable uncertainties. Our investments and efforts may not yield any successful or commercially viable results; our products currently under development or that we may develop in the future may not complete the development process; or we may be unable to obtain the relevant licenses and approvals required to market and sell such products. Even if we succeed in introducing new infant milk formula products, we can give no assurance that a market will develop for any new products that we launch or that our new product offerings will meet consumer requirements. If we fail to innovate or successfully bring new products to market, our business, results of operations and prospects may be adversely affected and we may not be able to maintain our leading position in the PRC infant milk formula market.

RISK FACTORS

We may be subject to material product returns or exchanges.

Our distributors are generally not allowed to return products except for defective or damaged products. In principle, our distributors are entitled to exchange products close to expiry to ensure the freshness of our products sold to the consumers, but generally may not exchange more than 1.0% of the total products sold to them per year. We estimate and record provisions for product returns and exchanges as a reduction of revenue. Such provision is calculated annually based on historical trends and data specific to each period. At year end, we reverse provisions for product returns and exchanges based on actual returns and exchanges as necessary. During the Track Record Period, the amount of goods returned or exchanged by our distributors accounted for less than 0.1% of our total revenue. However, we cannot guarantee that we will not experience material product returns or exchanges from distributors in the future, which would have an adverse impact on our revenue. Product returns or exchanges due to quality defects could also damage our reputation and have a material adverse effect on our sales.

Delivery delays and poor handling by our Independent Third Party logistics service providers may adversely affect our business, financial condition and results of operations.

We rely on our Independent Third Party logistics service providers for the transportation of most of our products. The services provided by these logistics service providers may be suspended and cause interruption to the supply of our products due to unforeseen events. Delivery delays may occur for various reasons beyond our control, including poor handling by our logistics companies, labor disputes or strikes, acts of war or terrorism, earthquakes and other natural disasters, and could lead to delayed or lost deliveries. Poor handling of our products could also result in product contamination or damage, which may in turn lead to product recalls, increased costs and damage to our reputation, thereby adversely affect our business, financial condition and results of operations.

Counterfeiting of our products could adversely impact our brand reputation and results of operations.

Counterfeiting and imitation of well-known dairy products have occurred in China in the past. Counterfeiters may illegally and without a proper license manufacture and market infant milk formula products under our brand name or that of our competitors. Counterfeit products are often sold at lower prices due to lower production costs and different chemical contents as compared to their authentic counterparts. There can be no assurance that our products will not be subject to counterfeiting or imitation in the future. If counterfeit products sold under our brand results in adverse side effects on consumers, we may be associated with negative publicity as a result. In addition, counterfeit products may compete with our products on the market, which may have an adverse impact on our revenue, business and results of operations. We have not encountered any counterfeiting which caused a material adverse effect on the operations of our business during the Track Record Period. However, we may not be able to effectively enforce our rights against counterfeiters under the current legal and regulatory system in China. Any sale or production of counterfeit products in China could materially and adversely impact our business, results of operations and brand reputation.

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We may not be able to adequately protect our intellectual property rights, which could harm the value of our brand and adversely affect our business and operation.

We rely heavily on a combination of patents, trademarks, domain name registrations and confidentiality agreements to protect our intellectual property rights. We also possess a significant number of know-how or trade secrets in relation to proprietary product formulations, technologies and production processes, which we believe are material to our operations and which are not covered by patents. We rely on various protective measures to safeguard such unpatented proprietary information, including entering into confidentiality agreements with our relevant employees and third parties. However, we cannot assure you that our protective measures will be sufficient to protect our trade secrets, know-how or other proprietary information against any unauthorized use, misappropriation or disclosure. We also cannot guarantee that we will be successful in enforcing confidentiality provisions or undertaking enforcement proceedings in the event that there is any unauthorized use of our intellectual property.

The brand names and trademarks under which our products are marketed and sold are also important to our business and we have invested considerable efforts in seeking trademark protection for our flagship brands. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, 12, one, nil and nil of our distributors conducted their business under our trade name. We have notified such distributors and requested them to cease to use our trade name, and all distributors have requested a grace period and signed a confirmation letter undertaking to cease using our trade name before January 2018. As of the Latest Practicable Date, such distributors have ceased to use our trade name. We cannot guarantee that the existing licensee will not breach the covenants and restrictions on the use of our trademark. Moreover, if there are any concerns over the quality of the licensee's products that bear our trademark or any improper or unauthorized use of our trademarks, trade names or brand names by such licensee, any of these distributors or any other third parties, our reputation and goodwill may be impaired. If any of the foregoing events occurs, any damages we may claim may not be sufficient to cover our losses. If we fail to effectively protect our intellectual property from inappropriate or unauthorized use by third parties in ways that adversely affect our brand name, our reputation could suffer, which in turn could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, any litigation to protect our intellectual property would be time-consuming and costly, and may divert the attention of our senior management and key personnel from our business operations.

We may be subject to intellectual property infringement or misappropriation claims by third parties, which could damage our reputation and adversely affect our business and operations.

We may become subject to claims from competitors or third parties alleging intellectual property infringement in our ordinary course of business. The validity and scope of claims relating to the intellectual property rights of infant milk formula products or nutritional supplement development and technology may involve complex scientific, legal and factual questions and analyses, which results in uncertainty and ambiguity. Any third parties assertion of intellectual property infringement against us may involve us in litigation or administrative proceedings, which can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay on-going royalties or significant damages, to reformulate our products, or be prevented from selling our products altogether. Moreover, litigation to defend our intellectual property may cause our reputation to suffer severe damage, causing current or potential customers and consumers to defer or limit their purchase or use of our products.

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Our legal right to certain leased properties may be challenged and we did not register our lease agreements.

As of the Latest Practicable Date, we leased five properties in the PRC, of which one property was used as registered addresses for Beijing Biotech, three properties were used as offices and one property was used as storeroom. Our landlords did not provide us with the relevant title certificates for two of these leased properties. We cannot guarantee that the landlords from whom we leased such properties have the right to lease such properties to us. The relevant rightful title holders or other third parties may challenge our use of such leased properties and we may be required to seek alternative properties for lease on short notice. However, we may not be able to find alternative properties that are suitable for our use in a timely manner and at reasonable costs, or at all. Furthermore, we have not registered our lease agreements with the relevant government authorities in accordance with PRC laws and regulations and may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease should we and our landlords fail to register the lease agreements upon request by the relevant authority.

We cannot guarantee that we will not be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subjects us to potential product liability claims if our products are proven to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues. If we are unsuccessful in any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources, and if we are unsuccessful, could materially harm our reputation. Furthermore, claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

Increase in labor costs, shortage of labor or deterioration in labor relations may hinder our growth and adversely affect our business.

Labor costs have been increasing, and may continue to rise in the future. Labor cost increases may cause our production costs to increase and we may not be able to pass on such increase to our customers. We also cannot assure you that we will not experience any shortage of labor. Any such shortage could hinder our ability to maintain our production schedules and maintain or expand our business operations, which could materially and adversely affect our business, financial condition and results of operations.

We seek to maintain favorable labor relations as we believe that our long-term growth depends on the expertise, experience, and development of our employees. We cannot guarantee that we will not have any labor disputes in the future. The deterioration of our labor relations could result in disputes, strikes, claims and legal proceedings, labor shortages that disrupt our business operations, as well as loss of experience, know-how and trade secrets.

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We may not be able to retain or secure key members of our senior management team or other key personnel for our operations.

Our continuing and future success depends on the services and efforts of our senior management and key personnel, including Mr. Leng, our Chairman and Chief Executive Officer, and other senior management team. Losing the services of our key personnel with industry expertise, know-how or experience in areas such as risk management, research and development, production, sales and marketing and accounting and financial management could have a material and adverse effect on our ability to sustain and grow our business. Moreover, there is no assurance that our senior management and key personnel will not join a competitor or form a competing business or will honor the agreed upon terms and conditions of their employment contracts. As competition for skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business.

Before April 2016, we did not make full contributions to social insurance and housing provident fund for a certain number of our employees. For more information, see "Business — Legal Proceedings and Non-compliances — Non-compliances — Failure to Make Full Contributions to Social Insurance and Housing Provident Funds." Since April 2016, we have contributed to social insurance and housing provident funds for all of our employees based on the amount and standard prescribed by competent government authorities and, in April and May 2019, we obtained confirmation letters from the relevant social insurance and housing provident fund authorities confirming that they will not request us to pay the contribution shortfall or any overdue fine thereon. However, we cannot guarantee that any new laws and regulations will not require us to pay any contribution shortfall retroactively, thereby adversely affecting our financial condition and results of operations.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding acquisitions, mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account any Shares to be [REDACTED] upon exercise of the options granted under the [REDACTED] Share Option Scheme), our Controlling Shareholders will directly or indirectly, individually or together with others control [REDACTED] of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our

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Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We may not be able to detect and prevent fraud, bribery, or other misconduct committed by our employees, customers or other third parties.

We may be exposed to fraud, bribery, or other misconduct committed by our employees, customers, or third parties that could subject us to financial losses and sanctions imposed by governmental authorities, which may adversely affect our reputation. Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions or incidents of corruption or bribery in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud, bribery, and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. We cannot assure you that fraud, bribery, or other misconduct will not occur in the future. If such fraud, bribery, or other misconduct does occur, it may cause negative publicity as a result.

Our indebtedness may limit our operating flexibility.

As of May 31, 2019, we had total interest-bearing bank and other borrowings of RMB2,642.7 million. Our ability to pay interest on and to satisfy our debt will depend upon, among other things, our future operating performance and our ability to refinance indebtedness when necessary. Each of these factors is, to a large extent, dependent upon economic, financial, competitive and other factors beyond our control. If, in the future, we cannot generate sufficient cash from operations to meet our obligations, we will need to refinance our existing debt, obtain additional financing or sell assets. Our operations may not generate sufficient cash flows to satisfy our existing obligations and funding sufficient to satisfy our requirements may not be available on satisfactory terms, if at all.

We had negative operating cash flow for the three months ended March 31, 2019. If we record net cash outflow from operating activities in the future, our liquidity and financial condition may be materially and adversely affected.

We had negative cash flow used in operating activities of approximately RMB126.3 million for the three months ended March 31, 2019. This net cash outflow was primarily a result of profit before tax in the amount of RMB1,087.3 million, as adjusted for negative changes in working capital. Negative changes in working capital primarily consisted of (i) a RMB528.0 million decrease in other payables and accruals, (ii) a RMB277.0 million increase in prepayments, deposits and other receivables, and (iii) a RMB69.7 million increase in inventories.

Although we seek to manage our working capital, we cannot assure you that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. As a result, there could be a period during which we experience net cash outflow. In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. There is no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash,

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we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

We are exposed to credit risk in relation to defaults from counterparties.

We enter into a wide variety of contractual arrangements with different counterparties in the ordinary course of our business. We generally provide credit terms of up to 90 days for certain major customers and our trade and bills receivables as of December 31, 2016, 2017 and 2018 and as of March 31, 2019 amounted to RMB93.2 million, RMB174.7 million, RMB512.8 million and RMB549.1 million, respectively. Our trade and bills receivables turnover days in 2016, 2017 and 2018 and for the three months ended March 31, 2019 were 6.5, 8.3, 12.1 days and 17.6 days, respectively. In 2016, 2017 and 2018 and March 31, 2019, we recorded provision for impairment of trade receivables of RMB0.5 million, RMB4.4 million, RMB1.8 million and RMB7.2 million. Our senior management regularly reviews the recoverability of overdue balances for trade and bills receivables and may provide for impairment when appropriate. We cannot assure you that all of our counterparties are creditworthy and reputable and will not default on us in the future, despite our efforts to conduct credit assessments on them. There is limited financial or public information on many of our counterparties, and as a result, we are exposed to risks that our counterparties may fail to fulfil their obligations to us under our contracts.

Our goodwill and other intangible assets may become impaired.

As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, we had goodwill in the amounts of RMB48.0 million, RMB48.0 million, RMB48.0 million and RMB48.0 million, respectively, and other intangible assets in the amounts of RMB10.1 million, nil, RMB0.04 million, RMB0.04 million, respectively. After initial recognition, we determine whether goodwill is impaired annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and other intangible assets with finite useful life are tested for impairment whenever there is an indication that the other intangible assets may be impaired, based on an estimation of the value in use of the cash-generating units to which the goodwill and other intangible assets with finite useful life are allocated. Upon the disposal of Guanshan Dairy in December 2016, the distribution channels and other intangible assets of Baby Mom QQH were written down as an impairment of goodwill of RMB22.1 million and amortization of intangible assets of RMB13.9 million. These impairments were recognized in our consolidated statements of profit or loss as other expenses, which had a negative impact on our results of operations. We cannot assure you that our goodwill or other intangible assets will not be impaired in the future, in which case our results of operations may be materially and adversely affected.

Our deferred tax assets are subject to accounting uncertainties.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. See Note 2.4 of the Accountants' Report in Appendix I to this Document. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, we recognized deferred tax assets of RMB94.1 million, RMB139.6 million, RMB208.3 million and RMB243.8 million, respectively. Based on our accounting policies, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized. The realization of a deferred tax asset mainly depends on

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our management's estimate as to whether sufficient future profits will be available in the future. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. If sufficient future taxable profits are not expected to be generated or are less than expected, a material reversal of deferred tax assets may arise in future periods.

Our insurance coverage may not be sufficient to cover all of our potential losses.

We purchase and maintain insurance policies that we believe are customary with the standard commercial practice in our industry and as required under the relevant laws and regulations. However, we cannot guarantee that our insurance policies will provide adequate coverage for all the risks in connection with our business operations. Consistent with customary practice in China, we do not carry any business interruption, product liability, or litigation insurance. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we could suffer significant costs and diversion of our resources, which could have a material and adverse effect on our financial condition and results of operations. We may be required to bear our losses to the extent that our insurance coverage is insufficient.

Any security and privacy breaches may damage our customer relations, our reputation and expose us to liability.

We electronically collect and store sensitive personal information. We process that data and deliver our products by using computer systems and telecommunications networks operated by both us and third-party service providers. If we are unable to protect, or our customers perceive that we are unable to protect, the security and privacy of such information:

- our customers may lose confidence in our services;
- our reputation may be harmed;
- we may be subject to litigation or claims under applicable data security and privacy laws, which could be complex, expensive and time-consuming to defend and may ultimately carry monetary or other penalties;
- we may be exposed to unbudgeted or uninsured financial liability;
- we may be subject to increased regulatory scrutiny; and
- our expenses may increase as a result of potential remediation costs.

While we believe we use secure applications and processes designed for data security, there can be no assurance that our use of these applications and processes will be sufficient to counter all current and emerging technology threats designed to breach our systems in order to gain access to confidential customer information. Moreover, despite using such applications and processes for data security, such measures may not address all internal threats, whether inadvertent or not, such as through employee error, malfeasance, faulty password management and other irregularities.

Additionally, if third parties with whom we work, such as our online platform suppliers, advertisers or developers, violate applicable laws or our policies, such violations may also put our

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customers' information at risk. The risk of these types of events is likely to increase as we expand our network of suppliers, advertisers and other third parties and begin operations in additional markets. Any of the foregoing and/or any other failures or inadequacies in our security and privacy measures could adversely affect our reputation and brand and the market's acceptance of our products, which could materially and adversely affect our business, financial condition and results of operations.

Our information technology systems may experience unexpected system failure, interruption, inadequacy or security breaches.

We rely on our information technology systems, particularly the DRP system and the customer resource management (CRM) system to effectively manage our business data, communications, supply chain, order entry, financial information and fulfillment and other business processes. Our sales through e-commerce are growing and we plan to continue using our CRM system to record consumer data for more effective marketing activities. Our growing use and reliance on information technology will place an increasing pressure on such systems. We may encounter problems when upgrading our systems and services, which could adversely affect our sales and other operations.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches and viruses. Any significant failure of our information technology systems, or loss or leakage of confidential information could have a material adverse effect on our business and result in transaction errors, processing inefficiencies and loss of sales and customers.

Moreover, any security breach caused by hackings to gain unauthorized access to our information or systems, or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment, or any intentional or inadvertent transmission of computer viruses and similar events or third-party actions could have a material and adverse effect on our business. Operations of our customer resource management involve storage of customer data and information in our facilities and on our equipment, networks and corporate systems, which may be breached due to the actions of outside parties, employee error, malfeasance, or a combination of these or otherwise. If any actual or perceived breach of our security occurs, our customers' confidence in the effectiveness of our security measures could be harmed and we may lose customers and suffer financial losses due to such events or in connection with remediation efforts, investigation costs and system protection measures, any of which could harm our reputation and materially and adversely affect our business and results of operations.

RISKS RELATING TO OUR INDUSTRY

Our industry has experienced a slowdown in the growth rate in recent years, primarily as a result of declines in birth rates.

The infant milk formula market in China has experienced a slowdown in the growth rate in recent years, which has been affected by factors such as declines in birth rates and an increase in cross-border purchases by Chinese consumers. According to the F&S Report, birth rate in China decreased from 11.9% in 2010 to 10.9% in 2018. According to the F&S Report, after growing at a rate of 12.4% from 2014 to 2015 in terms of retail sales value, the infant milk formula market in China slowed to a growth rate of 6.7% in 2016 and 11.3% in 2017 before a slight recovery at a rate of 14.4% in 2018. The prices at which we sell our products and the estimated demand for our products may be negatively affected by market conditions of the infant milk formula market in China. While the retail sales value of the infant milk

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formula market in China is expected to grow at a CAGR of 6.9% from 2018 to 2023, according to the F&S Report, we cannot guarantee that the infant milk formula market will experience such growth or that other events will not occur to adversely affect the growth of the infant milk formula market in China. Our growth may be adversely impacted by demographic, consumer and economic trends in China as well as changes in the regulatory environment of our industry. If the infant milk formula market continues to remain stagnant, we may be required to implement price adjustments and re-evaluate our marketing and business strategies to respond to market pressures, which may materially and adversely affect our business and results of operations.

We may experience intense competition and fail to compete effectively.

We face intense competition with international and domestic companies in the infant milk formula market in China. We also compete with cross-border purchases made by Chinese consumers, which indirectly reduce the demand for our products in China. A number of our primary competitors may have longer operating histories, stronger capital resources, larger customer bases, greater brand or name recognition and customer loyalty, greater expertise in regional markets, wider distribution networks, greater financial, technical, marketing and public relations resources and a wider range of products than we do. Furthermore, developments in PRC laws and regulations relating to the infant milk formula market may cause small-scale infant milk formula producers to exit the market resulting in higher market concentration and consolidation among industry participants in China, which may lead to the emergence of stronger domestic competitors as well as competitors who are more specialized in particular areas and geographic markets. Some of our competitors may be better positioned to develop superior products, offer more favorable pricing to customers, and better adapt to market trends than we are. Such competitive pressures may lead us to reduce our prices or increase our costs, which could reduce our margins and materially and adversely affect our business, financial condition and results of operations.

We also face intense competition in the United States nutritional supplements retail industry. Participants in the industry include specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, on-line merchants, mail-order companies and a variety of other smaller participants. We believe that the market is also highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. In the United States, we also compete for sales with heavily advertised national brands manufactured by large pharmaceutical and food companies, as well as other retailers. In addition, as some products become more mainstream, we experience increased price competition for those products as more participants enter the market. Our international competitors include large international pharmacy chains, major international supermarket chains, and other large U.S.-based companies with international operations. Our operations compete with other nutritional supplements. We may not be able to compete effectively and our attempt to do so may require us to reduce our prices, which may result in lower margins. Failure to effectively compete could adversely affect our market share, revenues, and growth prospects.

More mothers may breastfeed their babies rather than using infant milk formula products, resulting in reduced demand for infant milk formula products.

The growth of the infant milk formula market and the operation of infant milk formula manufacturers are affected by the number of mothers who choose to use infant milk formula as an alternative to breastfeeding their babies. Much publicly available data suggests that breastfeeding has many health benefits for babies that cannot be replicated by dairy-based infant milk formula. Additionally, popular literature, cultural pressure and medical advice in China generally promote the

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benefits of breastfeeding. Any material decline in the number of mothers in China who choose infant milk formula over breastfeeding could lead to a reduced demand for our products, and our revenue and growth prospects could be adversely affected.

We are subject to extensive government regulations in China and it can be costly to comply with current and future regulatory requirements.

We are subject to extensive laws and regulations regarding the manufacturing, packaging, storage, distribution and labeling of our products by the SAMR and by other PRC provincial and local authorities in China. For instance, the PRC Government promulgated the Implementation Rules on the Examination and Permission of Production of Infant Milk Formula Products (嬰幼兒配方乳粉生產許可審查細則) in December 2013, which set forth high standards for permission of production of infant milk formula. In addition, the Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Power (嬰幼兒配方乳粉產品配方註冊管理辦法) was promulgated on June 6, 2016, which provided for more stringent regulations on various aspects of infant milk formula market. Such requirements require significant compliance costs and management attention, which could materially and adversely affect our operations and financial performance. In addition, our production facilities and products are subject to periodic inspection by relevant governmental agencies. We are also required to obtain, maintain and renew a number of certificates, licenses and permits to operate our business in China. There can be no assurance that we will always be able to renew or obtain approvals in relation to our current and future operations or obtain any new certificates, licenses and permits that may become necessary for our operations. Failure to renew or obtain approvals or delay in obtaining such renewals or approvals could subject us to, among others, suspension of operations and penalties which could have a material and adverse effect on our business.

Furthermore, a number of PRC laws and regulations regulate advertisements of infant milk formula products, including the Advertising Law of the PRC (中華人民共和國廣告法), Food Safety Law of the PRC (中華人民共和國食品安全法), among others. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to eliminate the influence of such advertisements and even criminal liabilities. If we are found to have violated any applicable PRC advertising laws and regulations, we may have to cease certain advertising activities. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising. In such case, we may have to spend additional resources in defending ourselves against such actions, and these actions may damage our reputation and brand image, and negatively affect our results of operations.

The laws and regulations relating to our industry in China continue to evolve, and there can be no assurance that the PRC Government will not change the existing laws or regulations or adopt additional or more stringent laws or regulations applicable to us and our business operations. Any changes to such laws and regulations or their interpretation or enforcement may expose us to the risk of non-compliance and may require us to conform our activities and operations to comply with such laws and regulations. We cannot predict the nature of such future laws, regulations, interpretations, or applications, nor can we predict their impact on our business. Such laws and regulations may require the re-configuration of our methods for procuring raw materials, production and transportation, including more onerous product safety, labeling and packaging requirements, increases in costs, and greater uncertainty in production and procurement estimates. Any such government actions could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our failure to comply with any applicable laws and regulations on a timely basis could subject us to, among others, fines, injunctions, product recalls or seizures, suspension of operations, penalties and other sanctions, which could have a material and adverse effect on our business, financial condition and results of operations.

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We are subject to extensive government regulations in the United States, and it can be costly to comply with current and future regulatory requirements.

We also have operations in the United States. The labeling, advertising, and distribution of our products are subject to federal laws and regulation by one or more federal agencies, including the U.S. Food and Drug Administration (the "FDA"), the U.S. Federal Trade Commission (the "FTC"), the U.S. Consumer Product Safety Commission, the United States Department of Agriculture, and the U.S. Environmental Protection Agency. These activities are also regulated by various state, and international laws and agencies of the states and localities in which our nutritional supplements are sold. Government regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost revenues and increased costs to us. For instance, the FDA regulates, among other things, the composition, safety, labeling, and marketing of dietary supplements (including vitamins, minerals, herbs, and other dietary ingredients for human use). The FDA may not accept the evidence of safety for any new dietary ingredient that we may wish to market, may determine that a particular dietary supplement or ingredient presents an unacceptable health risk, and may determine that a particular claim or statement of nutritional value that we use to support the marketing of a dietary supplement is an impermissible drug claim, is not substantiated, or is an unauthorized version of a "health claim". Any of these actions could prevent us from marketing particular dietary supplement products or making certain claims or statements with respect to those products. The FDA could also require us to remove a particular product from the market. Any future recall or removal, whether voluntary or mandated by FDA, would result in additional costs to us, including lost revenues from any products that we are required to remove from the market, any of which could be material. Any product recalls or removals could also lead to liability, substantial costs, and reduced growth prospects.

Additional or more stringent regulations of dietary supplements and other products could require reformulation of some products to meet new standards, recalls or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation, adverse event reporting, or other new requirements. Any of these developments could increase our costs significantly. The FDA has published a The FDA has also published numerous guidances related to dietary supplement products, including guidances related to new dietary ingredients, claims, Good Manufacturing Practices, and scientific substantiation. Although FDA guidance is not mandatory, it is a strong indication of the FDA's current views on the topic discussed in the guidance, including its position on enforcement. Depending on FDA's recommendations, particularly those relating to animal or human testing, such guidance could also raise our costs and negatively impact our business in several ways, including the potential that the FDA might seek to enjoin the manufacturing of our products because of violation of the Good Manufacturing Practice ("GMP") regulations until the FDA determines that we are in compliance and can resume manufacturing. We may not be able to comply with rules without incurring additional expenses, which could be significant. We also must comply with adverse event reporting requirements. The FDCA requires that manufacturers, packers, and distributors of dietary supplements report serious adverse events to the FDA within specific time periods. Reporting adverse events, or failing to report such events, can result in fines, FDA enforcement, criminal and/or civil liability. FDA is actively enforcing in the dietary supplement space, and has reiterated its commitment as of early 2019 to strengthening regulation of dietary supplements bolstering FDA's oversight of the industry. Thus, the company may become subject to additional laws or regulations that require revising or reformulating products.

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Any major outbreak of illness or disease relating to livestock that provides fresh milk could lead to significant shortages in the supply of fresh milk and other dairy products and could cause consumers to avoid or reduce consumption of dairy products.

Any major outbreak of illness or disease relating to livestock that provides fresh milk in China or any other country from which we may source raw materials could lead to a serious loss of consumer confidence in, and demand for, our infant milk formula products. A major outbreak of mad cow disease, bovine tuberculosis, FMD, brucellosis or other serious infectious diseases in the regions from which we source fresh milk and other raw materials could result in the widespread destruction of the affected cattle and consequently lead to significant shortages in the supply of fresh milk or affect the continuity and quality of the supply of fresh milk. Furthermore, adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying dairy products or cause production and delivery disruptions. If consumers were to avoid or reduce consumption of dairy products and dairy-based products, our sales may decline significantly and we could suffer substantial losses.

The uncertainties in the global economy may have adverse effect on our business

During the Track Record Period, we sourced a variety of high quality raw materials from around the world. Governmental policies favoring domestic companies in certain foreign markets or trade barriers including export requirements, tariffs, taxes and other restrictions and charges may negatively affect our ability to procure raw materials from outside of China at favorable or reasonable prices, or at all. There have been concerns over the exit of the United Kingdom from the European Union, worldwide populism trend that call for protectionism trade policy and potential international trade disputes between the United States and China. In particular, the Trump administration and members of the U.S. Congress have made public statements indicating possible significant changes in U.S. trade policy and have taken certain actions that may impact U.S. trade, including imposing tariffs on certain goods imported into the United States. Any changes in U.S. trade policy could trigger retaliatory actions by affected countries, resulting in "trade wars", in increased costs for goods imported into the United States, or in trading partners limiting their trade with the United States. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade. While only a small portion of our raw materials are sourced from the United States and we are able to source comparable alternatives within China and from other parts of the world, the imposition of tariffs on items imported from the United States and other parts of the world could require us to increase prices to our customers or, if unable to do so, result in lowering our gross margin on products sold. Any of these factors could depress economic activity, restrict our access to raw materials and have a material adverse effect on our business, financial condition and results of operations and affect our strategy in major markets in the world.

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RISKS RELATING TO DOING BUSINESS IN CHINA

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

During the Track Record Period, most of our assets are located in China, and substantially all of our revenue is derived from our business in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, affected by economic, political and legal developments in China.

The PRC economy differs from the economies of developed countries in many respects, including, among others, the degree of government involvement, investment control, level of economic development, growth rate, foreign exchange controls and resource allocation. Since 1978, PRC Government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. A substantial portion of productive assets in China, however, is still owned by the PRC Government. The PRC Government also exercises significant control over the economic growth of the PRC through means such as allocating resources, controlling payments of foreign-currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC Government has implemented measures emphasizing the utilization of market forces, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may materially and adversely affect us. China has experienced rapid economic growth over the past few decades; however, its continued growth has faced downward pressure since the second half of 2008 and its annual GDP growth rate has declined from 9.5% in 2011 to 6.6% in 2018, according to the National Bureau of Statistics of China (中華人民共和國國家統計局). There is no assurance that the future growth will be sustained at similar rates or at all. Our business, financial position, results of operations and prospects may be materially and adversely affected by PRC Government's economic, political and social policies, including those to our industry.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us and limit the legal protection available to you.

Our business and operations are primarily conducted in China and are governed by PRC laws and regulations. In addition, our offshore holding companies and certain transactions between them may be subject to various PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have limited weight as precedents. The PRC legal system continues to evolve rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. In recent years, the PRC Government implemented a series of new laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control and supervision and inspection of enterprises engaged in production of infant milk formulas. See "Regulatory Overview — Laws and Regulations Relating to the Industry." If the PRC Government continues to impose stricter regulations on the dairy industry, we could face higher costs in order to comply with those regulations, which could impact our profitability. Moreover, we cannot predict the effect of future developments in the PRC legal system. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business and impede our ability to continue our operations. Further, the PRC legal system is based in part

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on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of any violation of these policies and rules until after such violation has occurred. Furthermore, the legal protections available to us and our investors under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

We face risks related to health epidemics, contagious diseases and other outbreaks.

Our business could be materially and adversely affected by the outbreaks of contagious diseases such as SARS, H5N1 avian influenza, human swine flu or another epidemic or outbreak. An outbreak of contagious diseases, and other adverse public health developments in China could result in a widespread health crisis and restrict the business activities in affected areas, which may, in turn, materially and adversely affect on our business operations. In addition, since we are in the infant milk formula business, any outbreak of epidemic may directly impact our operations, including our ability to obtain safe and high quality raw materials, manufacture and ship our products, as well as cause temporary closure of our manufacturing facilities. In such an event, our operations would be severely disrupted and our financial condition and results of operations will be materially and adversely affected. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian influenza, SARS, human swine flu or any other epidemic.

More stringent restrictions on the remittance of Renminbi into and out of the PRC and governmental control over currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.

The Renminbi is not currently a freely convertible currency, as the PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and in certain cases, the remittance of currency out of China. We receive substantially all of our payments from customers in Renminbi and will need to convert Renminbi into foreign currencies for the payment of dividends, if any, to holders of our Shares, and to fund our business activities outside China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under China's existing foreign exchange regulations, payment of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may take measures at its discretion from time to time to restrict access to foreign currencies for current account transactions. Since 2015, in response to China's declining foreign currency reserves, the PRC Government has placed increasingly stringent restrictions on the convertibility of the Renminbi into foreign currencies. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of China. Any existing and future restrictions on currency exchange may limit our ability to purchase raw materials outside of China or otherwise fund any future business activities that are conducted in foreign currencies, such as the Canadian dollar.

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Fluctuations in exchange rates of the Renminbi could result in foreign currency exchange losses.

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in China's and international political and economic conditions, as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future. In addition, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policies goals.

There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a significant appreciation of Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currencies.

The proceeds from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our proceeds from the [REDACTED]. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Any of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax.

We are a company incorporated under the laws of Cayman Islands. Pursuant to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management bodies" within China, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its global income. "De facto management bodies" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009 and July 2011, SAT issued several circulars to clarify certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. However, there have been no official implementation rules regarding the determination of the "de facto management body" for foreign enterprises that are not controlled by PRC enterprises. Therefore, it remains unclear how PRC tax authorities will treat a case like ours. If we are regarded as a PRC resident enterprise by the PRC tax authorities, we would have to pay PRC enterprise income tax at a rate of 25% for our entire global income, which may materially and adversely affect our profit and hence our retained profit available for distribution to our Shareholders.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Under the EIT law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, PRC withholding tax at a rate of 10% is normally applicable to dividends from a PRC source paid to investors that are "non-resident enterprises," which do not have an establishment or place of business in China, or which have such establishment or place of business but whose relevant income is not effectively

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connected with the establishment or place of business. Any gain realized on the transfer of shares by such is generally subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China.

Under PRC Individual Income Tax law and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described under the risk factor headed “– We may be deemed to be a PRC tax resident under the EIT Law and our global income may be subject to a 25% PRC enterprise income tax” dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. However, shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》) (the “**Circular 60**”), which was issued on August 27, 2015 and was latest amended on June 15, 2018. According to the Circular 60, the preferential tax rate does not automatically apply. With respect to dividends, the “beneficial owner” tests under Announcement of the SAT on issues regarding Beneficial Owner under Tax Treaties (關於稅收協定中「受益所有人」有關問題的公告) (the “**Circular 9**”) will also apply. If determined to be ineligible for the foregoing tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of your investment in our Shares may be materially and adversely affected.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our operating subsidiaries in China. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. The PRC laws and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.

Under the EIT Law and its implementation rules, if a foreign entity is deemed to be a “non-resident enterprise” as defined under the EIT Law, a withholding tax at the rate of 10% will be applicable to any

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dividends payable to the foreign entity unless otherwise reduced or exempted by relevant tax treaties or similar arrangements. According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), dividends paid by a PRC foreign-invested enterprise to its shareholder(s) incorporated in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interests in the PRC foreign-invested enterprises. The SAT promulgated the Circular 9 on February 3, 2018, which addresses the methods to determine the “beneficial owners” under the treaty articles on dividends, interest and royalties.

It is possible, based on the abovementioned principles, that the PRC tax authorities would not consider our Hong Kong subsidiary as the “beneficial owner” of any dividends paid from our PRC subsidiaries and would deny the claim for the reduced rate of withholding tax. Under the current PRC tax law, this would result in dividends from our PRC subsidiaries to our Hong Kong subsidiary being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China or Hong Kong based on foreign laws against us, our Directors and senior management.

We are incorporated in the Cayman Islands. Substantially all of our assets, and a significant portion of the assets of our Directors are located in China. Therefore, it may not be possible for investors to effect service of process upon us or persons reside in China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions.

On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “**2006 Arrangement**”), pursuant to which a party with a final judgment rendered by a Hong Kong court requiring payment in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China, and vice versa. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute have not entered into a choice of court agreement in writing under the 2006 Arrangement.

On January 18, 2019, the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “**2019 Arrangement**”) was signed between the Supreme People’s Court of China and Hong Kong. Comparing with the 2006 Arrangement, the 2019 Arrangement establishes a bilateral legal mechanism with greater clarity and certainty for reciprocal recognition and enforcement of judgments between Hong Kong and China in civil and commercial matters under both Hong Kong and PRC law. The 2019 Arrangement will apply to judgments made by the courts of Hong Kong and China on or after its commencement date, which will be announced by Hong Kong and China after necessary procedures of

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both places have been completed. The 2006 Arrangement will be superseded upon the effective date of 2019 Arrangement. However, the 2006 Arrangement will remain applicable to a "choice of court agreement in writing" as defined in the 2006 Arrangement which is entered into before the 2019 Arrangement taking effect.

Although the 2019 Arrangement has been signed, it remains unclear as to its effective date and uncertain as to the outcome and effectiveness of any action brought under the 2019 Arrangement.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisitions or restructuring strategies.

On February 3, 2015, the SAT promulgated Circular 7, which provides comprehensive guidelines relating to, and heightened the PRC tax authorities' scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise. For more information, see "Regulatory Overview — Laws and Regulations Relating to the Taxation — Enterprise Income Tax on Indirect Transfer by Non-Resident Enterprises."

There is uncertainty as to the application of the Circular 7. The Circular 7 may be determined by the tax authorities to be applicable to our offshore restructuring transactions or sale of the shares of our offshore subsidiaries, where non-resident enterprises being transferors were involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the Circular 7 or to establish that we and our non-resident enterprises should not be taxed under the Circular 7 for our previous and future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident Shareholders to personal liability, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position.

The SAFE promulgated Circular 37 on July 4, 2014 to replace the Circular of the SAFE on Relevant Issues Concerning Foreign Exchange Administration for Financing and Return Investments by Domestic Residents through Special-Purpose Overseas Companies《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(the "**Circular 75**"). According to Circular 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to the SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the "**SPVs**") with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

We may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC nationals, and may not always be able to compel our beneficiaries to comply with the requirements of the Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC nationals will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions on the

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foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

The PRC regulations of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds of the [REDACTED] to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds of the [REDACTED], are subject to PRC regulations and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our major PRC subsidiaries must be approved by, or registered with, MOFCOM or its local branches. We cannot assure you that we will be able to obtain these approvals or registrations on a timely basis, or at all. If we fail to obtain such approvals or registrations, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected. This may materially and adversely affect our PRC subsidiaries' liquidity, their ability to fund their working capital and expansion projects, and their ability to meet their obligations and commitments. As a result, this may have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

Since the FCUS Privatization, there has been no prior public market for our Shares, their market price may be volatile and an active trading market for our Shares may not develop.

Since the FCUS Privatization, and prior to the [REDACTED], there has been no public market for our Shares. The initial [REDACTED] for our Shares to the public will be the result of negotiations between us and the [REDACTED] (for itself and on behalf of the [REDACTED]), and the [REDACTED] may differ significantly from the market price of our Shares following the [REDACTED]. We have applied to the Stock Exchange for the [REDACTED] of, and permission to deal in, the Shares. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or if it does develop, that it will be sustained following the [REDACTED], or that the market price of our Shares will not decline following the [REDACTED].

Furthermore, the price and trading volume of our Shares may be volatile. The following factors, among others, may cause the market price of our Shares after the [REDACTED] to vary significantly from the [REDACTED]:

- variations in our revenue, earnings and cash flow;
- unexpected business interruptions resulting from natural disasters or power shortages;
- major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete effectively in the market;
- political, economic, financial and social developments in China and Hong Kong and in the global economy;

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- fluctuations in stock market prices and volume;
- changes in analysts' estimates of our financial performance; and
- involvement in material litigation.

Moreover, shares of other companies listed on the Stock Exchange with operations and assets in China have experienced significant price volatility in the past. It is possible that our Shares may be subject to changes in price not directly related to our performance and as a result, investors in our Shares may suffer substantial losses.

There will be a time gap of several business days between pricing and trading of our Shares. Holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other infant milk formula or dairy companies or other nutritional supplement companies could cause the market price of our Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, which could occur between the time of sale and the time trading begins.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.

Although our Controlling Shareholders are subject to restrictions on their sales of Shares within 12 months from the [REDACTED] as described in "[REDACTED]" in this Document, future sales of a significant number of our Shares by our Controlling Shareholders in the public market after the [REDACTED], or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through offerings of our Shares. We cannot assure you that our Controlling Shareholders will not dispose of Shares held by them or that we will not issue Shares pursuant to the general mandate to issue shares granted to our Directors as described in "Appendix IV — Statutory and General Information" or otherwise, upon the expiration of restrictions set out above. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of Shares for sale by our Controlling Shareholders, or the issuance of Shares by the Company may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

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We may need additional capital, and the sale or issue of additional Shares or other equity securities, including pursuant to the [REDACTED] Share Option Scheme, could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net proceeds from the [REDACTED], we may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing investments in and/or acquisitions of new businesses from third parties, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing through selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our Shareholders. Furthermore, Shareholders' interest in our Company may experience further dilution to the extent that our Shares are issued upon the exercise of options granted under the [REDACTED] Share Option Scheme. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of infant milk formula and nutritional supplement producers;
- conditions in Hong Kong and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in education in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities or reduce our growth to a level that can be supported by our cash flow, or defer planned expenditures.

As the [REDACTED] of our Shares is higher than our consolidated net tangible book value per Share, purchasers of our Shares in the [REDACTED] may experience immediate dilution upon such purchases.

As the [REDACTED] of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution. Our existing Shareholders will receive an increase in the pro forma adjusted

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consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interest if any Shares are issued upon exercise of any options granted under the [REDACTED] Share Option Scheme, or if we issue additional Shares in the future to raise additional capital.

Future sale or major divestment of Shares by our Controlling Shareholders may materially and adversely affect the prevailing market price of our Shares

Our Shares held by our Controlling Shareholders are subject to certain lock-up periods, the details of which are set out in the section headed "[REDACTED]" in this document. However, there is no assurance that after the restrictions of the lock-up periods expire, our Controlling Shareholders will not dispose of any Shares. Sale of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

We cannot assure you whether and when we will declare and pay dividends in the future.

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. Under applicable laws and the constitutional documents of our operating subsidiaries, the payment of dividends may be subject to certain limitations. The calculation of certain of our operating subsidiaries' profit under applicable accounting standards differs in certain respects from the calculation under IFRS. As a result, our operating subsidiaries may not be able to pay a dividend in a given year even if they have profit as determined under IFRS. Accordingly, since our Company derives all of our earnings and cash flows from dividends paid to us by our operating subsidiaries, we may not have sufficient distributable profit to pay dividends to our Shareholders. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law and will be at the absolute discretion of our Board. Our shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. For more information, see "Financial Information — Dividends."

Certain statistics contained in this Document are derived from a third-party report and publicly available official sources and they may not be reliable.

Certain statistics contained in this Document relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this Document, however, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the [REDACTED] or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this Document may be inaccurate or may not be comparable to statistics produced with respect to other

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economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This Document contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate,” “believe,” “could,” “going forward,” “intend,” “plan,” “project,” “seek,” “expect,” “may,” “ought to,” “should,” “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this Document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Document are qualified by reference to this cautionary statement.

Investors should read the entire Document carefully and should not consider any particular statements in this Document or in published media reports without carefully considering the risks and other information contained in this Document.

Prior to the publication of this Document, there has been coverage in the media regarding us and the [REDACTED], which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this Document. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this Document only and should not rely on any other information.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with certain provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. The Company's headquarters and major business operations are based in the PRC and most of our executive Directors have been, are and are expected to be based in the PRC. We believe it would be more effective and efficient for our executive Directors to be based in a location where we have significant operations. As such, we will not be able to comply with the requirements of Rule 8.12 of the Listing Rules for sufficient management presence in Hong Kong.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has] granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives are Mr. Liu Hua and Ms. Tu. They will be available to meet with the Hong Kong Stock Exchange on reasonable notice upon the request of the Hong Kong Stock Exchange and be readily contactable by phone, fax and email by the Hong Kong Stock Exchange;
- (b) each of the authorized representatives will have means to contact all the Directors promptly at all times, as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters;
- (c) each of the Directors who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange as and when required within a reasonable period;
- (d) our non-executive Directors, namely Mr. GAO Yu and Mr. Kingsley Kwok King CHAN, will be ordinarily resident in Hong Kong and will serve as additional channel of communication between the Company and the Hong Kong Stock Exchange;
- (e) to enhance communications with the Hong Kong Stock Exchange, the Directors will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the authorized representatives as well as the Hong Kong Stock Exchange, and in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives;
- (f) We have, pursuant to Rule 3A.19 of the Listing Rules, engaged Anglo Chinese Corporate Finance, Limited as our compliance adviser, who will act as an additional channel of communication with the Hong Kong Stock Exchange; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (g) the Company will ensure that there are adequate and efficient means of communication between itself, the authorized representatives, Directors and other officers and the compliance adviser, and will keep the compliance adviser fully informed of all communications and dealings between the Company and the Hong Kong Stock Exchange.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the Company must appoint a company secretary who possesses the necessary academic or professional qualifications or relevant experience, and is therefore capable to discharge the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules provides that the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of the Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further sets out the factors that the Hong Kong Stock Exchange will consider in assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

The Company has appointed Ms. Tu as one of the Joint Company Secretaries. She has extensive experience in corporate governance matters, compliance affairs and is currently an executive Director and a Vice President of the Company. However, Ms. Tu does not possess the qualifications under Rule 3.28 of the Listing Rules, and may not be able to fulfill the requirements of the Listing Rules on her own. Therefore, the Company has appointed Ms. Chan Wai Ling, a Chartered Governance Professional and Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, who is qualified under Rule 3.28 of the Listing Rules to act as the other Joint Company Secretary and to work closely with and provide assistance to Ms. Tu. The term of the appointment of Ms. Tu and Ms. Chan as the Joint Company Secretaries is three years commencing from the [REDACTED].

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The following arrangements have been, or will be, put in place to assist Ms. Tu in acquiring the qualifications and experience as the Company Secretary of the Company required under Rule 3.28 of the Listing Rules:

- (i) In the course of the preparation of the application for the [REDACTED], Ms. Tu has been provided with a memorandum and has attended a training seminar on the respective obligations of the Directors and senior management and the Company under the relevant Hong Kong laws and the Listing Rules provided by the Company's Hong Kong legal advisor.
- (ii) In addition to the minimum training requirements under Rule 3.29 of the Listing Rules, the Company will ensure that Ms. Tu continues to have access to relevant training and support to familiarize herself with the Listing Rules and the duties of a company secretary of an issuer listed on the Hong Kong Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, the Company will ensure that both Ms. Tu and Ms. Chan will seek and have access to the advice from the Company's Hong Kong legal advisor and other professional advisors as and when required. Both Ms. Chan and Ms. Tu have confirmed that each of them will be attending a total of no less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investors relation as well as the functions and duties of the company secretary of a Hong Kong listed issuer during each financial year as required under Rule 3.29 of the Listing Rules.
- (iii) Ms. Chan will assist Ms. Tu to acquire the "relevant experience" as required under Note 2 to Rule 3.28 of the Listing Rules and to discharge her functions as the Company Secretary. Ms. Tu will be assisted by Ms. Chan for an initial period of three years commencing from the [REDACTED]. As part of the arrangement, Ms. Chan will act as one of the Joint Company Secretaries and communicate regularly with Ms. Tu on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to the Company. Ms. Chan will also assist Ms. Tu in organizing board meetings and shareholders' meetings of the Company as well as other matters of the Company which are incidental to the duties of a Company Secretary.
- (iv) The Company has appointed Anglo Chinese Corporate Finance, Limited as its compliance adviser for the purpose of Rule 3A.19 of the Listing Rules. The compliance adviser will act as the Company's additional channel of communication with the Hong Kong Stock Exchange, and provide professional guidance and advice to the Company and its Joint Company Secretaries as to the compliance with the Listing Rules and all other applicable laws and regulations.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted] us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Before the expiry of the initial three-year period, the Company will liaise with the Hong Kong Stock Exchange to assess Ms. Tu's qualifications and experience to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Executive Directors		
Mr. LENG Youbin	Flat 202, Unit 2 Building 8, Mixi Garden Miyun District, Beijing PRC	PRC
Mr. LIU Hua	Group 1, No. 2 Neighborhood Chunhe Street Kedong Town, Kedong County Heilongjiang PRC	PRC
Mr. CAI Fangliang	Flat 11-1, Unit 2, Building 9 151 Longhuxi Road Yubei District, Chongqing PRC	PRC
Mr. LIU Shenghui	Room 1-1802 Jingyan Building Fukang Road Nankai District, Tianjin PRC	PRC
Ms. Judy Fong-Yee TU	2275 Huntington Drive #278 San Marino California 91108 U.S.A.	U.S.
Mr. CHEUNG Kwok Wah	8/F, Front Portion 14 Granville Road Tsim Sha Tsui KLN Hong Kong	Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Non-executive Directors

Mr. GAO Yu	Flat E, 22/F, Block 12 Pacific Palisades 1 Braemar Hill Road North Point Hong Kong	Hong Kong
Mr. Kingsley Kwok King CHAN	Flat B, 15/F, Sky Tower, The Arch No.1 Austin Road West Kowloon Hong Kong	Hong Kong

Independent Non-executive Directors

Ms. LIU Jinping	167 North Lishi Road Xicheng District, Beijing PRC	PRC
Mr. SONG Jianwu	Flat 55, Building 13 Jing Garden Renmin University of China Haidian District, Beijing PRC	PRC
Mr. FAN Yonghong	No. 502, Unit 4, Building 8 Wanquanxin Garden, Wanliu Haidian District, Beijing PRC	PRC
Mr. Jacques Maurice LAFORGE	269 Chemin de L' Eglise Saint-Andre, NB E3Y 2W4 Canada	Canada

Please see "Directors and Senior Management" in this Document for further details.

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

J.P. Morgan Securities (Far East) Limited

28/F, Chater House
8 Connaught Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Hong Kong

[REDACTED]

[●]

[REDACTED]

[●]

[REDACTED]

[●]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal Advisers to Our Company

As to Hong Kong and U.S. laws:

Freshfields Bruckhaus Deringer

55th Floor, One Island East

Taikoo Place, Quarry Bay

Hong Kong

As to PRC laws:

Jingtian & Gongcheng

34/F, Tower 3

China Central Place

77 Jianguo Road

Beijing 100025

PRC

As to Cayman Islands laws:

Harney Westwood & Riegels

3601, Two Exchange Square

8 Connaught Place

Central

Hong Kong

As to U.S. laws:

DLA Piper LLP (US)

701 Fifth Avenue, Suite 6900

Seattle, Washington 98104

United States

As to Canadian laws:

DLA Piper (Canada) LLP

Suite 6000, 1 First Canadian Place

PO Box 367, 100 King St W

Toronto, ON M5X 1E2

Canada

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

**Legal Advisers to the Joint Sponsors
and the [REDACTED]**

As to Hong Kong and U.S. laws:

Linklaters

10/F, Alexandra House
Chater Road
Hong Kong

As to PRC laws:

Commerce & Finance Law Offices

6/F, NCI Tower
A12 Jianguomenwai Avenue
Beijing
PRC

Auditor and Reporting Accountant

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

Room 1018, Tower B
500 Yunjin Road
Xuhui District, Shanghai
PRC

[REDACTED]

[●]

CORPORATE INFORMATION

Registered Office

Maricorp Services Ltd.

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KY1-1105
Cayman Islands

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Business in the PRC**

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PRC

**Principal Place of Business
in Hong Kong**

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Hong Kong

Company's Website

www.feihe.com

(This website and the information contained on this website do not form part of this Document)

Joint Company Secretaries

Ms. Judy Fong-Yee TU

(Admitted to the State Bar of California)
2275 Huntington Drive
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U.S.A.

Ms. CHAN Wai Ling *FCIS, FCS (PE)*

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Authorized Representatives

Mr. LIU Hua

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Ms. Judy Fong-Yee TU

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California 91108
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CORPORATE INFORMATION

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

**Principal Share Registrar and
Transfer Agent**

Maricorp Services Ltd.
P.O. Box 2075
George Town
Grand Cayman
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Cayman Islands

[REDACTED]

Compliance Adviser

Anglo Chinese Corporate Finance, Limited
40/F Two Exchange Square
8 Connaught Place
Central
Hong Kong

Principal Bank

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

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this Document relating to the dairy industry and infant milk formula market in China are derived from the market research report prepared by Frost & Sullivan, an independent industry consultant which was commissioned by us (the "F&S Report"). The information extracted from the F&S Report should not be considered as a basis for investments in the [REDACTED] or as an opinion of Frost & Sullivan as to the value of any securities or the advisability of investing in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. Our Directors have further confirmed, after making reasonable enquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the F&S Report or any of the other reports which may qualify, contradict or have an impact on the information in this section. No independent verification has been carried out on such information and statistics by us, the [REDACTED], the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other parties involved in the [REDACTED] or their respective directors, officers, employees, advisers, or agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. Unless and except as otherwise specified, the market and industry information and data presented in this Industry Overview section are derived from the F&S Report.

THE INFANT MILK FORMULA MARKET IN CHINA

Overview

Infant milk formula is a milk powder product with a specific formula targeting infants which can provide nutrients beneficial for their growth. China is the world's most populous country and one of the fastest growing infant milk formula markets in the world. With continued urbanization and the rise in number of working mothers, an increasing number of mothers in China have grown to accept the convenience and nutritional benefits offered by infant milk formula products as a substitute for breast milk for their infants. According to the F&S Report, the retail sales value of China's infant milk formula market increased from RMB160.5 billion in 2014 to RMB245.0 billion in 2018, representing a CAGR of 11.2%, and expected to increase from RMB245.0 billion in 2018 to RMB342.7 billion in 2023 at a CAGR of 6.9%.

Product Categories

Infant milk formula can be divided into super-premium, premium and regular infant milk formula based on pricing as well as other factors such as formula ingredients or nutrients, raw materials and manufacturing processing. Super-premium and premium infant milk formula are collectively classified as high-end infant milk formula. Generally, there are three stages of infant milk formula. Stage 1 formula is generally for infants from new born to six months old, Stage 2 formula is generally for infants from six to 12 months old and Stage 3 formula is generally for infants from 12 to 36 months old.

- Super-premium infant milk formula refers to infant milk formula products that are priced at or above RMB450 per kilogram for the average retail price of Stage 1 to Stage 3, and typically contain multiple high-quality nutrients/ingredients such as OPO structured fats, lactoferrin, whey protein hydrolysate probiotics, hydrolyzed whey protein and DHA/ARA. Some super-premium infant milk formula are made from fresh milk or even organic milk and produced using a wet blending-spray drying process;

INDUSTRY OVERVIEW

- Premium infant milk formula refers to infant milk formula products that have a price range from RMB350 per kilogram to RMB449 per kilogram for the average retail price of Stage 1 to Stage 3. Premium infant milk formula meets the same high standard in key ingredients, including protein and fat components, as super-premium infant milk formula. Premium infant milk formula can be made from either fresh milk or imported milk powder;
- Regular infant milk formula is generally priced below RMB350 per kilogram for the average retail price of Stage 1 to Stage 3, and is a basic substitute for breast milk. Regular infant milk formula is generally produced using a dry blending process.

Manufacturing and Processing of Infant Milk Formula

There are three main types of manufacturing process used to produce infant milk formula, namely (i) wet blending-spray drying, (ii) dry blending, and (iii) a combined process. We are one of the few infant milk formula providers in China with the ability to meet the stringent conditions and rigorous quality control requirements for utilizing the wet blending-spray drying process. The following chart compares the three main types of manufacturing process used to produce infant milk formula products:

Comparisons of Manufacturing Processes of Infant Milk Formula			
Comparisons	Wet Blending–Spray Drying Process	Dry Blending	
		Dry Blending Process	Combined Process
Definition	Ingredients are blended together, homogenized, pasteurized and spray dried to produce a powdered product. The process requires stringent conditions and rigorous quality control over wet mixing technique and cold-chain transportation.	Ingredients in a dehydrated powdered form and are mixed together to achieve a uniform blend of the macro and micro nutrients necessary for a complete infant milk formula product.	A base powder (consisting mainly of protein and fat components) is produced using the wet mixing and spray drying process, and then dry blended with the carbohydrate, mineral and vitamin ingredients.
Freshness	●	◐	◑
Uniformity of Nutrients Distribution	●	◐	◑
Solubility	●	◐	◑
Safety	●	◐	◑
Cost	●	◐	◑

Note: ◐ = Low Level ◑ = Medium Level ● = High Level

Source: U.S. Food and Drug Administration; Frost & Sullivan

Raw Material Analysis

Raw Material Sourcing

Fresh milk and imported milk powder are two kinds of primary raw material of manufacturing infant milk formula. Lactose and whey powder are also two major raw materials of infant milk formula products. According to the F&S Report, we are one of the leading infant milk formula providers in China to use fresh milk as the main ingredient in all of our infant milk formula products. Most infant milk formula products sold in China are manufactured using imported milk powder as the main ingredient because it has a longer shelf life than fresh milk. Many infant milk formula manufacturers in China also add non-fat milk powder as a supplement to adjust the protein content in infant milk formula. The chart

INDUSTRY OVERVIEW

below sets forth the key features of fresh milk versus imported milk powder as raw materials of infant milk formula:

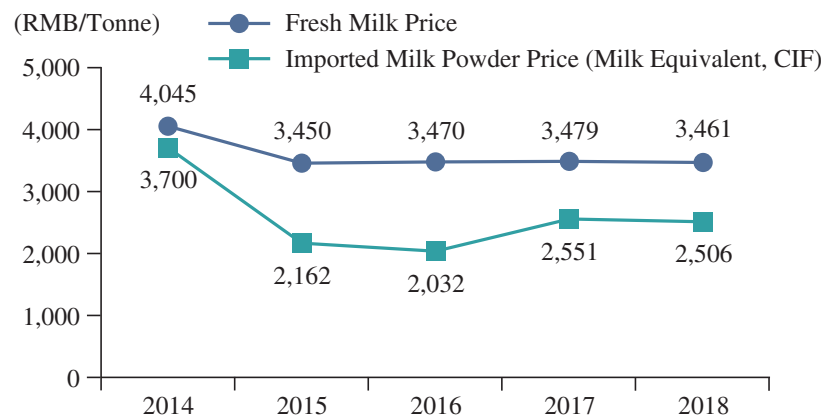
Comparison of Fresh Milk and Imported Milk Powder as Raw Material of Infant Milk Formula		
Comparisons	Fresh Milk	Imported Milk Powder
Average Market Price in 2018 (RMB/Tonne)	3,461 <ul style="list-style-type: none"> Using raw milk as raw material increases the manufacturing cost 	2,506 (Milk Equivalent) <ul style="list-style-type: none"> Cost-saving and longer shelf life are the major benefits of using imported milk powder as raw material
Quality	<ul style="list-style-type: none"> Raw milk without any preservatives ensures the freshness of final product More uniform distribution of nutrients due to wet blending – spray drying process 	<ul style="list-style-type: none"> The use of preservatives prolongs raw material's shelf life, prevents spoilage during transportation, storage and manufacture Nutrients not completely uniformly distributed as a result of dry blending process
Safety	<ul style="list-style-type: none"> Less risk of secondary contamination and less dependent on the microbiological quality of ingredients because of the pasteurizing process 	<ul style="list-style-type: none"> Exposed to the risk of secondary contamination of milk powder during transportation and largely dependent on the microbiological quality of ingredients without heat treatment
Manufacturing Process	<ul style="list-style-type: none"> Wet Blending – Spray Drying Ensuring uniform distribution of milk powder and supplements, pasteurizing after blending to destroy bacteria 	<ul style="list-style-type: none"> Dry Blending Not ensuring uniform distribution of milk powder and supplements, no heat treatment to destroy bacteria in the final product

Source: Frost & Sullivan

Price Trends of Raw Materials

According to the F&S Report, the price of imported milk powder has experienced a slight fluctuation in the past five years, while the price of fresh milk decreased from 2014 to 2015 but then remained relatively stable in the next four years. The price gap between fresh milk and imported milk powder increased further from 2014 and has been narrowing since 2016. The fluctuation of import price of milk powder was caused by many factors, including the cost of sales of the foreign producers, international supply and demand, and the exchange rates between Renminbi and foreign currency. The fluctuation of domestic fresh milk price was generally caused by feeding cost, supply and demand of fresh milk market, and import volume of milk powder, etc. The chart below sets forth the price of fresh milk and imported milk powder in China from 2014 to 2018 respectively:

Fresh Milk Price and Imported Milk Powder Price (Milk Equivalent, CIF), 2014-2018



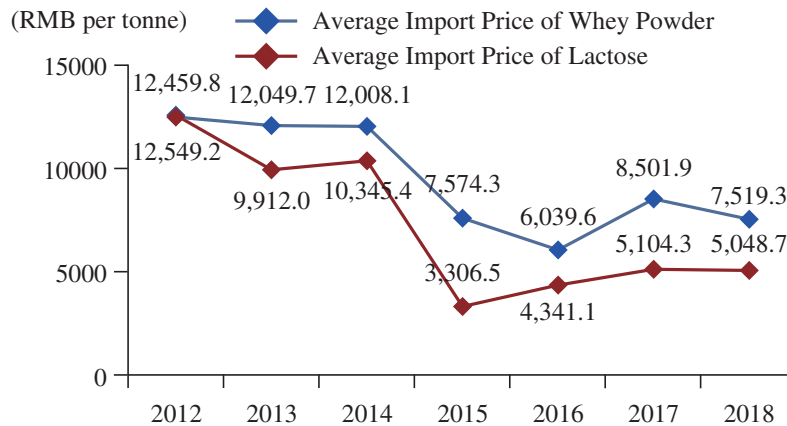
Note: China fresh milk price and imported milk powder price refer to cow milk price.

Source: China Customs; Frost & Sullivan

INDUSTRY OVERVIEW

In China's dairy market, the supply of lactose and whey powder mainly relies on import. Moreover, U.S. and Europe are two major importing regions of lactose and whey powder. According to the F&S Report, from 2012 to 2015, the average price of lactose experienced a significant decrease from RMB12,549.2 per tonne in 2012 to RMB3,306.5 per tonne in 2015, and then recovered gradually to RMB5,048.7 per tonne in 2018. From 2010 and 2012, the average import price of whey powder increased from RMB8,825.1 per tonne to RMB12,459.8 per tonne, then remained steady from 2012 to 2014, and then experienced a significant decrease since 2014 and sunk to RMB6,039.6 per tonne in 2016. The average price of whey powder climbed back to RMB8,501.9 in 2017 and then decreased to RMB7,519.3 in 2018. The charts below set forth the average price of lactose and whey powder in China from 2012 to 2018 respectively:

Average Import Price of Whey Powder and Lactose (China), 2012-2018



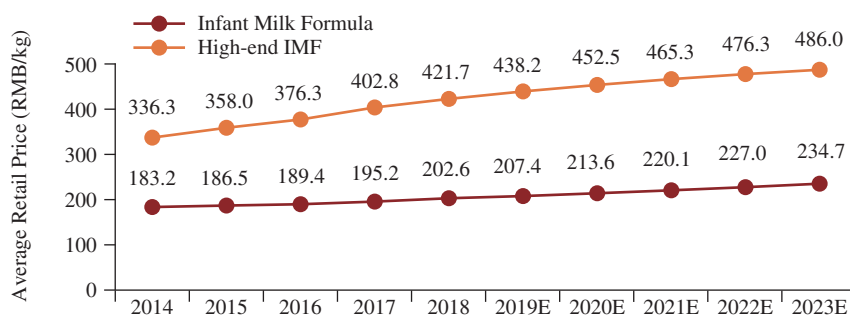
Source: China Custom, Frost & Sullivan

Average Retail Price of Infant Milk Formula Products

According to the F&S Report, the average retail price of infant milk formula products in China, including both domestic and international brands, increased steadily from RMB183.2 per kilogram in 2014 to RMB202.6 per kilogram in 2018, representing a CAGR of 2.6%. The average retail price of infant milk formula products is estimated to reach RMB234.7 per kilogram in 2023, representing a CAGR of 3.0%, primarily due to the increasing penetration of high-end infant milk formula products.

The average retail price of high-end infant milk formula products in China increased rapidly from RMB336.3 per kilogram in 2014 to RMB421.7 per kilogram in 2018, representing a CAGR of 5.8%, and is estimated to reach RMB486.0 per kilogram in 2023, representing a CAGR of 2.9%. The following chart sets forth the average retail price of infant milk formula products in China from 2014 to 2023:

Average Retail Price of Infant Milk Formula (China), 2014-2023E

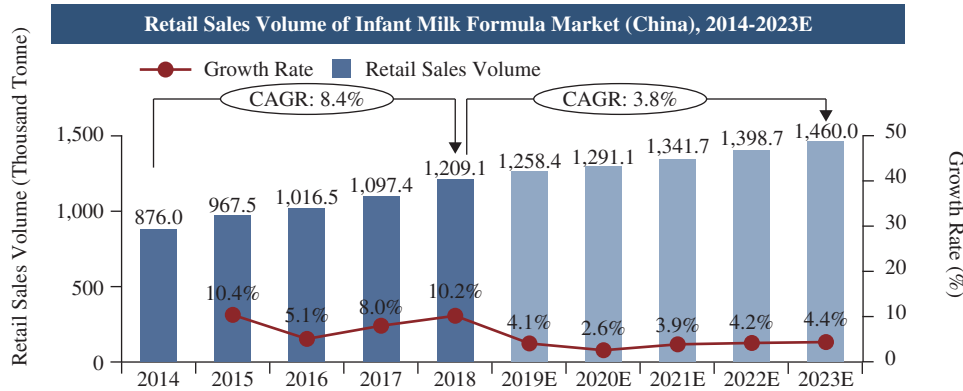


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Retail Sales Volume of Infant Milk Formula Market

According to the F&S Report, the retail sales volume of infant milk formula in China increased from 876.0 thousand tonnes in 2014 to 1,209.1 thousand tonnes in 2018, representing a CAGR of 8.4%. The retail sales volume of the infant milk formula market in China experienced a similar growth trend as that of retail sales value, with a lower CAGR as compared to the retail sales value mainly due to the continued increase in infant milk formula product prices as demand for high-end products increased. Due to the decline in birth rates, the retail sales volume of China's infant milk formula market is estimated to experience a slightly lower growth from 2018 to 2023, with a CAGR of 3.8%. However, thanks to the continuously growing demand for high-end products and rising retail price, China's infant milk formula market is expected to maintain steady growth in terms of the retail sales value. The following chart sets forth the infant milk formula market in China in terms of the retail sales volume from 2014 to 2023:

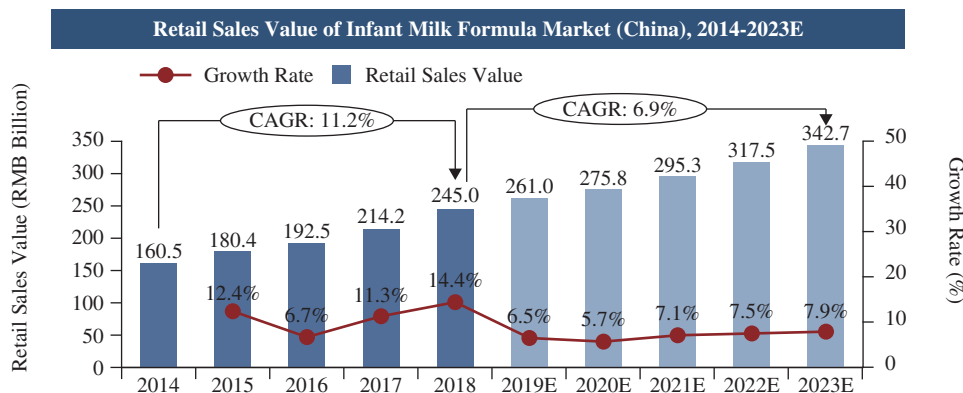


Source: Frost & Sullivan

Retail Sales Value of Infant Milk Formula Market

Overview

The infant milk formula market in China represents infant milk formula products sold by domestic and international brands in China, excluding cross-border purchases by Chinese consumers. According to the F&S Report, the retail sales value of China's infant milk formula market increased from RMB160.5 billion in 2014 to RMB245.0 billion in 2018, representing a CAGR of 11.2%. After reaching a double-digit growth in 2018, the growth of the retail sales value of the infant milk formula market in China is anticipated to slow down in the future primarily due to the decline in birth rates. However, China's infant milk formula market is expected to grow at a CAGR of 6.9% to RMB342.7 billion in 2023, driven by the growth of the high-end market supported by positive factors such as an increasing focus on product quality and safety, appreciation for nutrients of infant milk formulas, as well as China's implementation of the "Universal Two-Child Policy" in 2015. The following chart sets forth the infant milk formula market in China in terms of the retail sales value from 2014 to 2023:



Source: Frost & Sullivan

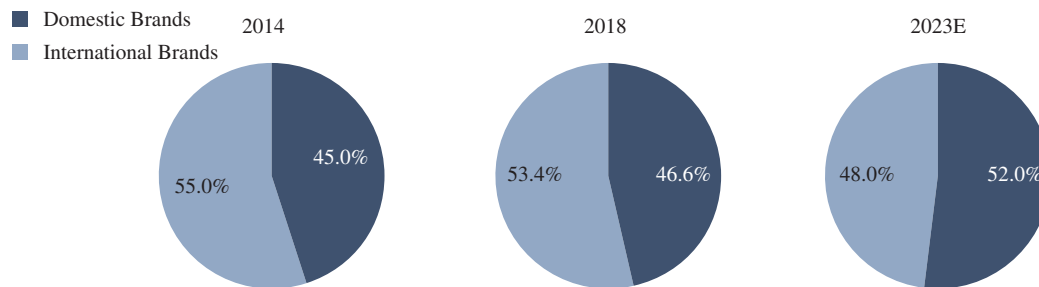
INDUSTRY OVERVIEW

Retail Sales Value by Domestic Brands and International Brands

Prior to the melamine incident in 2008, domestic brands of China's infant milk formula held a relatively larger proportion of market share in comparison to international brands. Following the incident, consumers' confidence in domestic infant milk formula has been negatively impacted, which led to international brands taking up market share. Nevertheless, over the years it was evident that the market share of domestic brands has gradually rebounded.

According to the F&S Report, in 2014 and 2018, international brands collectively held 55.0% and 53.4%, respectively, of the infant milk formula market in terms of the retail sales value. While domestic brands collectively held 45.0% and 46.6% of the infant milk formula market in the same years, respectively. Over the last five years, domestic brands have occupied a growing share of infant milk formula market through their continued investment in brand promotion as well as research and development of high-end products. By the end of 2023, the market share held by domestic brands is expected to increase to over half of the entire market. The following charts set forth the retail sales value of infant milk formula market in China by domestic brand and international brand in 2014, 2018 and 2023 respectively:

Retail Sales Value of Infant Milk Formula by Domestic Brand and International Brand (China), 2014 vs. 2018 vs. 2023E



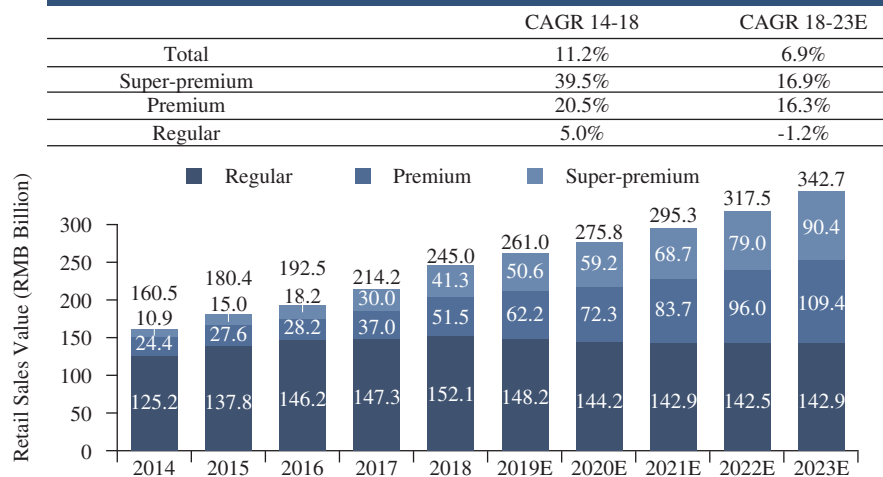
Source: Frost & Sullivan

Retail Sales Value by Super-premium, Premium and Regular Products

According to the F&S Report, since 2014, the high-end segment of infant milk formula products increased from RMB35.3 billion in terms of the retail sales value, which accounted for 22.0% of the overall market, to RMB92.9 billion in 2018, which accounted for 37.9% of the overall market, representing a CAGR of 27.3%, demonstrating faster growth than the overall infant milk formula market. The high-end segment is expected to continue to grow, reaching RMB199.8 billion by 2023, representing a CAGR of 16.6%. By 2023, the high-end segment is expected to account for approximately 58.3% of the overall infant milk formula market in China.

In particular, the super-premium segment grew from RMB10.9 billion in 2014 to RMB41.3 billion in 2018 in terms of the retail sales value, representing a CAGR of 39.5%. It is expected to reach RMB90.4 billion in 2023, representing a CAGR of 16.9%. The super-premium segment accounted for 6.8% of the overall infant milk formula market in 2014, increasing to 16.9% in 2018, and is expected to increase to 26.4% by 2023. The following chart sets forth the retail sales value of infant milk formula market in China by super-premium, premium and regular products from 2014 to 2023:

Infant Milk Formula Market by Super-premium, Premium and Regular Infant Milk Formula (China), 2014-2023E

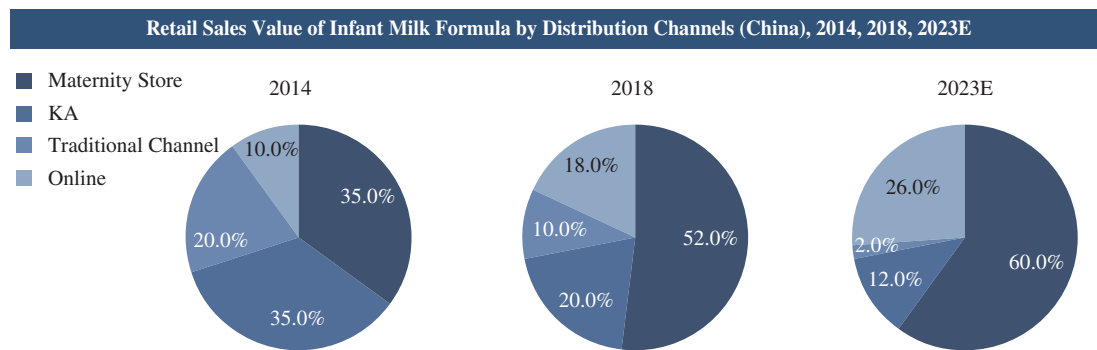


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Retail Sales Value by Distribution Channels

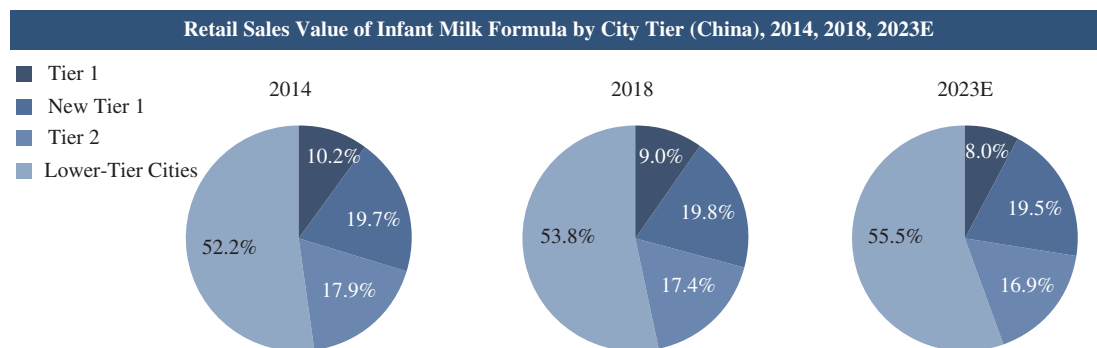
According to the F&S Report, there are four major distribution channels for Chinese consumers to buy infant milk formula, namely (i) maternity store, (i) key account (primarily represented by supermarkets and hypermarkets), (iii) traditional channel, and (iv) online channel. In 2018, the maternity store channel accounted for over half of the total market share in terms of the retail sales value. The online channel has recorded a CAGR of 28.8% in terms of the retail sales value from 2014 to 2018, and its market share is expected to reach 26.0% in 2023. The key account channel has been severely challenged by emerging maternity stores and online channels since 2014. Its market share declined from 35.0% in 2014 to 20.0% in 2018, and is likely to further shrink to approximately 12.0% in 2023. The following charts set forth the retail sales value of infant milk formula market in China by distribution channel in 2014, 2018 and 2023 respectively:



Source: Frost & Sullivan

Retail Sales Value by City Tier

The infant milk formula market in lower-tier cities accounted for the majority of the whole market in terms of the retail sales value, and the retail sales value in lower-tier cities also experienced rapid growth from 2014 to 2018. The following charts set forth the retail sales value of infant milk formula market in China by city tier in 2014, 2018 and 2023 respectively:



Source: Frost & Sullivan

Market Drivers and Trends of the Infant Milk Formula Market in China

The following are key market drivers and trends of the infant milk formula market in China:

- Favorable industry policies by the PRC government.

INDUSTRY OVERVIEW

- The NDRC 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. See “Regulatory Overview — Laws and Regulations Relating to the Industry — Policies Relating to Infant Milk Formula Industry.”
- *The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder* (嬰幼兒配方乳粉產品配方註冊管理辦法) issued in June 2016 limits each registered infant milk formula manufacturer to the production of up to three product series, resulting in a higher market concentration which would benefit major infant milk formula market players with a strong presence in small cities and rural areas in China. See “Regulatory Overview — Laws and Regulations Relating to the Industry — Laws and Regulations Relating to the Production and Distribution of Dairy Products.”
- The liberalization of the “One-Child Policy” and the implementation of the “Universal Two-Child Policy” may lead to the increase in the infant population aged 0-3 years, who are likely to be a force driving the growth of the infant milk formula market.
- *Growth of the high-end infant milk formula segment.* Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products, particularly super-premium products, is expected to be the driving force of the overall infant milk formula industry in China.
- *Increasing urbanization and rising disposable income.* The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products, especially high-end products. Lower-tier cities as well as rural areas in China are becoming more urbanized and wealthy, and families in such regions are increasingly able to afford higher-quality infant milk formula. In general, these regions have larger populations and therefore higher potential for consumption growth.
- *Low level of exclusive breastfeeding rate.* The rate of infants that are fed exclusively with breast milk for the first six months after birth was 29% in 2018. The increasing resemblance of infant milk formula to breast milk, availability of infant milk formula and inconvenience of breastfeeding for working mothers are among the primary factors that have influenced a mother’s choice of whether or not to breastfeed her baby. With China’s continued economic growth and urbanization process, breastfeeding rates are forecasted to remain at low levels, creating more demand for infant milk formula.

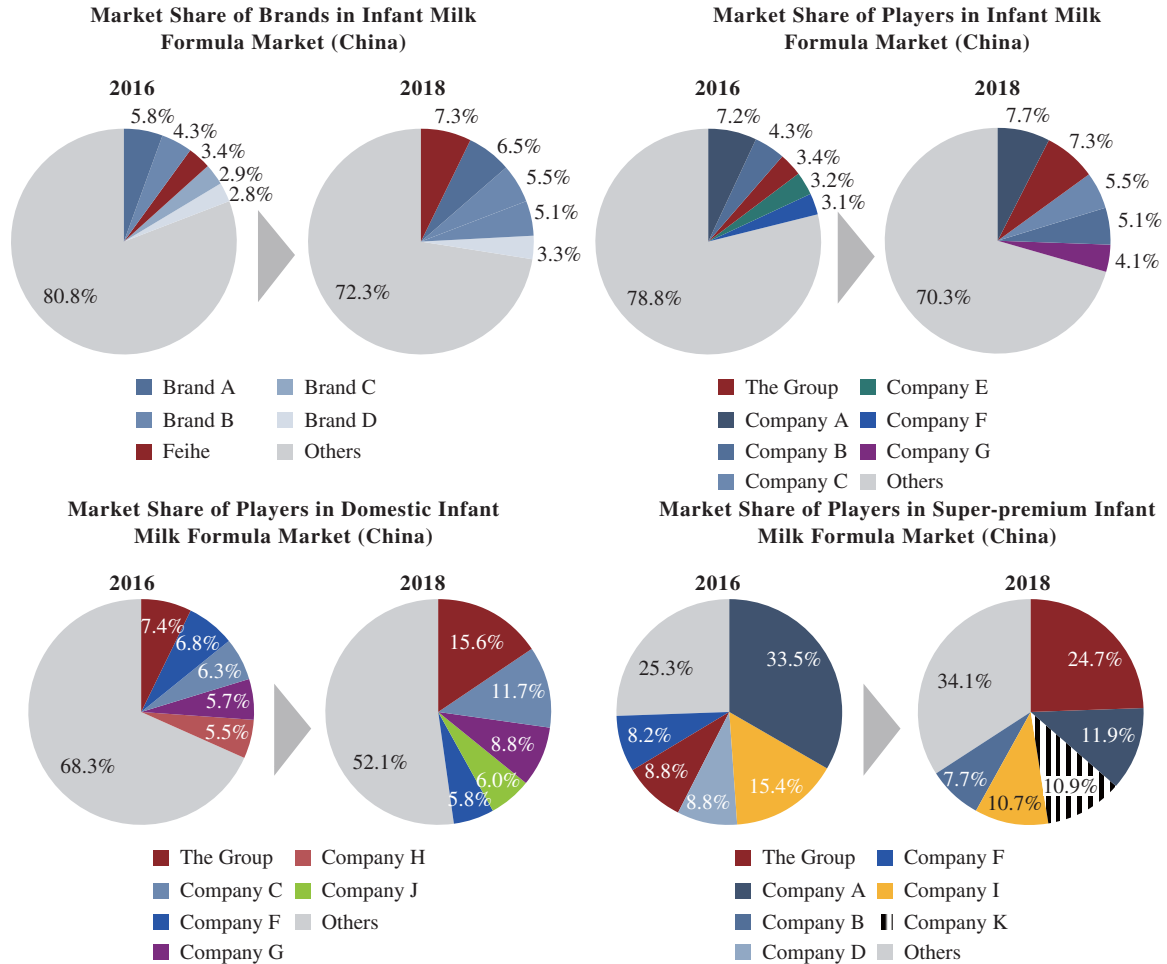
Competitive Landscape of the Infant Milk Formula Market in China

The infant milk formula market in China consists of domestic and international infant milk formula market players and is highly competitive due to its attractive growth opportunities. According to the F&S Report, in 2018, the total retail sales value of China’s infant milk formula market was RMB245.0 billion. While the market was fragmented with a large number of players as well as thousands of brands and products, the major players held a significant market share in China’s infant milk formula market in terms of retail sales value in 2018.

According to the F&S Report, we ranked first among domestic and international brands with a market share of 7.3% in terms of 2018 retail sales value. We also ranked first among domestic infant milk formula groups with a market share of 15.6% in terms of 2018 retail sales value, and ranked second among overall domestic and international infant milk formula groups with a market share of 7.3% in

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terms of 2018 retail sales value. The following tables set forth the market shares in terms of the retail sale value in 2016 and 2018:



Note: The Group's retail sales value is calculated based on the Group's audit data.
Source: Frost & Sullivan

Entry Barriers of the Infant Milk Formula Market in China

The following are main entry barriers of the infant milk formula market in China:

- Established brand recognition and reputation for quality and safety.* The melamine incident in 2008 eroded consumers confidence in domestically produced infant milk formula brands. As brand reputation is a very valuable asset for a company, many leading domestic brands have devoted significant time, financial resources and marketing efforts towards promoting the safety of their products. New market players and competitors without the necessary resources or time investment may face challenges in establishing brand presence and reputation.
- Extensive policies, laws and regulations.* Following the melamine incident in 2008, the PRC Government strengthened the supervision of the infant milk formula market by implementing more stringent policies and regulations on the quality and safety of infant milk formula products and the raw materials used in such products. These policies and regulations have created major entry barriers for new market players, including (i) high qualification standards that companies must meet to produce infant milk formula products and (ii) high safety requirements that necessitate strong production and quality control management as well as operating experience.

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- *Strong sales network.* The success of infant milk formula players is largely dependent on the ability to build a strong sales network and coverage. Market players that have established sales channels and close relationships with distributors, retailers and emerging e-commerce platforms are better positioned to capture greater market share while also reducing marketing costs.
- *Continued investment in research and development.* Unlike the manufacture of other dairy products, the production of infant milk formula involves substantial scientific research, often over extended periods of time, and requires the use of a significant amount of technology and know-how, stringent quality control procedures, as well as highly specialized personnel and skilled workers. Market players that have robust research and development capacity and ability to invest in such efforts, or that are able to collaborate with leading research institutions to develop new products and technologies are in a better position to capture greater market share.

Challenges and Opportunities of the Infant Milk Formula Market in China

The occurrences of quality and safety issue of domestic infant milk formula products in the past have had an adverse effect on consumers' confidence towards domestic infant milk formula brands to some extent. However, the situation has improved due to more stringent safety measures. Nevertheless, any quality or safety issues in the future may directly affect consumers' confidence towards infant milk formula brands and products.

Despite the challenge as stated above, market players may benefit from potential opportunities in the infant milk formula industry. Driven by the increasing demand for high quality infant milk formula products, leading participants are competing on the premium products, and especially super-premium products. Companies with strong brand recognition and resources to develop differentiated high-end products, such as organic formula, goat milk formula, and formula for special medical purposes may be able to achieve higher market shares.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the dairy market and infant milk formula market in China, and to prepare the F&S Report independent of our influence. During the preparation of the F&S Report, Frost & Sullivan conducted detailed primary research that involved discussing the status of the industry with leading industry participants, industry experts, dairy farms, dairy companies and distributors, as well as secondary research that involved reviewing company reports, published data from governments and associations, independent research reports and data based on Frost & Sullivan's own research database.

Frost & Sullivan based the F&S Report on the following bases and assumptions: (i) that the Chinese economy is expected to maintain steady growth in the next five years, (ii) that the Chinese social, economic, and political environment is expected to remain stable in the forecast period, and (iii) key market drivers, such as increase in per capita disposable income, rapid urbanization, low per capita consumption compared to developed countries, rising health awareness, increasing demand for high-end products, incentive policies from the Chinese government and per capita consumption are expected to boost the development of the infant milk formula market in China. Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. We paid Frost & Sullivan a total fee of RMB3.25 million for the preparation and use of the F&S Report, and we believe that such fee reflects market rates for reports of this type. We have included certain information from the F&S Report in this Document because we believe this information facilitates an understanding of China's infant milk formula market for prospective investors.

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REGULATIONS MATERIAL TO OUR OPERATIONS IN THE PRC

A summary of the main PRC laws, rules and regulations applicable to our current business and operation is set out below.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Policies Relating to Foreign Investment

Guidance on foreign investment in different industries in the PRC can be found in the Catalogue of Industries for Guiding Foreign Investment 《外商投資產業指導目錄》 jointly issued by the NDRC and the MOFCOM on June 28, 2017 and became effective on July 28, 2017 (the “**2017 Catalogue**”) and the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018) 《外商投資准入特別管理措施(負面清單)(2018年版)》 jointly issued by the NDRC and the MOFCOM on June 28, 2018 and became effective on July 28, 2018 (the “**2018 Negative List**”). Upon the 2018 Negative List taking effect, the Special Administrative Measures for the Access of Foreign Investment (Negative List for the Access of Foreign Investment) in the 2017 Catalogue was repealed. The industries our PRC subsidiaries engaging in are not restricted or prohibited by the 2018 Negative List.

Policies Relating to Infant Milk Formula Industry

Pursuant to the Circular of the General Office of the State Council on Forwarding the Work Plan of the Ministry of Industry and Information Technology and Other Authorities on Promoting the Merger and Restructuring of Infant Formula Milk Powder Enterprises 《國務院辦公廳關於轉發工業和信息化部等部門推動嬰幼兒配方乳粉企業兼併重組工作方案的通知》, which was issued on June 6, 2014, the industrial structure is required to be further optimized in order to accelerate the formation of major infant formula milk powder groups with strong international competitiveness, and the role of market mechanisms shall be fully exerted to lead the production factors concentrating towards enterprises with competitive edges and prioritized regions. It is supported to fully bring into play the leading and guiding role of large-scale enterprises to eliminate the backward production capacity through merger and restructuring of small and medium-sized enterprises.

The Opinion of the General Office of the State Council on Promoting the Revitalization of Dairy Industry and Ensuring the Quality and Safety of Dairy Product 《國務院辦公廳關於推進奶業振興保障乳品質量安全的意見》, which was issued on June 3, 2018, and the Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform to Strengthen Food Safety 《中共中央、國務院關於深化改革加強食品安全工作的意見》, which was issued on May 9, 2019, also encourage the merger and restructuring of dairy enterprises in order to cultivate dairy enterprises with international influence and competitiveness.

The NDRC in conjunction with other relevant departments enacted 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》 on May 23, 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. Enterprises with strength and good reputation are encouraged to set up production plants abroad and import their products with their own brands to China. It is also required to strengthen policy guidance to encourage the merger and restructuring of infant formula milk powder enterprises and eliminate the backward production capacity.

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Laws and Regulations Relating to the Production and Distribution of Dairy Products

Food Production License

According to the Measures for the Administration of Food Production Licensing 《食品生產許可管理辦法》, which was promulgated by the CFDA on August 31, 2015 and was latest amended on November 17, 2017, entities engaging in food production activities in the PRC shall obtain a food production license. The food production license is valid for five years and is subject to the “one entity, one license” principle.

Food Distribution License

According to the Administrative Measures for Food Distribution Licensing 《食品經營許可管理辦法》, which was promulgated by the CFDA on August 31, 2015 and was latest amended on November 17, 2017, entities engaging in food distributions and catering services in the PRC shall obtain a food distribution license. The food distribution license is issued by food and drug administration at or above the county level and is valid for five years.

Registration of Product Formulas of Infant Formula Milk Powder

The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder 《嬰幼兒配方乳粉產品配方註冊管理辦法》 (the “**Registration Measures**”) was promulgated by the CFDA on June 6, 2016 and became effective on October 1, 2016. According to the Registration Measures, the product formulas of the infant formula milk powder produced, sold and imported to the PRC shall be approved and registered with the CFDA. Where the same enterprise applies for the registration of two or more product formulas for the same age group, there shall be a significant difference between the product formulas and the difference shall be scientifically proved. In principle, each enterprise shall not apply for more than three formula series with nine product formulas. Each formula series includes infant formula milk powder (0-6 months, stage 1), elder infant formula milk powder (6-12 months, stage 2), and young children formula milk powder (12-36 months, stage 3). A wholly-owned subsidiary, which has already obtained the registration certificate of the product formulas of infant formula milk powder and food production license, is entitled to use the product formulas of infant formula milk powder registered by another wholly-owned subsidiary within the same group company. The registration certificate of the product formulas of infant formula milk powder is valid for five years.

Quality and Safety of Dairy Products

According to the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products 《乳品質量安全監督管理條例》, which was promulgated by the State Council and became effective on October 9, 2008, fresh milk and dairy products must comply with the national quality and safety standards. It is forbidden to add any non-edible chemical substance or any other substance that may be hazardous to the human health during the production of dairy products.

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Laws and Regulations Relating to Food Safety in General

Food Safety Standards

The Food Safety Law of the PRC 《中華人民共和國食品安全法》 (the “**Food Safety Law**”) was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會, the “**SCNPC**”) on February 28, 2009 and was latest amended on December 29, 2018. The Regulation on the Implementation of the Food Safety Law of the PRC 《中華人民共和國食品安全法實施條例》 was promulgated by the State Council on July 20, 2009 and was latest amended on February 6, 2016.

According to the Food Safety Law, national food safety standards shall be developed and published by the health administrative department of the State Council in conjunction with the food and drug administrative department of the State Council. Food safety standards shall be mandatorily executed. No mandatory food standards other than food safety standards shall be developed. The State encourages food production enterprises to develop standards more stringent than the national or local food safety standards for their own application.

Food Recall System

The State has also established a food recall system under the requirement provided in the Food Safety Law. The Administrative Measures for Food Recall 《食品召回管理辦法》 (the “**Food Recall Measures**”) was promulgated by the CFDA on March 11, 2015 and became effective on September 1, 2015. According to the Food Recall Measures, food producers and distributors shall be the primary persons responsible for food safety and bear the obligations to recall and dispose unsafe foods.

Where any food producer or distributor finds that any of the foods it produced or sold is unsafe, it shall immediately cease the production or sale of such food and take necessary measures to prevent and control food safety risks. Where any food producer knows that any of the foods it produced is unsafe, it shall voluntarily recall such food.

Based on the seriousness and urgency degree of food safety risks, food recall is divided into three levels.

- Level I recall: Where the food has caused or may cause serious health damages or death after consumption, the food producer shall initiate the recall within 24 hours upon learning the risks and report the recall plan to the local food and drug administration at or above the county level.
- Level II recall: Where the food has caused or may cause ordinary health damages after consumption, the food producer shall initiate the recall within 48 hours upon learning the risks and report the recall plan to the local food and drug administration at or above the county level.
- Level III recall: Where the food label or mark has false indications, the food producer shall initiate the recall within 72 hours upon learning the risks and report the recall plan to the local food and drug administration at or above the county level. If the food with defective label or mark will not cause health damage after consumption, the food producer shall rectify and may voluntarily recall such food.

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Consumer Protection

According to the Food Safety Law, consumers suffering damages caused by food which does not meet food safety standards may claim compensations from either producers or distributors. Producers or distributors must make compensation upon requirements and shall not pass the buck. The one who pays the compensation has the right to receive reimbursement from the accountable party. Where producers knowingly produce or distributors knowingly sell unqualified foods, consumers may also claim punitive damages.

According to the Laws of the PRC on the Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》, which was promulgated by the SCNPC on October 31, 1993 and was latest amended on October 25, 2013, and the Product Quality Law of the PRC 《中華人民共和國產品質量法》, which was promulgated by the SCNPC on February 22, 1993 and was latest amended on December 29, 2018, consumers or other victims suffering from personal injuries or property damages due to defects of products have the right to claim compensations either from the distributors or from the producers of the products.

According to the Tort Law of the PRC 《中華人民共和國侵權責任法》, which was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010, producers shall bear tortious liability for any damage caused by their defective products, while distributors shall bear tortious liability for any damage caused due to defects resulting from their own fault.

LAWS AND REGULATIONS RELATING TO ONLINE TRADING

Pursuant to the Notice of the General Office of the Ministry of Commerce on the Relevant Issues Concerning the Examination, Approval and Administration of Projects of Foreign Investment in Internet and Vending Machine Sales 《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》, which was promulgated by the MOFCOM on August 19, 2010, foreign-invested productive enterprises and commercial enterprises registered upon approval according to law may directly engage in the online sales business. Where a foreign-invested enterprise provides online services for other dealing parties by taking advantage of its own network platform, it shall apply to the Ministry of Industry and Information Technology of the PRC for the Value-added Telecommunication Service Operating Permit (增值電信業務經營許可證). Where a foreign-invested enterprise directly engages in commodity sale by using its own online platform, it shall file with the competent telecommunication administration department.

Pursuant to the Measures on Investigation of Delinquency Actions for Online Food Safety 《網絡食品安全違法行為查處辦法》, which was promulgated by the CFDA on July 13, 2016 and became effective on October 1, 2016, food producers and distributors engaging in online food trading through their own online platform shall also file with the food and drug administrative department at or above the county level to acquire a filing number.

Pursuant to the E-Commerce Law of the PRC 《中華人民共和國電子商務法》, which was promulgated by the SCNPC on August 31, 2018 and became effective on January 1, 2019, and the Administrative Measures for Online Trading 《網絡交易管理辦法》, which was promulgated by the SAIC on January 26, 2014 and became effective on March 15, 2014, e-commerce business operators shall obtain relevant administrative licenses required by law.

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LAWS AND REGULATIONS RELATING TO THE TAXATION

Enterprise Income Tax

According to the EIT Law, which was promulgated by the NPC on March 16 2007 and was latest amended on December 29, 2018, and the Implementation Rules of the EIT Law 《中華人民共和國企業所得稅法實施條例》 (the “**Implementation Rules**”), which was promulgated by the State Council on December 6, 2007, became effective on January 1, 2008 and was partially amended on April 23, 2019, enterprises are classified into resident enterprises and non-resident enterprises. An EIT rate of 25% is applied to the resident enterprise on its global income. A reduced EIT rate of 10% is applied on the income generated in the PRC by a non-resident enterprise with no PRC institution, or by a non-resident enterprise whose income has no substantial nexus with its PRC institutions.

Enterprise Income Tax on Indirect Transfer by Non-Resident Enterprises

Pursuant to the Circular 7, which was promulgated by the SAT on February 3, 2015 and was partially amended in 2017, if a non-resident enterprise indirectly transfers equities and other assets of a resident enterprise to evade its obligation of paying enterprise income tax by arrangements that are not of reasonable commercial purpose, such indirect transfer shall, in accordance with the Article 47 of the EIT Law, be re-identified and recognized as a direct transfer of equities and other assets of the resident enterprise.

Pursuant to the Circular 7, indirect transfer of the PRC Taxable Assets may not be re-identified as a direct transfer of equities or other assets of the resident enterprise in accordance with the Article 47 of the EIT Law if one of the following circumstances is satisfied: (i) a non-resident enterprise buys and sells equity of the same listed foreign enterprise in the open market and obtains the proceeds from indirect transfer of PRC Taxable Assets; and (ii) a non-resident enterprise directly holds and transfers PRC Taxable Assets, the proceeds from the transfer of such assets can be exempted from enterprise income tax in the PRC in accordance with the applicable provisions of tax convention or arrangements.

Value-Added Tax

Pursuant to the Interim Regulation of the PRC on Value Added Tax 《中華人民共和國增值稅暫行條例》 (the “**VAT Regulations**”), which was promulgated by the State Council on December 13, 1993 and was latest amended on November 19, 2017, and the Rules for the Implementation of the Interim Regulation of the PRC on Value Added Tax 《中華人民共和國增值稅暫行條例實施細則》, which was promulgated by the Ministry of Finance of the PRC (中華人民共和國財政部, the “**MOF**”) on December 25, 1993 and was latest amended on October 28, 2011, entities and individuals engaging in selling goods, providing processing, repairing or replacement services or importing goods within the territory of the PRC are taxpayers of the VAT. Unless provided otherwise, the rate of the VAT shall be 17%.

Pursuant to the Notice of the MOF and the SAT on Adjusting Value-added Tax Rates 《財政部、稅務總局關於調整增值稅稅率的通知》, which was promulgated on April 4, 2018 and became effective on May 1, 2018, the tax rates of 17% and 11% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16% and 10%, respectively.

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Pursuant to the Notice of the MOF, the SAT and the General Administration of Customs of the PRC on Relevant Policies for Deepening the Value-Added Tax Reform 《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》，which was promulgated on March 20, 2019 and became effective on April 1, 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%.

Laws and Regulations Relating to Preferential Policies for Taxation and Other Aspects

On November 27, 2014, the State Council promulgated Notice 62 to require all local authorities and government departments to conduct a clean-up, standardization and investigation of tax and other preferential policies. In particular, Notice 62 urged all local authorities and government departments to conduct a thorough screening of contracts, agreements, memorandums, meeting minutes and any other documents that such authorities and government departments have signed with enterprises. This clean-up action required the termination and repeal of all preferential policies that were granted in violation of the relevant state laws and regulations. Any preferential policies which were not in violation of the relevant state laws and regulations and which were to be continued were required to be reported by authorities and government departments at the provincial level to (i) the Ministry of Finance for its review and approval, and then (ii) the State Council for instructions.

On May 10, 2015, the State Council promulgated Notice 25. According to Notice 25, a separate arrangement will be implemented for the clean-up action specified in Notice 62. Under Notice 25, with regard to any preferential policies issued by all regions and departments with a specified expiry date, such expiry date applies; where there is no specified expiry date and a continuation of a preferential policy is necessary, the local authorities and relevant government departments shall determine a reasonable transition period to enable such policy to continue to be effective until the end of the transition period. In addition, any local preferential policy that has been granted before the promulgation of Notice 62 and pursuant to a contract signed by the relevant government authority and the receiving enterprise shall remain valid, and any preferential treatment already conferred on an enterprise shall not be retroactively repealed. Furthermore, except for such policies that are permitted under the relevant laws and regulations, any new preferential policies issued by any authority or government department shall be reported to the State Council for approval before implementation if these new preferential policies are related to taxes or to non-tax revenues that have been approved by the central government. Other new preferential policies can be implemented after approval by the local authorities and relevant government departments, provided that such new preferential policies are not connected to any taxes paid by, or non-tax revenues received from, enterprises.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

According to the Company Law of the PRC 《中華人民共和國公司法》，which was amended by the SCNPC on October 26, 2018, and the Implementing Rules for the Law of the PRC on Wholly Foreign-Owned Enterprises 《中華人民共和國外資企業法實施細則》，which was amended by the State Council on February 19, 2014, enterprises may not distribute after-tax profits unless they have made allocations to funds as required by the PRC laws and regulations. Enterprises may not distribute dividends until their deficits of the previous accounting years, if any, have been fully covered.

According to the EIT Law and the Implementation Rules, dividends paid between resident enterprises are exempted from the EIT, while dividends paid to non-resident enterprises, which have no PRC institution or dividends of whom has no substantial nexus with their PRC institutions, are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC Government provide otherwise.

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The PRC Government and the Hong Kong government entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (the “**Arrangement**”) on August 21, 2006. According to the Arrangement, 5% withholding tax rate shall be applied on the dividends paid by a PRC resident enterprise to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interest in the PRC resident enterprise, and vice versa. Otherwise, the withholding tax rate would be 10%.

According to the Notice of the SAT on the Issues Concerning the Application of Dividend Clauses of Tax Agreements 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》, which took effect on February 20, 2009, a taxpayer of the other contracting party of the tax agreements, who directly holds certain percentage (normally 25% or 10%) of equity interests in a PRC company, shall be entitled to the tax treatment specified in the tax agreements if all of the following requirements are satisfied: (i) such taxpayer obtaining dividends shall be a company; (ii) the equity interests and voting shares of a PRC company directly hold by such taxpayer shall reach the stipulated percentage; and (iii) the equity interests in a PRC resident enterprise directly owned by such taxpayer shall satisfy the stipulated percentage at any time during the 12 months prior to the obtainment of the dividends.

According to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers 《非居民納稅人享受稅收協定待遇管理辦法》, which was promulgated by SAT on August 27, 2015, became effective on November 1, 2015 and was partially amended on June 15, 2018, the qualified non-resident taxpayers shall enjoy the convention treatment during tax declaration or during withholding declaration via withholding agents, and shall be subject to the subsequent management by tax authorities.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE REGISTRATION

According to the Administrative Regulations of the PRC on Foreign Exchange 《中華人民共和國外匯管理條例》, which was promulgated by the State Council on January 29, 1996 and was latest amended on August 5, 2008, as for the international receipts and payments on current account, domestic or foreign institutions or individuals are permitted to reserve foreign exchange and to make payments with their own funds via valid documents. They can also purchase foreign exchange from financial institutions to make such payments, which shall be based on genuine and lawful transactions. Foreign institutions or individuals who seeks to make direct investment in the PRC shall, after the approval of relevant competent department, register with the foreign exchange administrative authority. Domestic institution or individuals who seeks to engage in the issuance or trading of negotiable securities or derivatives overseas shall register with the State Council foreign exchange administrative department as required.

According to the Circular 37, which was promulgated by the SAFE on July 4, 2014, PRC residents shall apply for foreign exchange registration for overseas investments before contributing their legitimate domestic and overseas assets or equities into Special Purpose Vehicles (the “**SPVs**”). In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increase or decrease in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC resident shall timely submit a change in the registration of the overseas investments with the foreign exchange bureaus.

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According to the Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment 《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》 (the “**Circular 13**”), which was promulgated by the SAFE on February 13, 2015 and became effective on June 1, 2015, the foreign exchange registration under domestic and overseas direct investment can be directly conducted with qualified banks in accordance with the Circular 13 and the Operating Guidelines for Foreign Exchange Transactions for Direct Investment 《直接投資外匯業務操作指引》.

LAWS AND REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

The M&A Provisions was promulgated by MOFCOM, the State Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), SAT, SAIC, CSRC and SAFE on August 8, 2006 and was amended on June 22, 2009. Under the M&A Provisions, the following scenarios qualify as an acquisition of domestic enterprise by foreign investor:

- a foreign investor acquires equity interests in a PRC non-foreign invested enterprise or subscribes the increased capital of such PRC non-foreign invested enterprise thereby converting it into a foreign-invested enterprise;
- a foreign investor establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise via agreement and to operates such assets;
- a foreign investor purchases the assets of a domestic enterprise via agreement, contributes such assets as capital to establish a foreign-invested enterprise, and continues to operate such assets.

LAWS AND REGULATIONS RELATING TO LABOR

Employment Contracts

The Labor Contract Law of the PRC 《中華人民共和國勞動合同法》 (the “**Labor Contract Law**”), which was promulgated by the SCNPC on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, governs the relationship between employers and employees, and provides specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law stipulates that the employment contract must be in writing and be signed. It imposes stringent requirements on the employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Social Insurance and Housing Provident Funds

Under applicable PRC laws and regulations, including the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, which was promulgated by the SCNPC on October 28, 2010 and was amended on December 29, 2018, and the Regulations on the Administration of Housing Provident Fund 《住房公積金管理條例》, which was promulgated by the State Council on April 3, 1999 and was latest amended on March 24, 2019, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and to housing

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provident funds as well. These payments are made to local administrative authorities. Employers who fail to contribute the above-mentioned funds may be imposed a fine and ordered to rectify within a stipulated time limit.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC 《中華人民共和國環境保護法》，which was promulgated by the SCNPC on December 26, 1989, and was amended on April 24, 2014, became effective on January 1, 2015, establishes the legal framework for the environmental protection in the PRC. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

Construction Project Environmental Protection

The Environmental Impact Assessment Law 《中華人民共和國環境影響評價法》，which was promulgated by the SCNPC on October 28, 2002 and was latest amended on December 29, 2018, the Regulations on the Administration of Construction Project Environmental Protection 《建設項目環境保護管理條例》，which was promulgated by the State Council on November 29, 1998 and was amended on July 16, 2017, and the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects 《建設項目竣工環境保護驗收暫行辦法》，which was promulgated by the Ministry of Environmental Protection of the PRC (the predecessor of the Ministry of Ecology and Environment of the PRC) on November 20, 2017, require enterprises that planning construction projects to provide assessment reports, statements or registration forms on the environmental impact of such projects. The assessment reports or statements must be approved by the competent environmental protection authorities prior to the commencement of any construction work, while the registration forms must be submitted to the competent environmental protection authorities for recordation. Unless otherwise provided by laws and regulations, enterprises with construction projects, which are required to make assessment reports or statements, shall undertake self-inspections of the environmental protection facilities upon the completion of the construction. A construction project may be formally put into production or use only if its corresponding environmental protection facilities have passed the acceptance examination.

LAWS AND REGULATIONS RELATING TO WORK SAFETY

The Work Safety Law of the PRC 《中華人民共和國安全生產法》(the “**Work Safety Law**”), which was promulgated by the SCNPC on June 29, 2002 and was latest amended on August 31, 2014, is the principal law governing the supervision and administration of work safety in the PRC. The Work Safety Law requires entities that engage in production and business operation activities to meet the relevant legal requirements, such as offering education and training programs to their employees regarding work safety and providing a safe-working condition in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe-working conditions may not engage in production and business operation activities. Violation of the Work Safety Law may result in the imposition of fines and penalties, the suspension of operations, order to cease operations, or even criminal liability in severe cases.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The PRC is a signatory party to major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Regulations on Copyrights

The Copyright Law of the PRC 《中華人民共和國著作權法》, which was promulgated by the SCNPC on September 7, 1990 and was latest amended on February 26, 2010, and the Implementing Regulations of the Copyright Law of the PRC 《中華人民共和國著作權法實施條例》, which was promulgated by the State Council on August 2, 2002 and was latest amended on January 30, 2013, protect copyrights and copyright-related rights and interests.

Regulations on Trademarks

The Trademark Law of the PRC 《中華人民共和國商標法》 (the “**Trademark Law**”) was promulgated by the SCNPC on August 23, 1982 and was latest amended on April 23, 2019, and the Implementation Regulations on the Trademark Law of the PRC 《中華人民共和國商標法實施條例》 was promulgated by the State Council on August 3, 2002 and was amended on April 29, 2014. These laws and regulations provide the basic legal framework for the regulations of trademarks in the PRC. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certificate trademarks. The Trademark Office of National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of 10 years. Applicants may apply for extension 12 months prior to the expiration of the 10-year term.

Regulations on Patents

Pursuant to the Patent Law of the PRC 《中華人民共和國專利法》, which was promulgated by the SCNPC on March 12, 1984 and was latest amended on December 27, 2008, and the Detailed Rules for the Implementation of the Patent Law of the PRC 《中華人民共和國專利法實施細則》, which was promulgated by the State Council on June 15, 2001 and was latest amended on January 9, 2010, patent protection is divided into three categories, which are invention patents, utility patents and design patents. To be granted with patent right in the PRC, an invention or utility model shall be novel, creative and practical. The patent system in the PRC applies the “first to file” principle, which means when more than one individual file a patent application upon the same invention, the patent will be granted to the individual who files the application first. Invention patent is valid for 20 years from the date of application, while design patent and utility patent are valid for 10 years from the date of application.

Regulations on Domain Names

Measures for the Administrations of Internet Domain Names 《互聯網域名管理辦法》 was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 and became effective on November 11, 2017. Pursuant to that, the domain name registration in the PRC applies the “first to file” principle.

REGULATORY OVERVIEW

REGULATIONS MATERIAL TO OUR OPERATIONS IN OTHER JURISDICTIONS

We plan to construct and operate an infant milk formula production facility in Kingston, Ontario, Canada for the production and sale of goat milk infant formula and cow milk infant formula products in Canada and the United States. Accordingly, we will be subject to laws and regulations with respect to infant milk formula manufacturing in Canada as well as with respect to distribution of infant milk formula in Canada and the United States.

Laws and Regulations Specific to the Infant Formula Industry

Canada and the United States have enacted laws and regulations governing the infant milk formula industry, which are applicable to us. The primary purpose of these regulations is to ensure that the infant milk formulas placed on the market are safe and not misleading to consumers.

Canada

Notification and Compliance under the Food and Drug Regulations

The Food and Drug Regulations (C.R.C., c. 870) (the "FDR") along with other federal and provincial statutes and regulations regulate the sale and advertisement of infant milk formulas in Canada. Some key provisions of the FDR are summarized below:

Pre-market notification. All new infant milk formula and infant milk formula that has undergone major changes in composition, manufacturing or packaging, is subject to a minimum 90-day pre-market notification. The notification, including but not limited to manufacturing process, nutrition, and label(s) and package insert(s), must be submitted to Health Canada for review as part of such pre-market notification procedure.

Nutritional specifications. Infant milk formula must comply with the nutritional specifications set out in the FDR, including among others, minimum and maximum levels and ratios thereof.

Labelling. Infant milk formula must meet detailed and stringent labelling requirements, including but not limited to, pertaining to expiration date, list of ingredients, directions for preparation, use and storage, and nutrient content declaration.

In addition, the Safe Foods for Canadians Regulations (SOR/2018-108) (the "SFCR") came into force in January, 2019 and requires that food businesses ensure that the food that it prepares, exports or trades is safe and compliant with regulatory requirements, compositional and grade requirements and labelling requirements.

Production Facility for Infant Milk Formula

The establishment of a production facility for infant milk formula production in Canada (city of Kingston, province of Ontario) requires a number of federal, provincial and municipal licences, permits and approvals. Prior to commencement of construction of the production facility, we must obtain the following approvals: (i) permit to construct plant from the OMAFRA, as regulated by the Milk Act, R.S.O. 1990, c. M.12, (ii) site planning approval from the city of Kingston, as regulated by municipal bylaw 97-102, and (iii) building permit from the city of Kingston, as regulated by municipal bylaw 97-102.

REGULATORY OVERVIEW

In addition, the SFCR has established new licencing, preventive controls and traceability requirements that must be met. For example, as of January 15, 2019, a licence is required to manufacture, package and label dairy products for export or interprovincial trade.

We are required to subsequently obtain the following approvals during the construction of the production facility: (i) Environmental Compliance Approval, as regulated by the Environmental Protection Act, R.S.O. 1990, Chapter E.19 and the Ontario Water Resources Act, R.S.O. 1990, Chapter O.40, (ii) license to for the Operation of a Plant from OMAFRA, as regulated by the Milk Act, R.S.O. 1990, c. M.12, and (iii) registration with the Canadian Food Inspection Agency, prior to engaging in interprovincial and some intra-provincial trade or export, as regulated by the Dairy Products Regulations, SOR/79-840.

United States

Compliance under the Federal Food, Drug and Cosmetic Act

The Food and Drug Administration (“**FDA**”) oversees the manufacturing and regulatory requirements of infant milk formula, but does not require pre-approval of infant milk formula before they can be marketed in the United States. The Federal Food, Drug and Cosmetic Act, (the “**FDCA**”) and certain specific regulations codified in Title 21 of the Code of Federal Regulations (“**21 CFR**”), as monitored by the FDA, govern the manufacture and distribution of infant milk formulas in the United States. The FDCA provides specific requirements relating to nutrient content, nutrient quantity, nutrient quality control, record keeping and reporting, and recall of infant milk formulas. Infant milk formula manufacturers must register with the FDA as a food facility and provide FDA notification prior to marketing a new infant milk formula. The key provisions of the FDCA and 21 CFR are summarized below:

Registration, Notification and Verification. Persons responsible for the manufacture or distribution of new infant milk formula must register with the FDA, make a 90-day pre-market notification, and submit a verification on testing results. A new infant milk formula includes an infant milk formula manufactured by a person which has not previously manufactured an infant milk formula or an infant milk formula manufactured by a person which has previously manufactured infant milk formula and in which there is a major change, in processing or formulation, from a current or previous formulation produced by such manufacturer.

Registration information must include the name of the person (manufacturer) and their place of business, and all establishments at which the person intends to manufacture the new infant milk formula.

Notification for new infant milk formula must include: 1) the product name and description of the physical form, 2) an explanation of why it is a new infant milk formula, 3) the quantitative formulation of the infant milk formula, 4) a description of any reformulation of the formula or change in processing of the infant milk formula, 5) assurances that the infant milk formula will not be marketed unless it meets the quality factors and the nutrient requirements of the FDCA; and 6) assurances that the processing of the infant milk formula complies with good manufacturing practices, including quality control procedures.

Verification requires submitting a written verification that summarizes test results that such formula complies with specific requirements of the FDCA, and is to be submitted after first production and before the introduction into interstate commerce of the new infant milk formula.

REGULATORY OVERVIEW

Nutrient specifications. Infant milk formulas must comply with certain nutrient specifications, including minimum amounts for 29 nutrients and maximum amounts for nine of those nutrients. If an infant milk formula does not contain these nutrients at or above the minimum level or within the specified range, it is an adulterated product unless the formula is 'exempt' from certain nutrient requirements. An "exempt infant milk formula" is "any infant milk formula which is represented and labelled for use by an infant who has an inborn error of metabolism or low birth weight, or who otherwise has an unusual medical or dietary problem.

Labelling. Infant milk formula labels must contain certain specified information, including the product statement of identity, nutrient information, directions for preparation and use, use-by dates, warning statements, and physician's recommendation. Additional optional label claims, such as nutrient content claims and health claims are also specifically regulated by FDA.

Recalls. When the FDA determines that an adulterated or misbranded infant milk formula presents a risk to human health or the manufacturer has determined to recall voluntarily from the market due to violation of law or regulation of the FDA, a manufacturer must take actions in accordance with FDCA requirements to recall the product and ensure retention of relevant records. The FDCA also authorizes FDA to initiate a FDA-mandatory recall if the agency determines that an adulterated or misbranded infant milk formula presents a risk to human health. When a determination has been made that an infant milk formula must be recalled, the recalling firm must notify FDA within 24 hours.

General Consumer Protection and Product Safety and Environmental Protection Regulations

In addition to infant milk formula federal regulations, we are subject to the general consumer protection, product safety and environmental protection laws and regulations in Canada and the United States. These laws and regulations apply to businesses involved in the manufacturing and distribution of foods generally and are not specific to the infant milk formula industry.

Canada

The FDR regulates consumer protection and safety as detailed above. Our manufacturing facility in Canada will need to comply with primarily provincial, federal, and to a lesser degree, municipal, laws, regulations and ordinances on environmental protections. Principal statutes regulating our operations and in particular intended facility are the Environmental Protection Act and Ontario Water Resources Act. Environmental licensing for the facility will be conducted through a combined Environmental Compliance Approval ("ECA") issued by the Ontario Ministry of the Environment, Conservation and Parks ("MECP"), and will primarily cover the areas of air, noise, vibration, waste management systems, waste disposal systems and sewage works. While approval is obtained during the facility construction phase, we will be subject to ongoing compliance requirements, and regular inspection by MECP during operations.

United States

The FDA and Federal Trade Commission (FTC) jointly regulate consumer protection. The FDA, and related regulations under the FDCA, regulate consumer protection and safety as detailed above as it relates to labelling of food products (including infant milk formula). The Federal Trade Commission (FTC) regulates consumer protection through regulatory oversight of advertising. Individual states within the United States may also have state specific consumer protection laws.

REGULATORY OVERVIEW

Environmental Protection Regulations

Our manufacturing facility in Canada will need to comply with primarily provincial, federal, and to a lesser degree, municipal, laws, regulations and ordinances on environmental protections. Principal statutes regulating our operations and in particular intended facility are the Environmental Protection Act and Ontario Water Resources Act. Environmental licensing for the facility will be conducted through a combined ECA issued by the MECP, and will primarily cover the areas of air, noise, vibration, waste management systems, waste disposal systems and sewage works. While approval is obtained during the facility construction phase, we will be subject to ongoing compliance requirements, and regular inspection by MECP during operations.

Employment and Occupational Health and Safety Laws

We intend to hire employees for our production facility in Canada. As such, all employees we hire will be governed and protected by the employment and workplace safety laws of Canada. Employment law in Canada is derived from two primary sources: 1) statute, and 2) common law. Due to shared constitutional jurisdiction, statutory employment laws are enacted at both the federal and provincial levels, and are aimed at establishing minimum employment conditions, including minimum wages, hours of work, occupational health and safety, vacation, leaves of absence and terminations/dismissals/severance. Common law generally supplements statutory requirements, and generally, minimum standards cannot be "contracted out of". Key federal legislation, applicable to federally regulated business, includes the Canada Labour Code (R.S.C. 1985, c.L-2), regulating issues such as labour and industrial relations, minimum wages, occupational health and safety, working hours, vacation, terminations and severance and the Canadian Human Rights Act (R.S.C. 1985, c.H-6), protecting employees against discrimination based on certain enumerated grounds. Key federal legislation applicable nationally (except Quebec) includes the Canada Pension Plan Act (R.S.C. 1985, c.C-8), providing pension benefits upon retirement for eligible individuals; and Employment Insurance Act (S.C. 1996, c. 23), providing temporary income for periods of unemployment.

Key provincial (Ontario) legislation, applicable to us, include the: Employment Standards Act, 2000 (S.O. 2000, c. 41.), regulating issues such as minimum wages, working hours, overtime and holiday pay, vacation, terminations and severance; Ontario Human Rights Code (R.S.O. 1990, c. P.7.), protecting employees against discrimination; and Labour Relations Act (S.O. 1995, c. 1, Sched. A), providing employees with rights to form unions and participate in collective bargaining.

Health and safety of workers is stringently governed and regulated at the provincial (Ontario) level by the Occupational Health and Safety Act (R.S.O. 1990, c. O.1) ("**OHSA**") and the Workplace Safety and Insurance Act (S.O. 1997, c. 16, Sched. A) ("**WSIA**"), and supporting regulations. OHSA covers virtually all employees in Ontario, and subject to penalties and other punishment, obligates employers to take a number of measures, to protect employee health and safety, as well as prevent workplace violence and harassment. The WSIA covers most employers in Ontario, is administered and enforced by the Workplace Safety and Insurance Board, and establishes an insurance plan to compensate employees who are injured or disabled due to workplace accidents, occupational diseases and work-related injuries; in turn, the employer is given immunity from civil suits in relation to the same.

HISTORY, DEVELOPMENT AND REORGANIZATION

OVERVIEW

Our history traces back to 1962, when Hongguang Dairy Plant (紅光乳品廠) (“**Hongguang Dairy**”), the predecessor of Feihe HLJ, was founded as a state-owned enterprise. Our operating subsidiaries are located in the PRC, Hong Kong, the United States and Canada.

MILESTONES

The table below sets out the milestones of the development of the Group.

<u>Time</u>	<u>Milestone</u>
1962	Hongguang Dairy (later expanded as Zhaoguang Dairy), the predecessor of Feihe HLJ, was established
1984	We registered our “ <i>Feihe</i> ” trademark in the PRC
1996	Feihe HLJ, the first member of the Group with business operation, was established
1998	Feihe HLJ acquired the assets of Zhaoguang Dairy
2003	Flying Crane U.S., whose shares were quoted on OTCBB, became the holding company of the Group
2005	Flying Crane U.S. became listed on the NYSE Archipelago Exchange and ceased to be traded on the OTCBB
2009	Flying Crane U.S. transferred the listing of its shares from the NYSE Archipelago Exchange to the NYSE
2010	We launched our super-premium Astrobaby (星飛帆) product series
2011	We adjusted our business strategy to exclude the production of fresh milk and to focus on the development, production and sales of infant milk formula products
2013	Flying Crane U.S. was privatized and its shares were delisted from the NYSE NHPEA became a shareholder of DIF Holding
2014	We established the Feihe Nutrition Laboratory at the Beth Israel Deaconess Medical Center of Harvard Medical School to engage in nutrition research and teaching activities
2016	We established Canada Kingston Dairy and Canada Royal Milk for the planned operations of the goat milk and cow milk infant formula production facilities at the Kingston Plant to be constructed in Kingston, Ontario, Canada
2018	We completed the acquisition of the retail health care business of Vitamin World

HISTORY, DEVELOPMENT AND REORGANIZATION

HISTORY AND DEVELOPMENT

Predecessor and Establishment of Feihe HLJ

In 1962, Zhaoguang Farm, a state-owned enterprise, established Hongguang Dairy, the predecessor of Feihe HLJ, to engage in the business of manufacturing milk powder. In 1984, Hongguang Dairy expanded as Zhaoguang Dairy, which was mainly engaged in production and distribution of infant milk formula products. The founder of the Group, Mr. Leng, served in several positions at Zhaoguang Dairy before August 1996.

In August 1996, Feihe HLJ, the first member of the Group with business operation, was established. Upon its incorporation, Feihe HLJ was owned as to 98.25% and 1.75% by Zhaoguang Dairy and Heilongjiang Province Zhaoguang Beverage Plant (黑龍江省趙光飲料廠) (“**Zhaoguang Beverage**”), respectively. Both Zhaoguang Dairy and Zhaoguang Beverage were state-owned enterprises under Zhaoguang Farm. In 1998, Zhaoguang Dairy underwent enterprise restructuring and transferred its assets (including its plant and machineries and production facilities) to Feihe HLJ at a consideration of RMB7 million, which was determined with reference to the valuation of the assets. Through a series of transactions during 1998 to 2001, Mr. Leng and Mr. Liu Shenghui acquired approximately 95.4% and 4.6% of the equity interest in Feihe HLJ at a consideration of RMB7,060,000 and RMB340,000, respectively, which was determined with reference to the then share capital of Feihe HLJ. The acquisitions by Mr. Leng and Mr. Liu Shenghui were financed by their own financial resources and personal borrowings.

Prior Quotation on the OTCBB and Listing on the NYSE

On January 15, 2002, Mr. Leng, Mr. Liu Shenghui and Mr. Wu Zhigang (吳志剛) (a former employee of the Group) (“**Mr. ZG Wu**”) established Feihe China Nutrition (whose name was then “American Dairy Holdings, Inc.”) in Delaware, the United States. In April 2002, Feihe Nutrition U.S. acquired the entire equity interest in Feihe HLJ at a consideration of USD700,000. Such consideration was determined with reference to the amount of the registered capital of Feihe HLJ in May 2002.

(a) *Quotation on the OTCBB and Listing on the NYSE*

In January 2003, Feihe Nutrition U.S., Mr. Leng, Mr. Liu Shenghui and Mr. ZG Wu (collectively, the “**FCN Shareholders**”) and Flying Crane U.S. (a company whose shares were then quoted on the OTCBB under the symbol of “LAZS”) entered into a stock exchange agreement, pursuant to which, the FCN Shareholders agreed to subscribe for 9,650,000 shares in Flying Crane U.S. (representing approximately 86.26% of its equity interest after such subscription) in exchange for the entire equity interest of Feihe Nutrition U.S. Following completion of such exchange, Flying Crane U.S. became the holding company of Feihe Nutrition U.S. and the securities of Flying Crane U.S. continued to be quoted on the OTCBB.

In April 2005, the shares of Flying Crane U.S. listed on the NYSE Archipelago Exchange under the trading symbol of “ADY” (and ceased to be traded on the OTCBB). Subsequently in June 2009, Flying Crane U.S. transferred the listing of its shares from the NYSE Archipelago Exchange to the NYSE.

HISTORY, DEVELOPMENT AND REORGANIZATION

(b) *Privatization and Delisting from the NYSE*

In 2012, Flying Crane U.S. decided to delist from the NYSE mainly because:

- the trading volume of Flying Crane U.S. common stock on the NYSE was limited and the management of the Group believed that the valuation of the Group was not properly reflected;
- the Group incurred relatively high annual costs of remaining a public company including the cost of consulting and auditing services associated with compliance with applicable securities laws and fees and expenses of the Company's securities counsel, which were ongoing and difficult to reduce; and
- the cash consideration of privatization would allow the shareholders of Flying Crane U.S. to realize liquidity for their investment immediately and provide them with certainty of the value of such common stock.

On October 3, 2012, Mr. Leng and NHPEA submitted the FCUS Privatization Proposal of Flying Crane U.S. to the board of directors of Flying Crane U.S. and made a conditional cash offer of US\$7.40 per share in Flying Crane U.S. In connection with the FCUS Privatization, on March 3, 2013, Flying Crane U.S. entered into the Merger Agreement, pursuant to which Merger Sub agreed to merge with and into Flying Crane U.S., with Flying Crane U.S. continuing as the surviving company resulting from the Merger as a wholly-owned subsidiary of the Company.

Shareholders of Flying Crane U.S. approved the Merger Agreement on June 26, 2013 at a special meeting of the then shareholders of Flying Crane U.S., following which the Merger became effective on June 27, 2013. As of the effective time of the Merger (the "**Effective Time**"), each of the shares in Flying Crane U.S. that was outstanding immediately prior to the Effective Time was cancelled in exchange for the right to receive US\$7.40 in cash without interest (less any applicable withholding tax), except for, among other things, (a) the shares in Flying Crane U.S. owned by the Company, DIF Holding, Merger Sub, Flying Crane U.S. or any of its subsidiaries, which were cancelled for no consideration; and (b) all of the shares in Flying Crane U.S. owned by Mr. Leng, Mr. Liu Shenghui and Mr. Liu Hua (the "**Rollover Holders**"). The shares in Flying Crane U.S. owned by the Rollover Holders were contributed to the Company in exchange for newly issued shares of DIF Holding and cancelled for no consideration, pursuant to the contribution agreement entered into among the Rollover Holders, the Company, DIF Holding and Flying Crane U.S. dated March 3, 2013. Each of the then unexpired and unexercised options to purchase shares of Flying Crane U.S. at the Effective Time ("**Outstanding Options**") (other than Outstanding Options held by the Rollover Holders) were cancelled and converted into the right to receive cash equal to the total number of shares of Flying Crane U.S. common stock issuable upon exercise of the applicable Outstanding Option multiplied by the amount, if any, by which US\$7.40 exceeded the exercise price payable per share of the applicable Outstanding Option. Outstanding Options that had an exercise price per share higher than US\$7.40 per share were cancelled at the Effective Time with no consideration.

The total consideration of the Merger was approximately US\$147.1 million and it was fully paid on June 27, 2013. On that date, the Merger was completed. The closing price of the shares of Flying Crane U.S. and its market capitalization on June 27, 2013 was US\$7.38 per share and approximately US\$146.0 million, respectively. Upon the completion of the Merger, DIF Holding was owned as to 68.48%, 2.08%, 0.49% and 28.95%¹ by Garland Glory, Mr. Liu Shenghui, Mr. Liu Hua and NHPEA, respectively. After the completion of the Merger, Flying Crane U.S. delisted on the NYSE on June 28, 2013.

¹ Representing the DIF Ordinary Shares to be held by NHPEA assuming full conversion of its DIF Preference Shares into DIF Ordinary Shares on a one-for-one basis.

HISTORY, DEVELOPMENT AND REORGANIZATION

The Directors confirm that, to the best of their knowledge, other than those disclosed in this Document: (a) Flying Crane U.S. had been in compliance with applicable U.S. securities laws and regulations as well as the rules and regulations of the NYSE, the NYSE Archipelago Exchange and the OTCBB in all material respects, and was not subject to any disciplinary action by the applicable regulators, during the period that its shares were listed on the NYSE, listed on the NYSE Archipelago Exchange and traded on the OTCBB (the "**U.S. Listing**"); and (b) there are no matters in relation to the U.S. Listing and the FCUS Privatization that need to be brought to the attention of the Hong Kong Stock Exchange or the Shareholders.

(c) Litigation in the U.S. in Relation to the FCUS Privatization

In October 2012, class and derivative actions were filed by multiple purported shareholders of Flying Crane U.S. on behalf of themselves and other then public shareholders of Flying Crane U.S. with the Third Judicial District Court in and for Salt Lake County, Utah, the United States (the "**Utah Court**"). These actions were consolidated by the Utah Court into one single action (the "**Utah Lawsuit**"). The plaintiffs alleged (i) each member of the board of directors of Flying Crane U.S. breached his or her fiduciary duties in connection with the FCUS Privatization Proposal and (ii) each of Flying Crane U.S. and MSPEA III aided and abetted such breaches of fiduciary duties.

From October 2012 to January 2013, class actions were filed by multiple purported shareholders of Flying Crane U.S. on behalf of themselves and other then public shareholders of Flying Crane U.S. with the Superior Court of California, County of Los Angeles, the United States (the "**California Court**"). These actions were deemed related by the California Court (the "**California Lawsuit**"). The plaintiffs alleged (i) each member of the board of directors of Flying Crane U.S. breached his or her fiduciary duties in connection with the FCUS Privatization Proposal and (ii) each of Flying Crane U.S. and MSPEA III aided and abetted such breaches of fiduciary duties.

On May 27, 2015, parties to the Utah Lawsuit filed with the Utah Court a settlement agreement, pursuant to which a US\$6.5 million settlement fund was created for the full and final settlement and dismissal of all claims, as well as a full release of any possible claims (known or unknown), in connection with the Merger. The settlement was approved by the Utah Court on August 24, 2015. As a result, all claims, causes of action, demands, rights, suits, matters, issues, obligations, expenses, damages, losses, liabilities, or any other matters that were or could have been asserted in the Utah Lawsuit were fully and finally released. Based on this release, the California Court dismissed the California Lawsuit on September 17, 2015.

(d) Funding of FCUS Privatization and Merger

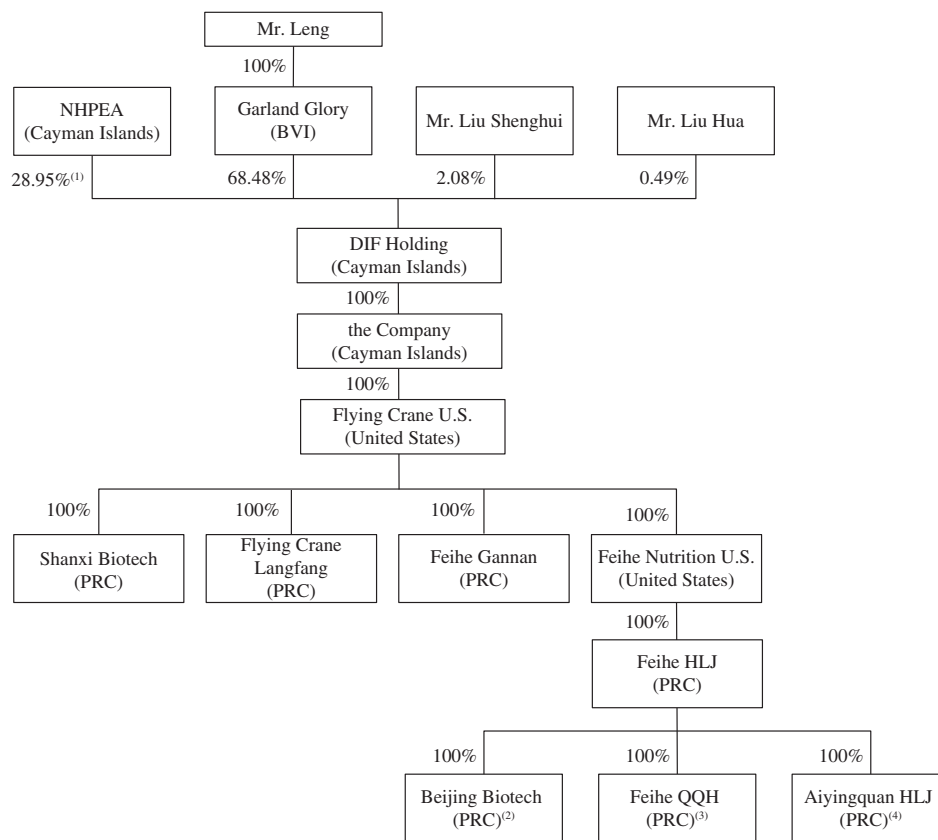
The Merger was funded through a combination of (i) commitment from NHPEA and Mr. Leng to subscribe for DIF Preference Shares and DIF Ordinary Shares with a cash purchase price of approximately US\$28.1 million and US\$8.16 million, respectively, (ii) the contribution of the shares of Flying Crane U.S. from the Rollover Holders (equivalent to approximately US\$60.8 million), and (iii) a loan financed by Wing Lung Bank Limited and Cathay United Bank of US\$50.0 million which was fully repaid on August 7, 2015. The cost of the FCUS Privatization was approximately US\$162.3 million, taking into account the total consideration of the Merger, consortium expenses, payment of the settlement fund and the legal costs incurred in relation to the litigation relating to the FCUS Privatization and other expenses incurred by us.

HISTORY, DEVELOPMENT AND REORGANIZATION

(e) Increase in market capitalisation since the FCUS Privatization

Our market capitalization increased significantly since the FCUS Privatization, which was primarily because (i) our business has grown rapidly since the FCUS Privatization. In particular, our revenue increased from approximately US\$267.9 million (equivalent to approximately RMB1,835.2 million) for the year ended December 31, 2012 to approximately RMB10,391.9 million for the year ended December 31, 2018 and our net profit increased from approximately US\$21.2 million (equivalent to approximately RMB145.2 million) for the year ended December 31, 2012 to approximately RMB2,242.3 million for the year ended December 31, 2018; (ii) we were the largest infant milk formula brand in China in terms of retail sales value in 2018 according to the F&S Report and our Directors believe we enjoy a valuation premium as a result; and (iii) the valuation of the Group was not properly reflected, which was one of the reasons we decided to delist from the NYSE.

The shareholding and corporate structure of the Group immediately after the FCUS Privatization is as follows:



- (1) It represents the DIF Ordinary Shares held by NHPEA assuming full conversion of its DIF Preference Shares into DIF Ordinary Shares on a one-for-one basis.
- (2) The equity interest in Beijing Biotech was solely and beneficially owned by Feihe HLJ, as to 95% registered in the name of Feihe HLJ, and 5% registered in the name of Mr. Leng who had held such interest on trust for the benefit of Feihe HLJ. The trust arrangement was unwound on May 4, 2017.
- (3) The equity interest in Feihe QQH was solely and beneficially owned by Feihe HLJ, as to 99% registered in the name of Feihe HLJ, and 1% registered in the name of Mr. Leng who held such interest on trust for Feihe HLJ. Feihe QQH was deregistered in January 2015.
- (4) The equity interest in Aiyingquan HLJ was solely and beneficially owned by Feihe HLJ, as to 99% registered in the name of Feihe HLJ, and 1% registered in the name of Mr. Liu Shenghui who held such interest on trust for Feihe HLJ. Aiyingquan HLJ was deregistered in April 2015.

HISTORY, DEVELOPMENT AND REORGANIZATION

(f) *Reasons for the [REDACTED] on the Hong Kong Stock Exchange*

We intend to strengthen our market positions in the PRC market, expand our product portfolio through innovation and grow our international business. Our Directors believe that the [REDACTED] will assist us in achieving such goals by, among other things, further raising our profile in the PRC and providing additional capital for our expansion and potential merger and acquisition. The Board believes that [REDACTED] on a stock exchange where the shares of a number of comparable companies are traded, such as the Hong Kong Stock Exchange, may improve the trading liquidity of our Shares and more properly reflect the value of the Group. In addition, the investors profile of the Hong Kong Stock Exchange tend to be more receptive to issuers with businesses mainly carried out in the PRC. Accordingly, we are seeking to [REDACTED] on the Hong Kong Stock Exchange.

Restructuring of Companies

We underwent certain restructuring and established certain Hong Kong subsidiaries for our international operations in 2014 and 2015 for the following reasons:

- *Convenience for overseas operation expansion.* Hong Kong is an international financial center and business hub. It supports free movement of goods, intangible assets and capital, and offers a friendly platform for overseas investment and cross-border transactions. It would be more convenient to have Feihe HK and Feihe Nutrition HK in Hong Kong to facilitate future overseas expansion.
- *Attracting international talents.* We have been hiring international talents to assist in both our PRC operations and overseas expansion. Hong Kong is a favorable and attractive jurisdiction to those international talents in terms of cultural experience, tax treatment and other perspectives.
- *Efficient access to capital markets and fund raising.* Since the FCUS Privatization, we have considered exploring future financing and capital market activities in the Greater China. As an international financial center in proximity to the PRC, Hong Kong has offered PRC enterprises more flexibility to banking and financing services, and is an ideal platform to access the global capital market.
- *Entitlement to domestic benefits for Feihe HK and Feihe Nutrition HK as the shareholders of the PRC operating subsidiaries.* As the majority of our business operations and customers are located in the PRC, we would benefit from re-establishing ourselves as a PRC operating group by structuring Platinum Commerce HLJ, a wholly foreign-owned enterprise established in the PRC, as the indirect holding company of the Feihe HK and Feihe Nutrition HK, which in turn are the direct shareholders of the PRC operating subsidiaries.

The principal steps include:

- establishing (i) Feihe HK and Feihe Nutrition HK as investment holding companies in Hong Kong; (ii) Platinum Commerce HLJ as an investment holding company in the PRC; and (iii) Platinum Holding HLJ and Platinum International HLJ as investment holding companies in the BVI;

HISTORY, DEVELOPMENT AND REORGANIZATION

- re-classificating the share capital of Feihe HK and Feihe Nutrition HK into preferred shares (Class "A" shares) and ordinary shares (Class "B" shares);
- acquiring (i) the entire equity interest in Feihe Gannan from Flying Crane U.S. by Feihe HK through the allotment and issue of 99 preferred shares to Flying Crane U.S., and (ii) the entire equity interest in Feihe HLJ from Feihe Nutrition U.S. by Feihe Nutrition HK through the allotment and issue of 99 preferred shares to Feihe Nutrition U.S.;
- contributing the entire equity interest in Flying Crane U.S. to Platinum International HLJ by the Company in consideration for the Company's direction and instruction to Platinum International HLJ to allot and issue 1 share in Platinum International HLJ to Platinum Holding HLJ; and
- subscribing for (i) 9 ordinary shares in Feihe HK at a total subscription price of HK\$50,400,000, and (ii) 9 ordinary shares in Feihe Nutrition HK at a total subscription price of HK\$24,900,000 by Platinum Holding HLJ.

After the completion of the restructuring in December 2015, the PRC operating subsidiaries became controlled by Platinum Holding HLJ through its voting power vested in the Class "B" shares in each of Feihe HK and Feihe Nutrition HK.

We engaged a global "big four" accounting firm as our U.S. tax adviser (the "U.S. Tax Adviser") to advise us on the U.S. federal income tax implications of the restructuring described above. We obtained a tax opinion from our U.S. Tax Adviser around the completion of the restructuring and a bring-down tax opinion subsequently when we explored various financing options, that the restructuring we underwent (i) were more likely than not qualified as a tax-neutral reorganization within the meaning of the U.S. Internal Revenue Code, and (ii) should not be treated as a "surrogate foreign corporation" (in which case Feihe Gannan and Feihe HLJ would be deemed as domestic U.S. companies) within the meaning of the U.S. Internal Revenue Code for U.S. federal income tax purposes. Based on the advice from our U.S. Tax Adviser, we adopted a tax-neutral treatment corresponding to the applicable U.S. tax laws and regulations set forth in the tax opinion. Tax-neutral treatment means that undertaking such restructuring steps should not result in any tax costs. Based on our discussions with our U.S. Tax Adviser, the "more likely than not" and "should" level of confidence language were standard tax opinion language used to indicate that we should be able to rely on their opinion for the purpose of establishing a reasonable belief that the tax treatment outlined in their opinion was the proper treatment. Considering that our restructuring was more likely than not qualified as a tax-neutral reorganization, and we were not aware of any matters that would disqualify our restructuring from tax-neutral treatment as of the Latest Practicable Date, we did not make any provision for a tax reserve for the restructuring. We have disclosed the details and basis of the restructuring and relevant tax treatment in our annual tax filings of 2015 with the IRS in September 2016. As advised by our U.S. Tax Adviser, in general, the statute of limitations for the IRS to bring any collection action for corporate income tax is three years from the due date of the tax return or the date on which the return was filed, whichever is later, other than in exceptional circumstances. As of the Latest Practicable Date, save for notices from, and communications with, the IRS in the ordinary course of business, we had not received any notice from the IRS on the restructuring. Nonetheless, we may be subject to certain U.S. federal income tax risks in relation to the 2015 tax filing prior to the expiry of the statute of limitations, which is in March 2020. For more information, see "Risk Factors – Risks Relating to Our Business – We cannot assure you that we will not be challenged by U.S. tax authorities in relation to our restructuring."

HISTORY, DEVELOPMENT AND REORGANIZATION

Acquisition of the Retail Health Care Business of Vitamin World

In January 2018, we completed the acquisition of the retail health care business of Vitamin World. For details, please refer to “— Major Acquisitions, Disposals and Deregistration — Acquisition of the Retail Health Care Business of Vitamin World.”

MAJOR ACQUISITIONS, DISPOSALS AND DEREGISTRATION

The Group

The following table contains details of the Company and our principal operating subsidiaries as of the Latest Practicable Date, all of which were the Company’s wholly-owned subsidiaries:

Entity	Date and place of incorporation	Amount (or where applicable, number) of registered capital/ authorized share capital	Amount of paid up/issued share capital (or where applicable number of issued shares)	Principal activities
The Company	October 26, 2012, Cayman Islands	US\$50,000	US\$201	Investment holding
Feihe HLJ	August 21, 1996, PRC	US\$45 million	US\$45 million	Production and distribution of infant milk formula products
Feihe Gannan	March 22, 2006 PRC	US\$25 million	US\$25 million	Production of infant milk formula products
Feihe Longjiang	September 27, 2013, PRC	RMB210 million	RMB210 million	Production of infant milk formula products
HLJ Shanghegu Nutraceutical Food ⁽¹⁾	August 18, 2015, PRC	RMB51 million	RMB51 million	Production of adult milk products
Feihe Zhenlai	November 4, 2013, PRC	RMB87 million	RMB87 million	Production of infant milk formula products
Vitamin World USA	December 13, 2017, the United States	1,000 shares of common stock	1,000 shares in issue	Sales of vitamins, minerals, herbs and other nutritional supplements

Note:

⁽¹⁾ Pursuant to the shareholders’ decision, the registered capital of HLJ Shanghegu Nutraceutical Food increased from RMB30 million to RMB51 million in February 2018. The increased share capital of RMB21 million was paid up by Feihe HLJ in June 2018.

HISTORY, DEVELOPMENT AND REORGANIZATION

Acquisition of the Retail Health Care Business of Vitamin World

While focusing on its principal business of production and sales of infant milk formula products, the Company has been actively seeking opportunities to diversify the business structure of the Group.

In late 2017, the Company learnt about the voluntary petition filed by Vitamin World in the United States and took part in the bidding procedures after reviewing the publicly available materials disclosed by Vitamin World and conducting onsite inspections. Although Vitamin World filed voluntary petition due to decreasing sales as a result of, among other things, the struggling U.S. retail market. The Directors, after conducting due diligence of Vitamin World, are of the view that the acquisition of the retail health care business of Vitamin World is in line with the overall development strategy of the Company and in the interest of the Company and its shareholders as a whole due to the following reasons: (i) the acquisition of Vitamin World would provide the Company with a favorable chance of entering into the health products and nutritional supplements market; (ii) synergies are expected to be achieved considering the customer base accumulated by the Company from its principal business together with their demands for nutritional supplements; and (iii) such overseas acquisition would also provide a platform for the implementation of the Company's global expansion strategy.

Pursuant to the agreement dated December 21, 2017 entered into among Vitamin World (an Independent Third Party), its direct and indirect subsidiaries and affiliates and Vitamin World USA, Vitamin World agreed to sell and Vitamin World USA agreed to acquire the retail health care business, including all the properties, rights, interests and other tangible and intangible assets for use in or relating to such retail health care business of Vitamin World and certain liabilities incurred by Vitamin World during its ordinary course of business and existing as of the completion date at a consideration of US\$28,000,000. Such consideration was determined based on, among other things, the net value of the assets and liabilities to be acquired. The consideration was fully settled by the Company by cash payment on January 18, 2018 with bank borrowings and its own funds.

The above acquisition has been properly and legally completed and all necessary regulatory approvals have been obtained.

Disposal of Guanshan Dairy

The Company and Shaanxi Shangde jointly established Guanshan Dairy in June 2014 with a shareholding of 70% and 30% in Guanshan Dairy, respectively. On June 19, 2015, Guanshan Dairy received a notice from Long County FDA that five batches of its goat milk infant formula products did not meet the relevant national infant milk formula food standards during a quarterly inspection. Long County FDA ordered Guanshan Dairy to suspend production and sales immediately and to recall defective products. Considering the administrative sanctions on Guanshan Dairy and difficulties in integrating our corporate cultures, the Group disposed of Guanshan Dairy to Shenzhen Yueyou, an Independent Third Party, at a consideration of RMB84 million on December 27, 2016. Such consideration was determined based on arm's length negotiations between the parties with reference to the original acquisition cost of assets of Shaanxi Shangde in June 2014 at a discount in view of the Guanshan Dairy Incident. Such consideration was fully settled by cash payment on April 11, 2018. On January 3, 2017, Feihe HLJ, Shaanxi Shangde and Shenzhen Yueyou entered into a supplemental agreement pursuant to which Shenzhen Yueyou and Guanshan Dairy waived their respective rights to claim against Feihe HLJ in relation to the Guanshan Dairy incident under the original agreement dated December 27, 2016.

The above disposal has been properly and legally completed, and no regulatory approval was required for such disposal.

HISTORY, DEVELOPMENT AND REORGANIZATION

MAJOR CHANGES IN SHAREHOLDING OF DIF HOLDING PRIOR TO THE REORGANIZATION

Major changes

Immediately after the completion of FCUS Privatization on June 27, 2013, Flying Crane U.S. became a wholly-owned subsidiary of the Company, which in turn was wholly owned by DIF Holding.

The then shareholding structure of DIF Holding were as follows: (a) Mr. Leng, through his investment vehicle Garland Glory, holding 13,572,579 DIF Ordinary Shares, was interested in approximately 68.48% in DIF Holding; (b) NHPEA, holding 5,738,455 DIF Preference Shares, was interested in approximately 28.95% in DIF Holding (assuming the full conversion of the DIF Preference Shares into the DIF Ordinary Shares on a one-for-one basis); (c) Mr. Liu Shenghui, holding 412,868 DIF Ordinary Shares, was interested in approximately 2.08% in DIF Holding; and (d) Mr. Liu Hua, holding 96,389 DIF Ordinary Shares, was interested in approximately 0.49% in DIF Holding.

The changes in beneficial owners of DIF Holding since June 27, 2013 and prior to the Reorganization are summarised and classified as following:

a) Issuance of DIF Ordinary Shares

- On October 31, 2013, (a) 696,777, 21,196 and 4,949 DIF Ordinary Shares were issued at the respective subscription prices of US\$3,411,978.88, US\$103,789.92 and US\$24,231.00 to Garland Glory (solely owned by Mr. Leng), Mr. Liu Shenghui and Mr. Liu Hua, respectively and (b) 294,596 DIF Preference Shares were issued at the subscription price of US\$2,188,407.39 to NHPEA. Each of such subscribers paid subscription price from its/his own financial resources and the entirety of the subscription prices were settled on or prior to July 31, 2013.

HISTORY, DEVELOPMENT AND REORGANIZATION

b) Transfers of DIF Ordinary Shares by shareholders

Parties	Transferor	Mr. Leng (through Garland Glory)	Sino Sky	Icon Center	Grand Thrive	RMC Trading	FIDA Promotion	NHPEA (as the transferee) ^{3, 4}					
Transferee	Various transferees	Various transferees	Grand Thrive	LH Financial	Mr. Li Chen ¹	Right Time SPC	Vista Associates	XN Crane	Wang Jian Guo Holdings	SinoMedia	Tiantu Xinghe	Hocrane Investment	NYMPH Investments
Date of share transfer	January 1, 2015	January 1, 2017	January 23, 2018	December 28, 2018	March 11, 2019	March 11, 2019	April 23, 2019	May 17, 2019	May 31, 2019	April 24, 2019	May 16, 2019	May 21, 2019	
Number of DIF Ordinary Shares being transferred	2,667,072	520,000	162,285	323,888	218,897	40,000	162,285	60,000	380,290 DIF Ordinary Shares held by Great Dipper, a then wholly-owned subsidiary of FIDA Promotion	173,594	26,348	491,533	491,533
Consideration	Nil	Nil	Nil	US\$38,640,000	RMB12,700,000	US\$32,500,000	US\$6,900,000	US\$ in equivalent of RMB346,000,000	US\$ in equivalent of RMB157,941,286	US\$5,360,573	US\$100,000,000	US\$30,000,000	US\$100,000,000
Date of full settlement of consideration	N/A	N/A	N/A	July 20, 2018	December 25, 2018	May 2, 2019	April 15, 2019	April 25, 2019	May 9, 2019	June 3, 2019	April 23, 2019	May 16, 2019	May 20, 2019
Price per Share and premium over/discount to the [REDACTED] (calculated based on the mid-point of the [REDACTED] range)	N/A	N/A	N/A	US\$[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]	[REDACTED] per Share, representing a discount of [REDACTED] over the [REDACTED]
Basis of consideration	In view of the transferees' contribution in the business development of the Group or the family relationship between such persons') and Mr. Leng	In view of the transferees' contribution in the business development of the Group	In view of the family relationship between the transferor and the transferee	Based on arms' length negotiation between the parties	In view of the family relationship between the transferor and the transferee	Based on arms' length valuation conducted by Right Time SPC after arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties	Based on arms' length negotiation between the parties

HISTORY, DEVELOPMENT AND REORGANIZATION

Parties	Transferor	Mr. Leng (through Garland Glory)		Sino Sky		Icon Center		Grand Thrive		RMC Trading		FIDA Promotion		NIPEA (as the transferor) ^{3 & 4}	
		Various transferees	Various transferees	Grand Thrive	Guo Xin Investments	LH Financial	Mr. Li Chen ¹	Right Time SPC	Vista Associates	XN Crane	Wang Jian Guo Holdings	SinoMedia	Tiantu Xinghe	Hocrane Investment	NYMPH Investments
Background of the transferee	Transferree	<p>Please refer to note 2 of the table for background of the transferees.</p> <p>The transferees include the following three entities:</p> <p>(i) Blossoming Lotus (wholly owned by Ms. Lin Lan (林嵐), a friend of Mr. Leng), being an Independent Third Party</p> <p>(ii) RMC Trading (wholly owned by Ms. Wang Massong, being the nephew of Mr. Wang Xuxiang (王續翔), being an Independent Third Party)</p> <p>(iii) Sino Sky</p>	<p>Both Sino Sky and Grand Thrive are wholly owned by Ms. Wang Massong, being an Independent Third Party.</p> <p>On December 10, 2018, the sole shareholder of Grand Thrive changed to Mr. Wang Xuxiang (王續翔), being the nephew of Ms. Wang Massong and an Independent Third Party.</p>	<p>LH Financial is wholly owned by Harney's Trustees (the trustee of the LH Family Trust).</p>	<p>Mr. Li Chen (李晨) is an employee of the Group, being an Independent Third Party.</p>	<p>Right Time SPC is controlled by Right Time Asset Management Company Limited, which is a licensed institution under the SFO to carry out Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under the SFO. The ultimate beneficial owner of Right Time SPC is Mr. Chen Dong (陳東), being an Independent Third Party.</p>	<p>Vista Associates is wholly owned by Mr. Mao Dai (毛岱), being an Independent Third Party.</p>	<p>XN Crane is wholly owned by Jiangsu Jiequan Emerging Industries Development Fund (Limited Partnership) (江蘇傑泉新興產業發展基金(有限合伙)), which is an investment fund jointly established by Jiangsu Provincial Government Funds and other parties. Jiequan Fund primarily invests in outstanding enterprises in domestic and international consumer industries. The general partner of Jiequan Fund is Jiangsu Xinghe Investment Management Co., Ltd., in which Mr. Wang Jianguo (汪建國) holds 55% equity interests.</p>	<p>Wang Jian Guo Holdings is wholly owned by Mr. Wang Jian Guo (汪建國), being an Independent Third Party.</p>	<p>SinoMedia is a company listed on the Hong Kong Stock Exchange (stock code: 623), which is a leading media corporation in China. Ms. Liu Jilian (劉姝嫻) and Mr. Chen Xin (陳新), being spouses and Independent Third Parties, are the controlling shareholders of SinoMedia.</p>	<p>Tiantu Xinghe is an indirect non-wholly-owned subsidiary of Shenzhen Tiantu Investment Management Co., Ltd. (深圳天圖投資管理股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 833979), which is an investment institution focusing on consumer goods sector. Mr. Wang Yonghua (王永華), being an Independent Third Party, is the controlling shareholder of Shenzhen Tiantu Investment Management Co., Ltd.</p>	<p>Hocrane Investment is wholly owned by Hosen Investment Fund III, L.P., Hosen Investment Fund III GP, Ltd. is the sole general partner of Hosen Investment Fund III, L.P., which is managed under the investment committee comprising Alex Tanti Zhang, Wang Hang and Shi Weiguang. Hosen Capital is a leading private equity investment management company focusing on the food space and consumer sectors.</p>	<p>NYMPH Investments is a non-wholly-owned subsidiary of New Hope Group Co., Ltd. (新希望集團有限公司), a PRC-incorporated conglomerate engaging in agriculture, animal husbandry, food processing and investment. Mr. Liu Yonghao (劉永好), being an Independent Third Party, holds 62.34% equity interests in New Hope Group Co., Ltd.</p>		

HISTORY, DEVELOPMENT AND REORGANIZATION

Notes:

1. Mr. Li Chen further transferred all the 40,000 DIF Ordinary Shares held by him to Blingbling Treasure, his wholly-owned company on December 28, 2018.
2. The transferees include the following entities/persons:
 - a) Clear Stage (wholly owned by of Ms. Leng Shuang, the daughter of Mr. Leng)
 - b) Mr. Liu Yaohua (son of Mr. Liu Shenghui)
 - c) Mr. Liu Yirong (father of Mr. Liu Hua)
 - d) Sino Sky (then wholly owned by Ms. Wang Maosong, a friend of Mr. Leng and an Independent Third Party)
 - e) RMC Trading (wholly owned by Ms. Huang Xiaobin, a friend of Mr. Leng and an Independent Third Party)
 - f) Ms. He Guiyu (mother-in-law of Mr. Leng)
 - g) Ms. Ma Ju (馬菊) (daughter of a friend of the Group, an Independent Third Party)
3. Pursuant to the deed of transfer entered into between each of NHPEA and, among others, Tiantu Xinghe, Hocrane Investment and NYMPE Investments and the articles of association of DIF Holding, based on the mutual commercial understanding of the parties, after completion of the relevant share transfers, all shares held by each of Tiantu Xinghe, Hocrane Investment and NYMPE Investments are DIF Ordinary Shares.
4. NHPEA, DIF Holding and each of, among others, Tiantu Xinghe, Hocrane Investment and NYMPH Investments also entered into an agreement, pursuant to which, transfer of the above DIF Ordinary Shares shall exclude the right of either of Tiantu Xinghe, Hocrane Investment and NYMPH Investments to receive any dividends or distributions from DIF Holding that accrue on the profit gained by DIF Holding before the completion date of the share transfer, which are declared and/or paid on such DIF Ordinary Shares at any time whatsoever up to the date of [REDACTED].

The Shares to be held by each of the above shareholders upon [REDACTED] are not subject to any lock-up arrangements. Save as disclosed above, no special rights shall survive upon [REDACTED].

c) Adoption of share option scheme, grant and exercise of share options

- On December 18, 2013, DIF Holding adopted the First DIF Share Option Scheme and DIF Share Options were granted to the eligible persons under such scheme to subscribe for a total of 2,202,255 new DIF Ordinary Shares of par value of US\$0.001 each. The subscription price for a DIF Ordinary Share upon the exercise of any DIF Share Options is US\$7.4, and the term (i.e. time period) of these DIF Share Options is seven years.
- On January 1, 2015, the following holders of DIF Share Options exercised some of their DIF Share Options: Mr. Liu Hua (500,000), Garland Glory (289,255), Mr. Cai Fangliang (200,000), Mr. Liu Shenghui (105,000) and Ms. Tu (50,000). The consideration for exercising such DIF Share Options will be offset by the special dividend declared by DIF Holding on [●], 2019 to be paid to such holders. In 2015, 50,000 DIF Share Options granted to a then employee of the Group were canceled due to the termination of his employment within the Group.

HISTORY, DEVELOPMENT AND REORGANIZATION

- On January 3, 2017, DIF Holding adopted the Second DIF Share Option Scheme and DIF Share Options were granted to the eligible persons under such scheme to subscribe for a total of 1,300,268 new DIF Ordinary Shares of par value of US\$0.001 each. The subscription price for a DIF Ordinary Share upon the exercise of such DIF Share Options is US\$48, and the term (i.e. time period) of these DIF Share Options is five years.
- On June 18, 2019, exercising of DIF Share Options under the First DIF Share Option Scheme by the following holders was approved by the board of directors of DIF Holding: Mr. Lu Guang (盧光) (an employee of the Group, through Dream Lantern) (50,000), Mr. Zhu Tianlong (朱天龍) (an employee of the Group, through Blessedness Cipher) (25,000) and Dasheng Limited (933,000). On the same date, the following holders of DIF Share Options under the Second DIF Share Option Scheme exercised their DIF Share Options: Mr. Leng (through Garland Glory) (50,000), Mr. Liu Hua (through LH Financial) (200,000), Mr. Cai Fanliang (through Adroit Shipping) (100,000), Mr. Liu Shenghui (through LSH Investment) (128,378), Ms. Tu (through J.T. Living Trust) (20,000) and Dasheng Limited (240,567). Save as Dasheng Limited, all the above mentioned holders had been issued with respective entitled DIF Ordinary Shares as of the Latest Practicable Date. The consideration for exercising such DIF Ordinary Options will be deducted in the special dividend declared by DIF Holding on [●], 2019 to be received by such holders.

d) Establishment of trust structure

- On November 20, 2015, the Leng Family Trust, the LH Family Trust and the Liu Family Trust were established by each of Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui as settlor and the only discretionary object, respectively. All such trusts were revocable discretionary trusts, and all of their trustees are Harneys Trustees. On November 30, 2015, each of the said settlers transferred his entire beneficial interest in the respective holder (or its holding company) of securities of DIF Holding to Harneys Trustees at nil consideration as the trust asset for the respective family trusts.
- On June 17, 2016, J.T. Living Trust, a revocable discretionary trust, was established with Ms. Tu as settlor, trustee and the only discretionary object. On June 17, 2016, Ms. Tu transferred to J.T. Living Trust the 50,000 DIF Ordinary Shares at nil consideration as the trust asset for J.T. Living Trust.

HISTORY, DEVELOPMENT AND REORGANIZATION

Immediately after the above changes in beneficial owners of DIF Holding, as of the Latest Practicable Date, the shareholders of DIF Holding and their respective shareholdings are as follows:

Holder of securities of DIF Holding⁽¹⁾	Total number of securities of DIF Holding held as of Latest Practicable Date	Shareholding percentage in DIF Holding
Garland Glory	11,421,539 DIF Ordinary Shares	50.64%
NHPEA	4,902,525 DIF Preference Shares	21.74% ⁽²⁾
LH Financial	1,020,235 DIF Ordinary Shares	4.52%
Clear Stage	936,917 DIF Ordinary Shares	4.15%
LSH Investment	667,442 DIF Ordinary Shares	2.96%
Tiantu Xinghe	491,533 DIF Ordinary Shares	2.18%
NYMPH Investments	491,533 DIF Ordinary Shares	2.18%
Great Dipper	380,290 DIF Ordinary Shares	1.69%
RMC Trading	357,960 DIF Ordinary Shares	1.59%
Guo Xin Investments	323,888 DIF Ordinary Shares	1.44%
Adroit Shipping	300,000 DIF Ordinary Shares	1.33%
Heaven Baby	205,556 DIF Ordinary Shares	0.91%
Wang Jian Guo Holdings	173,594 DIF Ordinary Shares	0.77%
Right Time SPC	162,285 DIF Ordinary Shares	0.72%
Blossoming Lotus	150,000 DIF Ordinary Shares	0.67%
Hocrane Investment	147,460 DIF Ordinary Shares	0.65%
FIDA Promotion	102,169 DIF Ordinary Shares	0.45%
J.T. Living Trust	70,000 DIF Ordinary Shares	0.31%
Vista Associates	60,000 DIF Ordinary Shares	0.27%
Dream Lantern	50,000 DIF Ordinary Shares	0.22%
Pluto Fan	49,168 DIF Ordinary Shares	0.22%
Blingbling Treasure	40,000 DIF Ordinary Shares	0.18%
SinoMedia	26,348 DIF Ordinary Shares	0.12%
Blessedness Cipher	25,000 DIF Ordinary Shares	0.11%
Total		100%

⁽¹⁾ As of the Latest Practicable Date, shareholders of Dasheng Limited were still applying for registration under the Circular 37. Upon registration, Dasheng Limited will be issued with 1,173,567 DIF Ordinary Shares.

⁽²⁾ Representing the DIF Ordinary Shares to be held by NHPEA assuming full conversion of its DIF Preference Shares into DIF Ordinary Shares on a one-for-one basis.

Compliance with PRC Laws and Regulations

As advised by our PRC Legal Advisers, we have obtained from the relevant government authorities all the necessary approvals and completed all the necessary registrations required for the transfers of the equity interest in the registered capital of the subsidiaries incorporated in the PRC during the Track Record Period disclosed above.

HISTORY, DEVELOPMENT AND REORGANIZATION

As advised by our PRC Legal Advisers, as of the Latest Practicable Date, Mr. Leng, Mr. Liu Hua, Mr. Liu Shenghui, Mr. Cai Fangliang, Ms. Leng Shuang, Mr. Liu Yaohua, Ms. Zhu Hongli, Ms. Ma Ju, Ms. Lin Lan, Mr. Li Chen, Mr. Lu Guang and Mr. Zhu Tianlong being the relevant beneficial shareholders of the Group and who, to the best of our knowledge, are PRC nationals, have completed the registration under the Circular 37.

M&A Provisions

On August 8, 2006, six PRC governmental and regulatory authorities, including the MOFCOM and the CSRC, promulgated the M&A Provisions which became effective on September 8, 2006 and was revised on June 22, 2009. The M&A Provisions is applicable when (i) a foreign investor purchases equity interests of a PRC non-foreign-invested enterprise or subscribes for the increased capital of a PRC non-foreign-invested enterprise, and thus changes such PRC non-foreign-invested enterprise into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise, through which such foreign investor purchases the assets of a domestic enterprise and operates its assets; or (iii) a foreign investor purchases the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets. According to Article 11 of the M&A Provisions, where a domestic individual intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully establishes or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC.

As advised by our PRC Legal Advisers, (i) the acquisition of 100% equity interest in Feihe HLJ by Feihe Nutrition U.S. in April 2002 was prior to the effective date of the M&A Provisions and was thus not subject to the M&A Provisions; (ii) Feihe Gannan, Platinum Commerce HLJ, Feihe Meiweishi and Feihe Harbin were wholly-owned foreign enterprises or joint venture newly established in 2006, 2015, 2018 and 2019 respectively by direct foreign investment, and their establishments did not fall within the application scope of the M&A Provisions and were not subject to the M&A Provisions; (iii) the acquisitions of 100% equity interest in Feihe HLJ by Feihe Nutrition HK in September 2015 and in Feihe Gannan by Feihe HK in October 2015 shall be subject to the Provisions for the Alteration of Investor's Equities in Foreign-invested Enterprises instead of the M&A Provisions.

[REDACTED] Investments

(a) *DIF Preference Shares Held by NHPEA in DIF Holding and their Conversion into DIF Ordinary Shares*

NHPEA

NHPEA is an investment holding company incorporated in the Cayman Islands on October 11, 2011, which is wholly-owned by MSPEA III. MSPEA III is an exempted company incorporated in the Cayman Islands with limited liability and is controlled by NH LP, a fund managed by the private equity arm of Morgan Stanley.

Rights and Privileges Attaching to the DIF Preference Shares held by NHPEA

Pursuant to a subscription agreement dated June 24, 2013 entered into between NHPEA and DIF Holding, NHPEA agreed to subscribe for 5,738,455 DIF Preference Shares ("**First Tranche**") with an aggregate subscription price amounted to US\$28.1 million. The subscription price was settled on June 24, 2013 by NHPEA using its own internal resources. On October 31, 2013, NHPEA further subscribed for 294,596 DIF Preference Shares ("**Second Tranche**") at the total subscription price of US\$2,188,407.39, which was settled on or prior to July 31, 2013 by using its own internal resources. Upon the completion

HISTORY, DEVELOPMENT AND REORGANIZATION

of the subscriptions, NHPEA held 6,033,051 DIF Preference Shares (representing 100% of the issued preference share capital of DIF Holding). Brief details of the above subscriptions by NHPEA are set forth below:

	First Tranche	Second Tranche
Number of DIF Preference Shares allotted and issued	: 5,738,455 DIF Preference Shares	294,596 DIF Preference Shares
Total consideration	: US\$28.1 million (approximately US\$4.897 per share)	approximately US\$2,188,407.39 (approximately US\$7.429 per share)
Use of proceeds and whether they have been fully utilized	: The proceeds have been fully utilized to finance the FCUS Privatization and relevant expenses and fees incurred in relation to the FCUS Privatization.	
Basis of determination of the consideration	: The fund required to finance the FCUS Privatization.	
Strategic benefits brought by the investor	: As a reputable investment institution, our Directors are of the view that NHPEA's investment can strengthen our corporate governance and shareholders' base. The Company could also leverage on NHPEA's global network and experience to enhance our future strategic developments and capital planning. Furthermore, NHPEA could contribute relevant industry resources to help us improve operational efficiency.	
Shareholding of the investor in the Company immediately following the completion of the [REDACTED]	: [REDACTED]% (assuming the [REDACTED] is not exercised and without taking into account any Shares to be [REDACTED] upon the exercise of the option granted under the [REDACTED] Share Option Scheme, calculated based on 4,902,525 DIF Preference Shares held by NHPEA as of the Latest Practicable Date)	
Average investment cost	approximately US\$[5.02] (equivalent to approximately HK\$[39.22]) per DIF Preference Share or approximately US\$[REDACTED] (equivalent to approximately HK\$[REDACTED]) per Share (based on the [REDACTED] Shares swapped to NHPEA under the DIF Share Swap, and prior to the completion of the [REDACTED])	
Level of discount to the [REDACTED] of HK\$[REDACTED] per [REDACTED] (assuming the mid-point of the indicative [REDACTED] range)	[REDACTED]% On average: [REDACTED]%	[REDACTED]%

HISTORY, DEVELOPMENT AND REORGANIZATION

On June 27, 2013, DIF Holding, NHPEA, Garland Glory, Mr. Leng, Mr. Liu Shenghui and Mr. Liu Hua entered into a shareholders agreement (the “**2013 DIF Shareholders Agreement**”), pursuant to which, certain rights and privileges were attached to the DIF Preference Shares held by NHPEA, among which, NHPEA has the right to convert all or any of the DIF Preference Shares held by it into DIF Ordinary Shares at its sole discretion at any time (and in any event, each DIF Preference Share will be automatically converted into DIF Ordinary Shares immediately prior to a fully committed and underwritten initially public offering of the shares of DIF Holding that results in an implied equity valuation for DIF Holding as a whole of not less than US\$340 million (the “**Qualified IPO**”). In connection with the 2013 DIF Shareholders Agreement, on June 26, 2019, NHPEA executed a letter of waiver, pursuant to the letter of waiver, NHPEA irrevocably and unconditionally terminated absolutely (i) the right to adjust the conversion price in relation to the conversion of the DIF Preference Shares held by NHPEA into DIF Ordinary Shares (i.e. upon the [REDACTED], each one of NHPEA’s DIF Preference Share will automatically convert into one DIF Ordinary Share) and (ii) the redemption right, pursuant to which NHPEA has the right to require DIF Holding to purchase all or any of the DIF Preference Shares owned by NHPEA in cash equal to: (a) the original purchase price per DIF Preference Share plus (b) an amount that would yield an internal rate of return of 15% per annum to the original purchase price taking into account dividends paid in cash. NHPEA further acknowledged and confirmed that, upon the [REDACTED], all rights and privileges enjoyed by NHPEA under the 2013 DIF Shareholders Agreement shall automatically lapse and terminate, ceasing to have any effect. Under the letter of waiver, NHPEA further confirmed and agreed that the [REDACTED] of the Company shall be deemed by it to have meet the requirements of a Qualified IPO for the purpose of the 2013 DIF Shareholders Agreement.

In May 2019, NHPEA conducted a series of share transfers. For details, please refer to “— Major Changes in Shareholding of DIF Holding Prior to the Reorganization — b) Transfers of DIF Ordinary Shares by shareholders”. As of the Latest Practicable Date, NHPEA held 4,902,525 DIF Preference Shares. On [●], NHPEA exercised its conversion right attaching to its 4,902,525 DIF Preference Shares in DIF Holding and convert all of them into a total of 4,902,525 DIF Ordinary Shares, for further details, please refer to the paragraph headed “— Reorganization — 2. Exercise of Conversion Rights Attaching to NHPEA’s DIF Preference Shares and the DIF Share Swap” below in this section.

[The Shares to be held by NHPEA upon [REDACTED] are not subject to any lock-up arrangements.] Upon completion of the Reorganization and the [REDACTED], assuming that none of the [REDACTED], the options granted under the [REDACTED] Share Option Scheme are exercised at all, NHPEA will hold in excess of 10% of our enlarged issued share capital and the Shares held by it will not count towards the public float of the Company according to Rule 8.08 of the Listing Rules.

(b) Changes in beneficial owners of DIF Holding

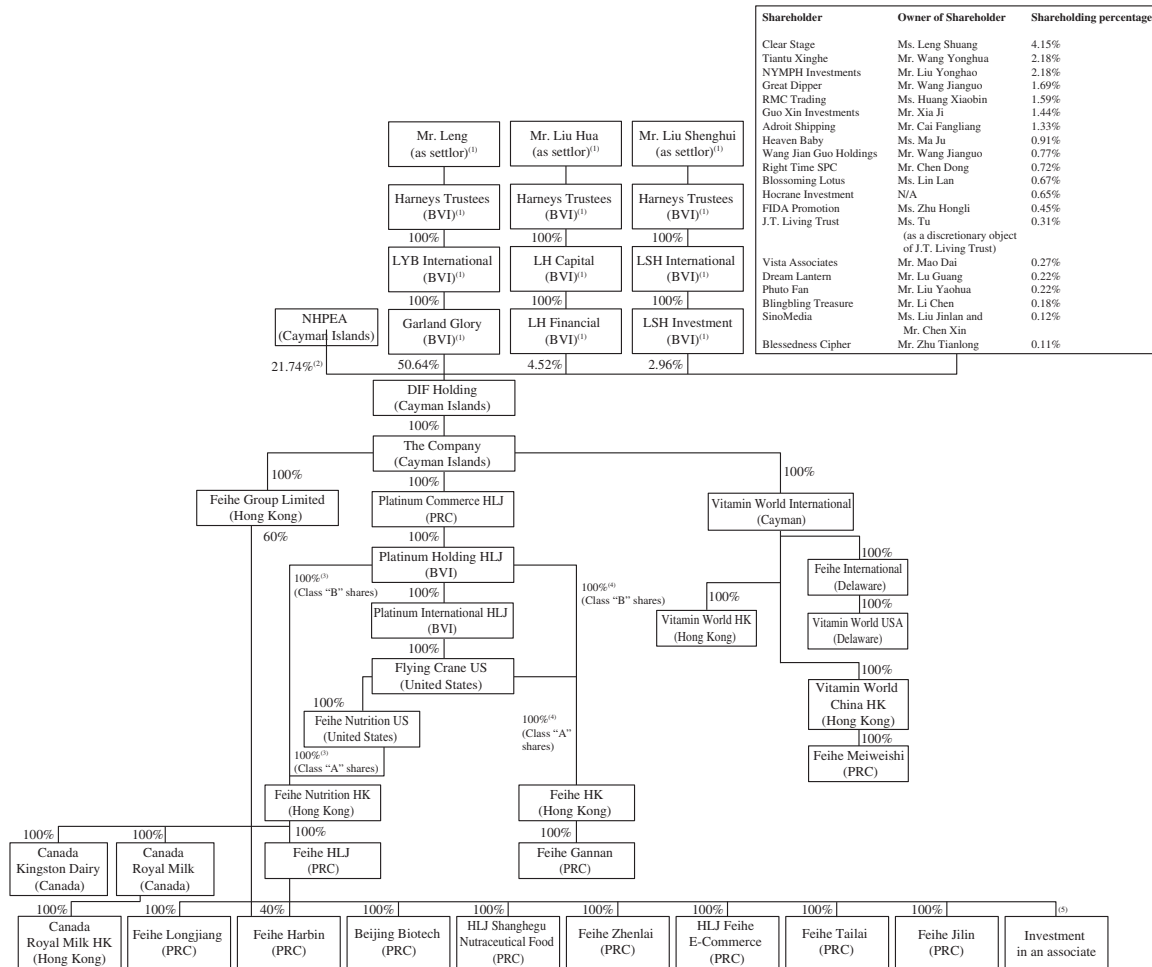
For details, please refer to “— Major Changes in Shareholding of DIF Holding prior to the Reorganization — Major changes — a) Issuance of DIF Ordinary Shares” and “— Major Changes in Shareholding of DIF Holding prior to the Reorganization — Major changes — b) Transfers of DIF Ordinary Shares by shareholders” in this section.

The Joint Sponsors have confirmed that the [REDACTED] investments as set out above are in compliance with the Interim Guidance on [REDACTED] Investments ([REDACTED]), the Guidance Letter on [REDACTED] Investments ([REDACTED]) and the Guidance Letter on [REDACTED] Investments on Convertible Instruments ([REDACTED]).

HISTORY, DEVELOPMENT AND REORGANIZATION

Corporate Chart Immediately prior to the Reorganization

The corporate structure of the Company and our subsidiaries immediately prior to the Reorganization and as at the Latest Practicable Date is as follows:



(1) Each of LYB International, LH Capital and LSH International (“BVI Trustco”) holds the entire issued share capital in its corporate vehicle(s) holding the shares in DIF Holding as of the Latest Practicable Date. The respective director and shareholder of the relevant BVI Trustco and their respective corporate vehicles is shown below:

Name of BVI Trustco and investment vehicles	Director	Shareholder
LYB International	Harneys Trustees	Harneys Trustees (holding the entire equity interest in LYB International as trustee of the Leng Family Trust)
Garland Glory	Mr. Leng	LYB International
LH Capital	Harneys Trustees	Harneys Trustees (holding the entire equity interest in LH Capital as trustee of the LH Family Trust)
LH Financial	Mr. Liu Hua	LH Capital
LSH International	Harneys Trustees	Harneys Trustees (holding the entire equity interest in LSH International as trustee of the Liu Family Trust)
LSH Investment	Mr. Liu Shenghui	LSH International

HISTORY, DEVELOPMENT AND REORGANIZATION

- (2) It represents the DIF Ordinary Shares held by NHPEA assuming full conversion of its DIF Preference Shares into DIF Ordinary Shares converted on the basis of one DIF Preference Share into one DIF Ordinary Share.
- (3) Feihe Nutrition HK had two classes of shares. The paid-up amount and number of issued shares in each class and the rights carried by each class of shares are shown below:

	Class “A” shares	Class “B” shares
Total number of issued shares and amount of paid-up capital	100 class “A” shares of HK\$348,750,001	9 class “B” shares of HK\$24,900,000
Voting rights carried by each class	on a poll, every holder of class “A” shares present in person or by proxy shall have one vote for every class “A” share held by him	on a poll, every holder of class “B” shares present in person or by proxy shall have one hundred (100) votes for every class “B” share held by him
Total voting rights represented by the issued shares in such class	100 votes	900 votes

- (4) Feihe HK had two classes of shares. The holder, paid-up amount and number of issued shares in each class and the rights carried by each class of shares are shown below:

	Class “A” shares	Class “B” shares
Total number of issued shares and amount of paid-up capital	100 class “A” shares of HK\$193,750,001	9 class “B” shares of HK\$50,400,000
Voting rights carried by each class	on a poll, every holder of class “A” shares present in person or by proxy shall have one vote for every class “A” share held by him	on a poll, every holder of class “B” shares present in person or by proxy shall have one hundred (100) votes for every class “B” share held by him
Total voting rights represented by the issued shares in such class	100 votes	900 votes

- (5) Feihe HLJ held 40% of the equity interest in Jilin Green Energy Ecological Livestock Co., Ltd* (吉林綠能生態牧業有限公司) (“**Jilin Green Energy**”). The Group’s interest in Jilin Green Energy is considered as investment in an associate under the accounting policies adopted, please see Note 19 of “Appendix I – Accountants’ Report” to this Document for details.

REORGANIZATION

The DIF Preference Shares, which represent a temporary arrangement, will be recognized as a financial liability under the IFRS and would distort the real underlying financial position and results of the Group. Therefore, our Directors consider that it would be more beneficial to use the Company, i.e. China Feihe Limited, as the vehicle for the [REDACTED]. Therefore, the Group underwent the following Reorganization:

1. Subdivision of Existing Shares in the Company

On [●], 2019, every Share of par value of US\$1 in the authorized share capital of the Company was subdivided into [40,000,000] Shares of par value of US\$[0.000000025] each (“**Share Subdivision**”) such that immediately following the Share Subdivision, the authorized share capital of the Company became US\$50,000 divided into [2,000,000,000,000] Shares of par value US\$[0.000000025] each and the issued share capital of the Company comprised US\$201 divided into [8,040,000,000] Shares of par value US\$[0.000000025] each.

HISTORY, DEVELOPMENT AND REORGANIZATION

2. Exercise of Conversion Rights Attaching to NHPEA's DIF Preference Shares and the DIF Share Swap

On [●], NHPEA exercised its conversion right attaching to its 4,902,525 DIF Preference Shares in DIF Holding and convert all of them into a total of 4,902,525 DIF Ordinary Shares.

On [●], after the above conversion of DIF Preference Shares into DIF Ordinary Shares, DIF Holding redeemed all issued DIF Ordinary Shares (except for one DIF Ordinary Share held by Garland Glory), in consideration of a swap of the entire issued share capital of the Company to the then existing shareholders of DIF Holding in proportion to their then respective percentage shareholdings in DIF Holding, i.e. the DIF Share Swap.

3. Replacing outstanding DIF Share Options under the Second DIF Share Option Scheme with [REDACTED] Share Options

On [●], the [REDACTED] Share Option Scheme were adopted by the Company, which had similar terms to those of the Second DIF Share Option Scheme, a summary of the principal terms of which is set forth in "Appendix IV – Statutory and General Information – D. [REDACTED] Share Option Scheme". The outstanding 561,323 DIF Share Options granted to Dasheng Limited under the Second DIF Share Option Scheme (the "Cancelled DIF Share Options") were cancelled and, in consideration for such cancellation, [REDACTED] [REDACTED] Share Options to subscribe for Shares in the Company were granted under the [REDACTED] Share Option Scheme to Dasheng Limited, enabling it to subscribe (upon and assuming exercise of all the [REDACTED] Share Options) for the same proportion of Shares in the Company (before the completion of [REDACTED] and assuming that the [REDACTED] is not exercised) in the proportion of DIF Ordinary Shares which it would be entitled to subscribe for upon and assuming exercise of all the Cancelled DIF Share Options before cancellation.

It is contemplated that immediately upon [REDACTED], on the assumption that 15% of the entire [REDACTED] shares of the Company as enlarged by the [REDACTED] being allotted by the Company and 5% of the entire [REDACTED] shares of the Company as enlarged by the [REDACTED] being sold by the [REDACTED] under the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be [REDACTED] upon the exercise of the options granted

HISTORY, DEVELOPMENT AND REORGANIZATION

under the [REDACTED] Share Option Scheme) will be held by the public, the shareholding of the Company will be as follows:

Shareholder	Owner of Shareholder	Number of Shares	Shareholding percentage (%)
Garland Glory	LYB International (which is in turn solely owned by Harneys Trustees (the trustee of the Leng Family Trust))	[REDACTED]	[REDACTED]
NHPEA	MSPEA III	[REDACTED]	[REDACTED]
Clear Stage	Ms. Leng Shuang	[REDACTED]	[REDACTED]
LH Financial	LH Capital (which is in turn solely owned by Harneys Trustees (the trustee of the LH Family Trust))	[REDACTED]	[REDACTED]
Dasheng Limited	Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui	[REDACTED]	[REDACTED]
LSH Investment	LSH International (which is in turn solely owned by Harneys Trustees (the trustee of the Liu Family Trust))	[REDACTED]	[REDACTED]
Tiantu Xinghe	Mr. Wang Yonghua	[REDACTED]	[REDACTED]
NYMPH Investments	Mr. Liu Yonghao	[REDACTED]	[REDACTED]
Great Dipper	Mr. Wang Jianguo	[REDACTED]	[REDACTED]
RMC Trading	Ms. Huang Xiaobin	[REDACTED]	[REDACTED]
Guo Xin Investments	Mr. Xia Ji	[REDACTED]	[REDACTED]
Adroit Shipping	Mr. Cai Fangliang	[REDACTED]	[REDACTED]
Heaven Baby	Ms. Ma Ju	[REDACTED]	[REDACTED]
Wang Jian Guo Holdings	Mr. Wang Jianguo	[REDACTED]	[REDACTED]
Right Time SPC	Mr. Chen Dong	[REDACTED]	[REDACTED]
Blossoming Lotus	Ms. Lin Lan	[REDACTED]	[REDACTED]
Hocrane Investment	N/A	[REDACTED]	[REDACTED]
FIDA Promotion	Ms. Zhu Hongli	[REDACTED]	[REDACTED]
Vista Associates	Mr. Mao Dai	[REDACTED]	[REDACTED]
J.T. Living Trust	Ms. Tu (as a discretionary object of J.T. Living Trust)	[REDACTED]	[REDACTED]
Pluto Fan	Mr. Liu Yaohua	[REDACTED]	[REDACTED]
Dream Lantern	Mr. Lu Guang	[REDACTED]	[REDACTED]
Blingbling Treasure	Mr. Li Chen	[REDACTED]	[REDACTED]
SinoMedia	Ms. Liu Jinlan and Mr. Chen Xin	[REDACTED]	[REDACTED]
Blessedness Cipher	Mr. Zhu Tianlong	[REDACTED]	[REDACTED]
Other public shareholders	N/A	[REDACTED]	[REDACTED]
Total		[REDACTED]	100.00

HISTORY, DEVELOPMENT AND REORGANIZATION

[Our legal advisers as to Cayman Islands law, Harney Westwood & Riegels has advised that all our Reorganization steps were legal and valid under the laws and regulations applicable to the Company in the Cayman Islands currently in force, and all requisite approvals and consents for each stage of Reorganization have been obtained.]

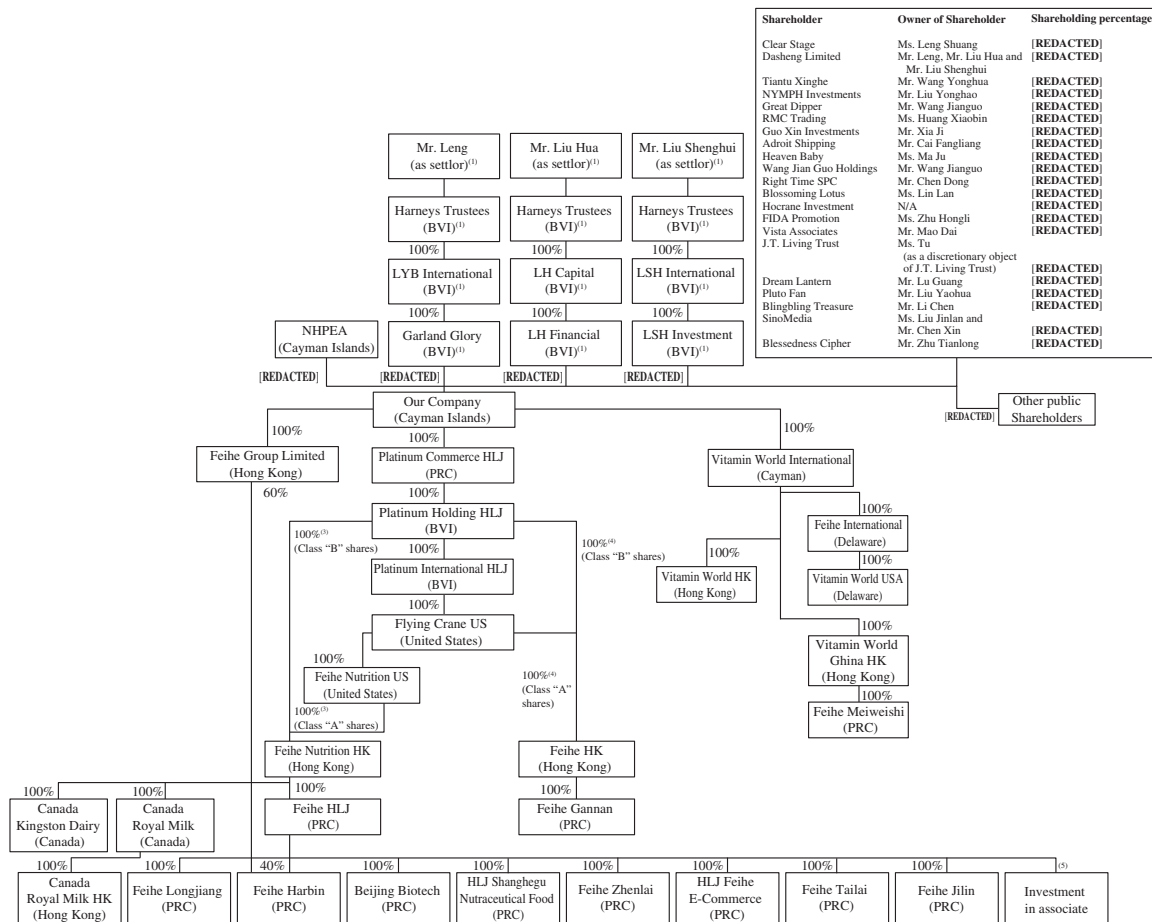
CORPORATE STRUCTURE

Corporate Chart as of the Latest Practicable Date

Please refer to “— Major Changes in Shareholding of DIF Holding prior to the Reorganization — Corporate Chart Immediately prior to the Reorganization” for the corporate structure of the Group as of the Latest Practicable Date (before the Reorganization).

Corporate Chart immediately following completion of the [REDACTED]

The following diagram illustrates the corporate structure of the Group immediately following completion of the [REDACTED], assuming that neither the [REDACTED] nor the options granted under the [REDACTED] Share Option Scheme is exercised.



Note:

- (1) The shareholding of Clear Stage, Tiantu Xinghe, NYPH Investments, Great Dipper, RMC Trading, Guo Xin Investments, Heaven Baby, Wang Jian Guo Holdings, Right Time SPC, Blossoming Lotus, Hocrane Investment, FIDA Promotion, Pluto Fan, Vista Associates, Blingbling Treasure, Dream Lantern and Blessedness Cipher, with the aggregate shareholding percentage of [REDACTED], will be counted as public float.

BUSINESS

OVERVIEW

Feihe, headquartered in Beijing, is the largest and most highly recognized Chinese brand infant milk formula company, according to the F&S Report. As the prominent market leader, our brand ranked first among domestic and international peers with a market share of 7.3% in terms of 2018 retail sales value, according to the F&S Report. Our company also ranked first among domestic infant milk formula groups with a market share of 15.6% in terms of 2018 retail sales value, and ranked second among overall domestic and international infant milk formula groups with a market share of 7.3% in terms of 2018 retail sales value. With longstanding expertise in the infant milk formula business, our brand has a unique value proposition as "More Suitable for Chinese Babies" (更適合中國寶寶體質). Our 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 retail sales value of infant milk formula in China is projected to steadily increase by a CAGR of 6.9% from 2018 to 2023, according to the F&S Report, of which the high-end segment, consisting of super-premium and premium infant milk formula products, is expected to continue as the driving force of the overall infant milk formula industry. This is underpinned by accelerating urbanization, rising disposable income, increasingly educated and health conscious consumers and growing demand for high quality infant milk formula products. Correspondingly, the high-end segment is forecasted to reach RMB199.8 billion by 2023, representing a CAGR of 16.6% from 2018 to 2023, according to the F&S Report. Capitalizing on the growth trend of the high-end segment that is expected to account for an increasing share of the overall infant milk formula industry, growing from 37.9% in 2018 to 58.3% in 2023, we started repositioning our product offering towards high-end products in the last few years. As of 2018, we are the leading player in the high-end segment, ranking second with a market share of 13.1% in terms of 2018 retail sales value. Within the super-premium segment, we ranked first amongst domestic and international infant milk formula groups with a market share of 24.7% in terms of 2018 retail sales value. Our growth in this segment is driven by our super-premium Astrobaby product series, the revenue of which grew from RMB711.5 million for the year ended December 31, 2016 to RMB5,108.2 million for the year ended December 31, 2018, representing a CAGR of 168.0%, and from RMB910.1 million for the three months ended March 31, 2018 to RMB1,206.0 million for the three months ended March 31, 2019, representing a growth rate of 32.5%.

Our dairy products are primarily sold through an extensive distribution network nationwide of over 1,700 offline customers with more than 92,000 retail points of sale as of March 31, 2019. Our offline customers are distributors who sell our products to retail outlets, as well as maternity store operators, supermarkets and hypermarket chains themselves in some cases. Recognizing the importance and increasing significance of the maternity stores channel in our industry, we are one of the early movers in establishing partnerships with them. With the larger maternity store operators such as Kidswant (孩子王) and Aiyngdao (愛嬰島), we have also dedicated resources to develop and strengthen our relationship in order to narrow the gap with our end consumers. We believe our single-layer distribution approach, well-managed nationwide distribution channels and high penetration into maternity stores give us the competitive edge to maintain our profit margins as well as control over end product sales. Furthermore, our barcode scanning function enables customer inventory tracking thus giving good visibility over their inventory levels to avoid stock accumulation and ensuring highest product quality. To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, our products are also sold directly on some of the largest e-commerce platforms, such as Tmall, JD.com, and Suning.com, in addition to our own website and mobile application, such as WeChat.

BUSINESS

We believe our 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 creation of user-oriented virtual communities on our WeChat accounts and adoption of results-driven advertising approach on traditional media allow us to conduct highly targeted marketing initiative to address key needs of respective consumers. Moreover, we held over 300,000 face-to-face seminars in 2018, including more than 5,500 Mother's Love (媽媽的愛) seminars to educate parents about the nutritional needs of their babies. These marketing effects have enhance our brand recognition in major cities, as well as lower-tier cities and rural areas which we view are regions with significant growth potential due to increase in consumer spending and larger populations. The appointment of international celebrity, Zhang Ziyi (章子怡) as our brand ambassador, whom herself is a mother, has also enhanced our brand image in the local and international markets.

In addition, another key differentiation of our brand is our consistent dedication into researching and understanding Chinese women's breast milk in order for our infant milk formula production to simulate the composition in breast milk as much as possible. We have established a comprehensive Chinese breast milk database, in which we have collected over 1,500 Chinese breast milk samples from Chinese mothers of various physique and diets across the region. Additionally, we have formed collaborative partnerships with leading national and international research institutions to continue conducting research on the nutrition of infants and adults. Moreover, we persistently source the highest quality fresh milk for all of our infant milk formula production. The close proximity of our production facilities to our dairy milk suppliers ensures the freshness is optimally preserved, whereby the milk is utilized within 24 hours of receipt. According to the F&S Report, we are the only infant milk formula provider that participated in the prestigious National 863 Program, also known as the State High-technology Development Plan (國家高技術研究發展計劃), a PRC Government funded program intended to stimulate the development of advanced technologies. As of the Latest Practicable Date, we are in the process of further developing milk products for infants and adults, with more than ten products in the pipeline targeted to be launched over the next few years.

As a result of our continuous efforts across these initiatives, we have solidified our reputation as a premium infant milk formula brand and have generated significant demand for our high-end products, subsequently driving our revenue growth during the Track Record Period. For the years ended December 31, 2016, 2017 and 2018, our revenue was RMB3,724.4 million, RMB5,887.3 million and RMB10,391.9 million, respectively, and for the three months ended March 31, 2018 and 2019, our revenue was RMB1,968.9 million and RMB2,756.0 million, respectively. Our profit for the years ended December 31, 2016, 2017 and 2018 was RMB406.2 million, RMB1,160.2 million and RMB2,242.3 million, respectively, and for the three months ended March 31, 2018 and 2019, our profit was RMB621.1 million and RMB771.0 million, respectively.

COMPETITIVE STRENGTHS

We are committed to sustaining our market leadership with the highest quality and innovative portfolio of products that cater to the development needs of Chinese babies. We believe that our historical success and our ability to capitalize on future growth opportunities are attributable to the following strengths.

Leading brand with one of the fastest-growing super-premium products among major brands

Feihe, headquartered in Beijing, is the largest and most highly recognized Chinese brand infant milk formula company. Since 2016 to 2018, we have focused our strategy on building our brand

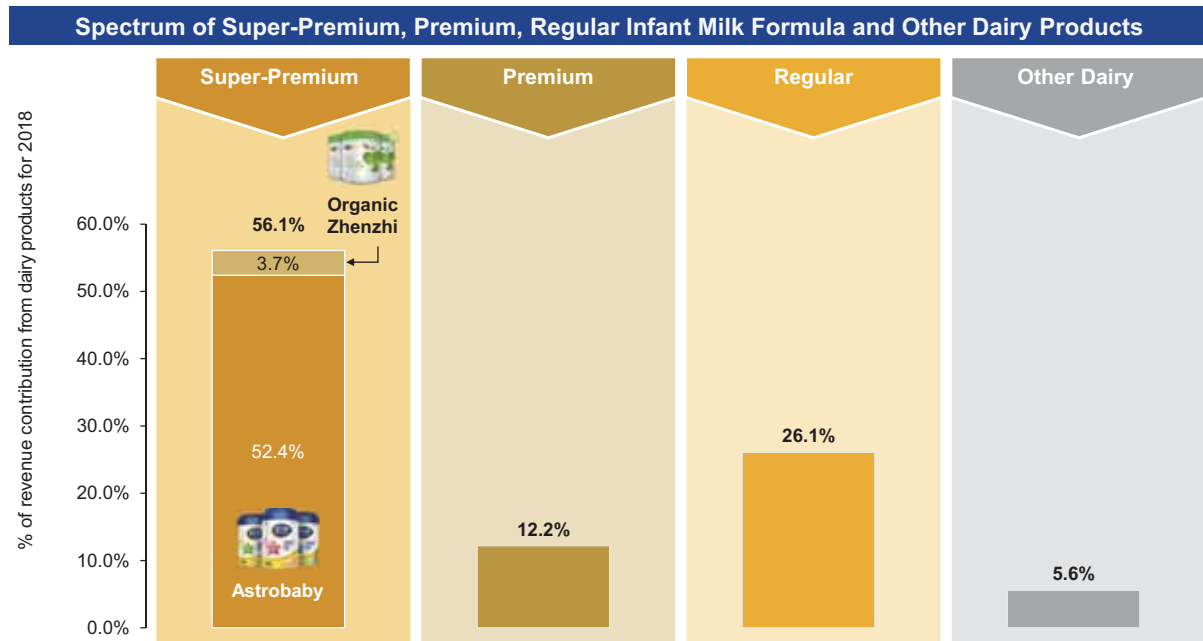
BUSINESS

awareness and increasing penetration in lower-tier cities through a ramp-up in targeted and innovative sales and marketing initiatives. According to the F&S Report, lower-tier cities and rural areas in China are becoming more urbanized and wealthy, and are increasingly able to afford higher quality infant milk formula products. Overall, these regions have larger populations and therefore higher potential for consumption growth. Through dedicating resources to our sales and marketing efforts, we have established high customer loyalty, evident through recent brand research conducted by Nielsen, which indicated that as of 2018, Feihe ranked first in terms of purchase intention and most frequently purchased brand among domestic brands and ranked second in the overall infant milk formula market in China. We believe the strong brand recognition we have gained in these cities has led to our competitive advantage over other domestic and international brands, such as the first infant milk formula domestic brand in mind and strong association as the brand that is "More Suitable for Chinese Babies" (更適合中國寶寶). As a result of our strong brand recognition and marketing efficiency, our selling and distribution expenses as a percentage of revenue has decreased from 36.8% of revenue for the year ended December 31, 2016 to 35.2% for the year ended December 31, 2018, and to 24.1% for the three months ended March 31, 2019.

Recognizing the continued premiumization through the offering of newer product series that are more premium, and the consumer trade-up through the improvement of existing products in the Chinese infant milk formula market, we have repositioned our product offering towards high-end (consisting of super-premium and premium) products in recent years. According to the F&S Report, the average retail price of high-end infant milk formula products in China, including both domestic and foreign brands, increased steadily from RMB336.3 per kilogram in 2014 to RMB421.7 per kilogram in 2018, representing a CAGR of 5.8%, and is expected to grow at a CAGR of 2.9% to reach RMB486.0 per kilogram in 2023. The premiumization trend is supported by increasing child expenditure over the medium term, greater focus on product quality and safety, as well as growing number of educated parents towards demand for premium quality infant milk formula. Our growth in this segment has been primarily driven by our star product series, Astrobaby, with revenue growing from RMB711.5 million for the year ended December 31, 2016 to RMB5,108.2 million for the year ended December 31, 2018, representing a CAGR of 168.0%. To complement and expand our super-premium offering, we have rolled out an organic infant milk formula product, Organic Zhenzhi (臻稚有機), to capture the shift in consumer taste towards natural and organic foods. In addition to its close resemblance to Chinese breast milk like Astrobaby, Organic Zhenzhi has also passed the high standards of China's organic certification across its entire manufacturing spectrum regarding pasture, dairy cow usage, production, raw materials and product.

We offer a diversified portfolio of products which caters to a wide range of customer base at different price points. For instance, within the super-premium category, our Organic Zhenzhi product is sold at a higher price point compared to Astrobaby in order to prevent product cannibalization. In addition to super-premium and premium, we also offer a portfolio of well-known brands spanning the regular infant milk formula series as well as other products such as adult milk. The below diagram illustrates our revenue contribution from dairy products by product category for 2018 with super-premium products being the most attractive market that accounted for over 50% of our revenue from dairy products. Moreover, we will continue to launch refined formulations of our super-premium products which will further diversify our revenue in that segment.

BUSINESS



We are confident that our leading brand, unique positioning as “More Suitable for Chinese Babies” (更適合中國寶寶體質), strong customer loyalty and premium product offering will enable us to gain further market share as China’s market for high-end infant milk formula continues to expand.

Well-managed nationwide distribution network with precise inventory tracking

We primarily sell our products through an extensive nationwide distribution network of over 1,700 offline customers with more than 92,000 retail points of sale as of March 31, 2019. Our offline customers are distributors who sell our products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains themselves in some cases. Revenue generated through sales to our offline customers accounted for 96.8%, 93.5% and 88.9% of our total revenue from dairy products for the years ended December 31, 2016, 2017 and 2018 respectively, and 93.1% of our total revenue from dairy products for the three months ended March 31, 2019. Our distribution channels are strategically scattered nationwide in which we have a strong network in lower-tier cities, whilst also expanding our presence in Tier 1 and 2 cities throughout the past few years. As a result, our retail points of sale have grown from over 58,000 at the end of 2016, to more than 67,000 at the end of 2017, and to over 90,000 at the end of 2018, representing a CAGR of more than 25.0%. For the three months ended March 31, 2019, our retail points of sale have grown to over 92,000. Despite greater competitive intensity from foreign brands pursuing lower-tier city-led growth strategies, we believe our unique brand equity, strong brand awareness and longstanding track record of partnership with local offline customers will enable us to defend our dominant leadership and gain further market share.

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Number of offline customers as of March 31, 2019 based on geographic location



Note: Excludes customers from e-commerce platform, end consumers to whom we directly sell our products as well as educational bureaus and schools

We believe that the single-layer distribution system that we adopt gives us the competitive advantage to maintain our profit margins and visibility over our customers' inventory as well as control over end product sales. Furthermore, in order to better manage our retail points of sale, we have a separate customer service department to manage the business relationships and product tracking of some of our key retail stores, especially the larger maternity stores that are of increasing significance and potential due to their abilities to provide tailored professional services to parents with a pleasant shopping experience. According to the F&S Report, in 2018 the maternity store channel accounted for 52.0% of the total market share in terms of retail sales value from 35.0% in 2014, and is expected to increase to 60.0% by 2023.

To prevent stock accumulation, we regularly monitor the inventory levels of our customers, and generally maintain an inventory to sales ratio of approximately two, reflecting a healthy inventory level in our industry, according to the F&S Report. We also have a barcode scanning function in place, in which we are able to track our products and receive automatically-generated information on our customer's inventory levels, thereby reducing our labor costs and the risk of human error in gathering such information. According to the contracts signed with our customers, the products have to be scanned before being distributed to the retail points of sale, thus enabling us to monitor and trace back the inventory.

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With the rapid growth of e-commerce penetration in infant milk formula across China, particularly among younger generations of consumers and accelerated adoption in lower-tier cities, our products are also marketed on some of the largest e-commerce platforms, such as Tmall, JD.com and Suning.com in addition to our own website and mobile application, such as WeChat. According to the F&S Report, online channels recorded a CAGR of 28.8% in terms of retail sales value from 2014 to 2018, and its market share is expected to reach 26.0% in 2023, up from 10.0% in 2014. Our online sales cover all of China, and to help us further supplement sales in Tier 1 and Tier 2 cities in particular. Our dedicated customer service team for online purchases educates customers on the Feihe brand and shares ongoing baby care information, allowing us to expand our brand awareness and build customer loyalty. Revenue generated from our online sales accounted for 3.2%, 6.5% and 11.1% of our total revenue from dairy products for the years ended December 31, 2016, 2017 and 2018, respectively, and 6.9% of our total revenue from dairy products for the three months ended March 31, 2019.

Unique customer experience and creative marketing initiatives

We believe we are the pioneer in China's infant milk formula market to position our brand as "More Suitable for Chinese Babies" (更適合中國寶寶體質) and have established strong brand association with this message. Our innovative online and offline marketing strategies have enabled Feihe to become one of the most widely recognized reputable infant milk formula brands among Chinese consumers today. Our marketing strategy consists of three key components:

- *Hold face-to-face seminars for in-depth education.* We hold a number of face-to-face seminars, including:
 - Mother's Love (媽媽的愛) seminars introduced in August 2016 to provide free information to consumers on topics related to pregnancy and childrearing
 - Carnival (嘉年華), both small and large scale seminar events to introduce our products in regions where we have low brand presence, and involve several areas of interactions including early education on pregnancy and childrearing, nutritional information, and games
 - Shows (秀), both small and large scale events in which sales representatives set up booths with a recreational area to educate parents about our products while their children engage in recreational activities

In 2018, we held over 300,000 face-to-face seminars, including more than 5,500 Mother's Love seminars which had over 600,000 attendees in total. We utilize these large scale marketing opportunities to educate consumers on our products, complete with blind taste tests that allow existing and potential customers to experience first-hand the high quality of our products vis-à-vis other brands. We focus our face-to-face seminars on lower-tier cities and rural areas in China, which have larger populations and significant growth potential, according to the F&S Report.

- *Maximize online interactivity with consumers.* We seek to effectively utilize all of our consumer data collected through various channels to further optimize our product portfolio, upgrade our products, improve our marketing activities and generate more sales. Moreover, we seek to engage our consumers and to be their go-to source for all matters related to pregnancy and childrearing to promote strong brand loyalty. We have created user-oriented

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virtual communities on our WeChat accounts, which have over six million subscribers as of the Latest Practicable Date, to serve our members whereby we publish customized articles and information to them based on their pregnancy stage or child's age. Moreover, our online membership system grants member access to consultancy services provided by nutritionists, doctors and other experts, as well as provides special promotional offers to consumers. As a result, we continue to broaden our consumer base and further improve the user experience of our products.

- *Targeted and results-driven exposure on media.* To supplement the foregoing marketing efforts, we engage in traditional media advertising on major television networks to spread our message to a wider audience of viewers. Moreover, we have recently taken a more results-driven approach to ensure that our traditional media advertisements are effectively enlarging our consumer base. For example, we require certain of our advertisers, such as Hunan Province Cable TV's Happy Camp (快樂大本營) television program, to actively promote our brand. The appointment of international celebrity, Zhang Ziyi (章子怡) as our brand ambassador, whom herself is a mother, has also enhanced our brand image in the local and international markets.



In order to cultivate brand awareness among our customers in retail points of sale which are either too small to support our face-to-face seminars or have no sales representatives for our products, we have launched Happy Shopping Days (樂購日) in May 2018. Through Happy Shopping Days, our products are displayed on promotional counters at the respective retail points of sale, with activities aiming to highlight product appeal.

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Product innovation and robust pipeline of new launches

Our research and development efforts are designed to address the demands and requirements of our consumers. We consistently focus on innovating and enhancing our products in two key areas — making our products more closely resembling Chinese mother’s breast milk and more suitable for Chinese babies based on their biological physique. Hence, we have been highly committed in conducting research and continuously building our understanding about the Chinese infant milk formula sector. Major aspects of our research and development efforts include:

- *Pioneering clinical trials research.* According to the F&S Report, we are one of the first infant milk formula providers in China to successfully complete clinical trials on babies. Prior to launching our Astrobaby product series in 2010, we worked with the Hunan Provincial Center for Disease Prevention and Control (湖南省疾病預防控制中心) to conduct clinical trials over three months to study the health benefits to infants by adding premium ingredients such as OPO structured fats, hydrolyzed whey protein, prebiotics and alpha-lactalbumin, for the specific growth and development needs, and to promote the digestive health of Chinese babies. We believe our clinical trials yielded conclusive results that have enabled us to enhance the efficacy and quality of our products.
- *Development of breast milk database.* We have conducted clinical studies in collaboration with national research institutions and continued to contribute to the establishment of a comprehensive Chinese breast milk database, in which we have collected over 1,500 Chinese breast milk samples from southern and northern China, inland versus coastland and developed versus rural regions. Our ongoing participation in this effort allows us to continue our extensive research on the breast milk composition of Chinese mothers across different regions, with the aim of improving our infant milk formula to meet the nutritional needs of infants in China during their most critical development stages and simulating breast milk as much as possible.
- *Collaboration with leading international institutions.* We have formed collaborative partnerships with leading international research institutions on joint research projects and product development. For example, in 2014, we sponsored the establishment of the Feihe Nutrition Laboratory in Boston, Massachusetts, with the Beth Israel Deaconess Medical Center (BIDMC) of Harvard Medical School (HMS), a leading teaching hospital in the United States, to engage in nutrition research on infant and adults as well as teaching activities. Feihe Nutrition Laboratory has made numerous scientific contribution, which we believe has helped us enhance our sales and business prospects.
- *Participation in the prestigious National 863 Program.* According to the F&S Report, as of the Latest Practicable Date, we were the only infant milk formula provider that participated in the National 863 Program, also known as the State High-technology Development Plan (國家高技術研究發展計劃), a PRC Government funded program intended to stimulate the development of advanced technologies. We undertook a National 863 Program research topic to develop nutrient-fortified foods that promote physiological growth and development. Through our participation in this study, we are developing and intend to launch new products that are specially formulated for prematurely born infants and lactose intolerant infants.

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Our vision is to continue making new discoveries in and improvements to our products through our research and development initiatives so that our infant milk formula simulates the breast milk of Chinese mothers as much as possible. As of the Latest Practicable date, we have more than ten products in the pipeline. In particular, we plan to enhance our Astrobaby formulations through adjusting the composition of fatty acid and the level of carbohydrates in order to further simulate the content of Chinese mother's breast milk.

As of December 31, 2018, our robust in-house research and development team is comprised of 62 personnel, of which 27 have postgraduate degrees above in nutrition, food sciences, biology or medicine, among others. The team is led by Dr. Zhao Xuejun, who is our Chief Technology Officer with a Ph.D. degree in Medicine, together with Dr. Jiang Shilong, who is a certified senior engineer with a Ph.D. degree in agrobiological and bio-resources and over ten years of experience in the dairy industry. We will continue to invest in our research and development capacity and collaborate with leading research institutions to develop new products and cutting-edge technologies that would even better position us to capture a greater market share.

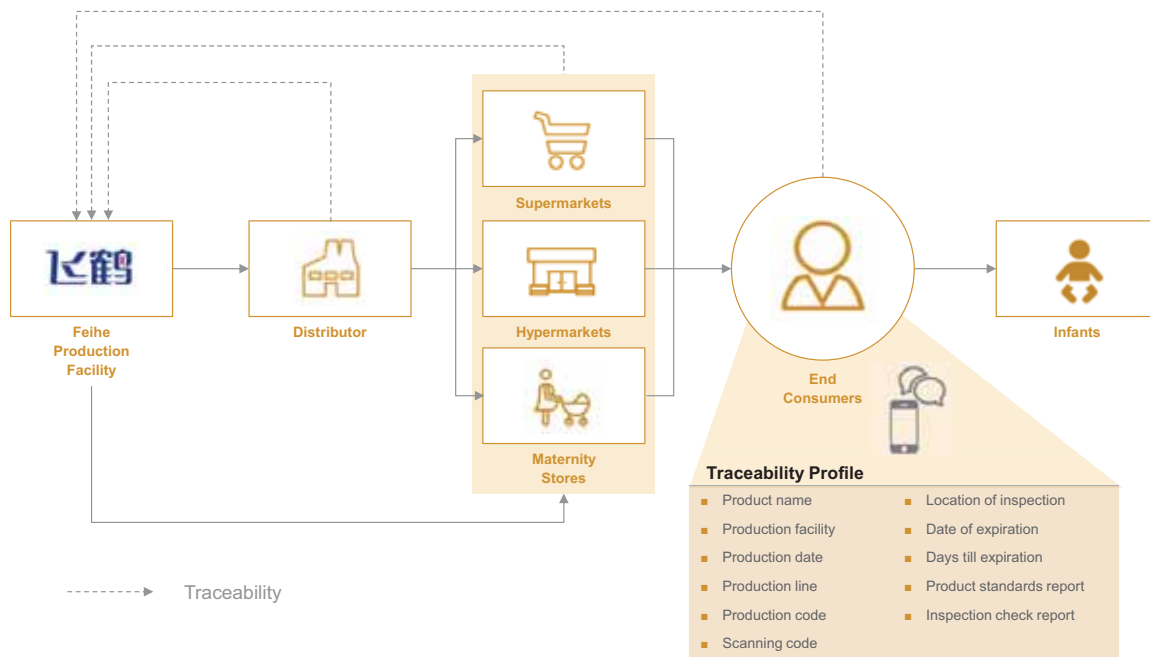
Stringent safety control standards with proven track record

We place utmost emphasis on quality control and management of our supply chain. We operate a stringent quality control system throughout the value chain, which comprises approximately 25 comprehensive procedures with over 300 checkpoints from the inspection of feed used by our fresh milk suppliers, through to our production process and subsequently the delivery of finished products.

In addition, we have a well-trained team of approximately 290 people in our quality control department. Members of this department are stationed at each of our manufacturing facilities to supervise the implementation of our quality assurance program, evaluate all products quality and production conditions as well as further optimize our quality control processes. We also station our staff at some of our suppliers' dairy farms and production plants to supervise their production operations and to inspect the quality of raw materials. Moreover, we regularly monitor changes in the PRC laws on quality control and food safety, regulations and national standards to ensure the consistent compliance of our products. Generally, we require members of our quality control department to have educational backgrounds in food science, nutrition, chemistry or other relevant fields, hold technical qualifications as required by local regulations and have at least five years of food quality control management experience.

In recent years, we have commenced construction of new production facilities as well as upgraded and expanded our existing plants to meet increasing consumer demand. Most of our production facilities commenced operations after 2008 and are highly automated. Built to meet or exceed international standards in quality control and equipped with advanced imported equipment and machinery, our production facilities and testing capabilities incorporate the latest automation technologies that enable us to increase production efficiency and reduce risk of contamination and human error. We have not had any disruptions in our existing production facilities from operation to date with no major food safety issues. In addition, through our barcode scanning system, our products are able to be traced back to Feihe's manufacturing facility and obtain details such as the manufacturing date, expiration date, and infant milk formula product formulation details.

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Consistent commitment to high quality raw materials

The success of our winning products is largely attributable to our persistency in producing the freshest and highest quality proprietary infant milk formula through implementing stringent measures, which is reflected in the following aspects:

- Use of high quality fresh milk.* According to the F&S Report, we are one of the few infant milk formula providers in China to use fresh milk as the main ingredient in all of our infant milk formula products, in contrary to major brands sold in China, which generally use imported milk powder as the primary raw material to manufacture their products. By utilizing fresh milk, we avoid the longer average shipping time of imported milk powder of approximately one to two months, and have a better control of temperature during shipping that ensures the quality and flavor of our products. Although the cost of fresh milk we procure is higher than the cost of milk powder, in which the average market price of fresh milk and imported milk powder were RMB3,461 per tonne and RMB2,506 per tonne in 2018, respectively, according to the F&S Report, we insist on only using fresh milk to preserve the freshness and nutrients distribution that is crucial to the quality of our infant milk formula. Our fresh milk is mainly sourced from YST Group, one of the leading dairy farm operators in China in terms of herd size and production volume, in which we have a longstanding partnership since 2010. In order to ensure consistent usage of high-quality fresh milk, the fresh milk is inspected upon delivery, and is received in fully enclosed, stainless-steel vacuum milking machines. Once received, the fresh milk will no longer have any contact with air and is immediately inspected and processed. The close proximity of our production facilities to our dairy milk suppliers also ensures the freshness is optimally preserved as the milk is utilized within 24 hours of delivery to our production plants. In addition, all fresh milk sourced from our suppliers are required to meet a series of nutritional and safety standards that are higher than the benchmarks in China and Europe.

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Fresh milk main content	Feihe's standards 	China standards 	European standards 
Protein content	≥3.4%	≥2.8%	≥3.2%
Fat content	≥4.2%	≥3.1%	≥3.7%
Aerobic plate count (/mL)	≤10,000	≤2,000,000	≤100,000
Somatic cell count (/mL)	≤200,000	N/A	≤400,000

Source: Frost & Sullivan report

Note: Fat content, protein content, aerobic plate count, and somatic cell count are the four major measuring standards of fresh milk. Generally a higher protein and fat content indicates higher quality. Aerobic plate count and somatic cell count are two major indicators used to determine safety quality of fresh milk, and generally a lower aerobic plate count indicates improved sanitation and a lower somatic cell count indicates better animal health.

- *Stringent safety and quality control measures.* In order to maintain the uniquely high quality and freshness of our products, we continuously look to improve our safety and quality control measures. For instance, we have streamlined our e-commerce operations such that it only takes 28 days from order placement online, manufacturing of the product to delivery of the product to the end consumer. Despite the two-year expiration period of our products, we have also most recently implemented a new guidance in which our products have to ideally be sold within six months of the production date in order to ensure utmost product freshness. In addition, our products utilize a wet blending – spray drying process, in which the ingredients are blended together, homogenized, pasteurized and spray dried to produce a powdered product. According to the F&S Report, this process ensures uniform distribution of milk powder and supplements, pasteurizing after blending to destroy bacteria.
- *No artificial flavoring.* We do not use artificial flavoring in our products as the use of locally-sourced fresh milk enables our products to retain the natural and fresh taste and aroma of milk. Moreover, we do not use certain lower-cost ingredients such as sucrose or maltodextrin as the main carbohydrate source and sweetener, but rather use lactose in our products, a naturally-occurring sugar in breast milk that aids in the absorption of other minerals, which we believe benefits the physical development of infants.

Our 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. We believe that, because nothing can replace breast milk as the optimal source of nutrition for babies, the best infant milk formula products are those that simulate breast milk as closely as possible. To that end, we have consistently invested in the research and development to continuously enhance our formulas. We adjust the levels of essential nutrients, such as fatty acids and other nutrients, by adding premium ingredients such as OPO structured fats, hydrolyzed whey protein, prebiotics and alpha-lactalbumin, for the specific growth and development needs, and to promote the digestive health of Chinese babies.

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As a reflection of our efforts, our products have won numerous awards and recognitions, as further described in the Business section. We believe that these achievements demonstrate the recognition that we have gained among our peers in Europe and our commitment to continuously produce high-quality products that are comparable to, or exceed, international standards.

Visionary, experienced and committed management team with a proven record in delivering growth and profitability

We are led by a visionary and committed management team that has spearheaded our rapid development to become the leading infant milk formula company in China. The majority of our management team has over ten years of experience in the infant milk formula market, and has been continuously committed and focused on infant milk formula in particular. Our Chairman and Chief Executive Officer, Mr. Leng Youbin, has over 30 years of experience in the dairy industry in China. Mr. Leng has received various honors and awards for his entrepreneurship and leadership, including, among others, the Top 10 Economic Persons of the Year in 2018 (2018十大經濟年度人物) award given his significant contribution to the development of the China infant milk formula sector. Our President, Mr. Cai Fangliang, has over ten years of experience in the dairy industry in China. Before joining us in 2010, he served various management roles at two dairy product companies in China. Our Vice Chairman and Chief Financial Officer, Mr. Liu Hua, has served us for over 18 years. He has been involved in the financing activities of the Group, including the listing of Flying Crane U.S. on the OTCBB in 2003 and the listing of Flying Crane U.S. on the NYSE in 2009. Our Vice President and Joint Company Secretary, Ms. Judy Tu, joined us in 2006 and has been extensively involved in the international business development and capital market matters of the Group, such as the Group's expansion in Canada in 2015 and the acquisition of Vitamin World in 2018. The Chairman of Vitamin World USA, Mr. John Cheung, has over 20 years of experience in the food and beverage industry. He held various senior positions within the Nestle Group from 2012 to 2018 before joining us in 2019 and had also worked in blue-chip consumer companies such as Coca-Cola and Procter & Gamble prior to such time.

Our stable management team has a proven track record for delivering consistent growth and profitability. Their insight and in-depth industry experience enable us to successfully develop business strategies and new products, assess and manage risks, anticipate market changes, and create and seize business opportunities, which we believe will ensure our continued success. Our management team is also at the forefront of cultivating a spirit of transparency at Feihe, in which rules and responsibilities are clearly defined throughout the firm. Our Company is also managed by a stringent fund management policy, in which the use of funds by all units are in strict accordance with the budget plan, and all expenditures are reported to the Company's finance department on a regular basis.

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BUSINESS STRATEGY

Our vision is to further solidify our market leadership as the most trusted and reputable infant milk formula and nutrition brand, while continuing to expand our product offering. To that end, we intend to implement a business strategy with the following key components.

Solidify market leadership through accelerating penetration in upper-tier cities and expansion in Southern China

Building on our first brand leadership, our continuous strategy is to solidify our dominance in markets that we are currently present by widening the gap between us and our next competitor, whilst concurrently expanding our business in Southern China.

Over the past years, our solid brand reputation, extensive sales channels and targeted positioning in high-end product offerings has enabled us to broaden our customer base and successfully penetrate into attractive Tier 1, New Tier 1, and Tier 2 cities. This is evident through our success in Beijing whereby our annual sales increased significantly from RMB60.3 million for the year ended December 31, 2016 to RMB195.4 million for the year ended December 31, 2018, representing a CAGR of 80.0%. We achieved this through establishing close partnerships with key local retailers such as Wumart (物美), Lijia Baby (麗家寶貝) and Leyou (樂友) by also cooperating with them on promotions and precise marketing initiatives to expand our brand awareness. Moreover, we dedicated resources into recruiting qualified sales managers in the region, increasing the number of sales representatives coverage at the retail points of sale and providing them continuous training in order to offer consumers latest knowledge on infant milk formula as well as and tailored advice for pre and post-pregnancy. We believe these efforts will continue to differentiate our brand hence enabling us to further accelerate market share gains at the expense of foreign competitors that have historically larger presence in upper-tier cities.

Furthermore, to solidify our presence nationwide, we intend to strategically increase our penetration within Southern China, especially for the provinces in which we have low or no existing presence. For instance, in order to expedite our presence in Shanghai, we have set up a separate sales team that tailors the marketing and channel management initiatives to the local consumer markets in both urban and suburban areas of Shanghai with dissimilar consumer types and preferences. As a result, our annual sales in Shanghai increased from RMB5.8 million for the year ended December 31, 2017 to RMB9.6 million for the year ended December 31, 2018, representing an increase of approximately 64.8%. Going forward, we will continue to focus our efforts on growing our footprint across the Southern China and to achieve market leadership in the upper-tier cities in this region.

Broaden product offering with new variety to infants throughout their development stages and to pre and post-natal mothers

Our current infant milk formulas are targeted towards infants up to the age of three years old. One of our core priorities is to build upon the customer loyalty and trust established with our consumers to continue offering various products to support the infants' development.

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We believe baby and toddler food products are highly complementary to infant milk formula in order to provide a balanced nutrition for their growth. As a result, parents are increasingly incorporating products such as rice cereal, purees of vegetables and fruits, snacks and beverages into the diet of their babies and toddlers to ensure they absorb adequate and comprehensive daily nutrition. According to the F&S Report, China's baby and toddler food market by retail sales value has increased from RMB13.5 billion in 2014 to RMB25.4 billion in 2018, growing at a CAGR of 17.1%, and is expected to reach RMB42.8 billion in 2023, primarily driven by increasing parents awareness and trust in premium baby and toddler food products, expansion into online sales channels as well as enhancement of product quality. In light with this attractive industry trend, we have initiated our research and development for the production of baby and toddler food products as well as a selection of multivitamins and mineral supplements for children such as probiotic drops and calcium drinks.

Through our marketing events such as Mother's Love, Carnivals and Shows, in addition to our customized WeChat communities, we have gained strong access to a large network of mothers nationwide. To leverage on these connections, we believe it is synergistic to broaden our product offering to target mothers in particular. Hence, we have also extended our research and development to pre-natal and post-natal vitamins, which provides mothers essential vitamins and minerals such as folic acid and probiotics. According to the F&S Report, women are increasingly more educated on the functions provided by vitamins before and during pregnancy for their own and fetal's health. For instance, pregnant women not only pay attention to the healthy development of fetus, but also start pursuing their own body shape management, which increased the demand for multivitamin products.

In addition to the above initiatives, we believe that goat milk infant formula is an attractive and under-penetrated segment. As a result, in recent years, we have also continued to explore the optimal approach to enter this market. The market in China for goat milk infant formula is forecasted to grow from RMB17.2 billion in 2018 to RMB37.6 billion in 2023, at a CAGR of 16.9%, according to the F&S Report. Consistent with this industry trend, we intend to continue investing in the goat milk infant formula business. In China, we have invested in a production facility in Tailai county, Heilongjiang province. The Tailai Plant is expected to have a designed annual production capacity of 20,000 tonnes. The total estimated capital expenditure for the Tailai Plant is approximately RMB400.0 million.

We have also invested C\$243.7 million (equivalent to approximately RMB1,225.6 million) in the construction of an infant milk formula production facility in Kingston, Ontario, Canada. According to the F&S Report, currently there are no major dry infant milk formula manufacturers in Canada, and consumers have generally relied on imported infant milk formula. The establishment of the Kingston Plant would give us the first mover advantage to manufacture fresh and high quality infant milk formula in the local market. Our Kingston Plant will facilitate our production of cow milk infant formula as a natural extension of our core business overseas, as well as enable us to continue our penetration into the goat milk infant formula market.

BUSINESS

Innovate and trade-up through new product launches and targeted marketing initiatives creating a “one-stop shop” platform for consumers

Today, Feihe is already a well-recognized and established brand in China. In the next phase of our expansion, we will seek to strengthen that recognition further, with an emphasis on cementing the association of our brand with the message of “More Suitable for Chinese Babies” to effectively distinguish ourselves from international brands in the China infant milk formula market. Our marketing efforts will focus on creating online consumer ecosystems whereby we aim to be our consumers’ go-to source for all of their needs related to pregnancy and childrearing. Over the next three years, we intend to build an online platform to provide products and services around the maternity and early childrearing sectors, and gradually extend such platform into the health and lifestyle segments. We will seek to partner with carefully selected leading brands in their respective sectors for this “one-stop shop” platform, which would include service providers such as maternity centers (月子中心) for post-partum recuperation, clinics for physical checkups, infant swimming centers, spa and salon services. The success of such platform will, we believe, further strengthen our brand positioning as the strongest association with infant nutrition. In addition, marketing of this platform will help us and our partners reach new targeted consumers and expand our customer base. In the longer term, we intend to enhance our VIP services and provide additional consulting services by health experts to reinforce our role in the infant milk formula market as an authoritative source on pregnancy and childrearing, and in turn enhance our brand presence.

In addition to our targeted marketing initiatives, we have been undergoing consistent research and development to innovate and trade-up our products. For example, we launched our super-premium Organic Zhenzhi (臻稚有機) product series, which is our high-end certified-organic infant milk formula, in April 2017 to capture opportunities in a market where demand for natural and organic food is experiencing rapid growth. Our revenue from Organic Zhenzhi has grown from RMB49.6 million for the year ended December 31, 2017 to RMB357.4 million for the year ended December 31, 2018. In line with this strategy, we plan to continue streamlining our product portfolio to focus on high-end core products and discontinue certain lower-end product series with lower margins, thereby increasing operational efficiency.

Continue to enhance our production efficiency and invest in new facilities

We plan to enhance the production efficiency at existing manufacturing facilities and invest in new facilities to meet the anticipated demand growth for our products to ensure our continued profitability. Over the next three to five years, we intend to maximize production and operational efficiency by adopting a manufacturing execution system for our operations. The MES is a software system that enables our operations, including our manufacturing and supply-chain management, to be more intelligent and automated. Through the MES, we will be able to analyze procedure testing and quality inspection results in real time, minimize manufacturing downtime, enhance information exchange between different aspects of our operations, enhance traceability of our products and gather valuable data that will allow us to further improve our products. MES is under operating trial at our Gannan Plant and since adoption we have significantly increased efficiency and reduced data input time. We believe the increased automation of our operations as a result of further adopting the MES will allow us to enhance our production efficiency and reduce losses and costs, thereby increasing our competitiveness and profitability.

BUSINESS

In anticipation of our continued robust growth and increasing demand for our products, we are setting up our Jilin Plant with a production line designed with annual production capacity of 20,000 tonnes, and we expect to commence operations in 2020. The total estimated capital expenditure for the expansion of our Jilin Plant is approximately RMB400.0 million.

OVERVIEW OF OUR PRODUCTS

Feihe is the largest infant milk formula brand in China in terms of retail sales value in 2018, according to the F&S Report. We produced infant milk formula products using fresh cow milk to ensure safety and high-quality, and sold such products through our distribution network covering almost every province in China. Other than infant milk formula products, we also manufactured and sold adult milk powder, liquid milk products, goat milk infant formula and soybean powder during the Track Record Period. In early 2018, we acquired Vitamin World in order to seek opportunities to diversify our businesses. See “History, Development and Reorganization — Major Acquisitions, Disposals and Deregistration — Acquisition of the Retail Health Care Business of Vitamin World.” We began selling nutritional supplements in the United States in 2018.

The following table sets forth a breakdown of our revenue by product for the periods indicated:

	For the years ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	(unaudited)									
	<i>(In thousands of RMB, except percentages)</i>									
Dairy products										
Infant milk formula										
products	3,180,928	85.4%	5,416,631	92.0%	9,199,198	88.5%	1,750,687	88.9%	2,473,724	89.8%
Other dairy products	543,453	14.6%	470,629	8.0%	550,383	5.3%	93,503	4.8%	124,055	4.5%
Nutritional supplements	-	-	-	-	642,336	6.2%	124,688	6.3%	158,225	5.7%
Total	<u>3,724,381</u>	<u>100.0%</u>	<u>5,887,260</u>	<u>100.0%</u>	<u>10,391,917</u>	<u>100.0%</u>	<u>1,968,878</u>	<u>100.0%</u>	<u>2,756,004</u>	<u>100.0%</u>

BUSINESS

OUR DAIRY PRODUCTS

During the Track Record Period, we primarily produced and sold a broad range of infant milk formula products. We also sold other dairy products, including adult milk powder, liquid milk products, goat milk infant formula and soybean powder.

The following table sets forth a breakdown of our revenue from our dairy products by category for the periods indicated:

	For the years ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	(unaudited)									
	(In thousands of RMB, except percentages)									
Infant milk formula products										
High-end infant milk formula product series	1,586,016	42.6%	3,795,417	64.5%	6,657,636	68.3%	1,247,696	67.6%	1,812,287	69.8%
Regular infant milk formula product series	1,594,912	42.8%	1,621,214	27.5%	2,541,562	26.1%	502,991	27.3%	661,437	25.4%
Sub-total	<u>3,180,928</u>	<u>85.4%</u>	<u>5,416,631</u>	<u>92.0%</u>	<u>9,199,198</u>	<u>94.4%</u>	<u>1,750,687</u>	<u>94.9%</u>	<u>2,473,724</u>	<u>95.2%</u>
Other dairy products	<u>543,453</u>	<u>14.6%</u>	<u>470,629</u>	<u>8.0%</u>	<u>550,383</u>	<u>5.6%</u>	<u>93,503</u>	<u>5.1%</u>	<u>124,055</u>	<u>4.8%</u>
Total	<u>3,724,381</u>	<u>100.0%</u>	<u>5,887,260</u>	<u>100.0%</u>	<u>9,749,581</u>	<u>100.0%</u>	<u>1,844,190</u>	<u>100.0%</u>	<u>2,597,779</u>	<u>100.0%</u>

We group our family of infant milk formula products into two main product categories, namely, our high-end infant milk formula and regular infant milk formula. Our high-end infant milk formula comprises our super-premium Astrobaby (星飛帆), super-premium Organic Zhenzhi (臻稚有機) and premium product series, including Zhenai Beihu (臻愛倍護), Zhenai Feifan (臻愛飛帆) and Jingcui Yijia (精粹益加). Our regular infant milk formula includes Xingjie Youhu (星階優護), Feifan (飛帆) and BabyRich (貝迪奇) and other regular infant milk formula product series. In recent years, we have focused on developing products catered to the high-end infant milk formula market and solidifying our brand as a leading provider of high-end infant milk formula products. As a result of our efforts, sales of our high-end infant milk formula products as a percentage of our total revenue from dairy products increased from 42.6% for the year ended December 31, 2016 and 64.5% for the year ended December 31, 2017 to 68.3% for the year ended December 31, 2018, and further to 69.8% for the three months ended March 31, 2019. We expect to continue to concentrate our resources on high-end infant milk formula products and generate an increasing proportion of our revenue from sales of such products.

BUSINESS

Infant Milk Formula Products

Our infant milk formula products are our principal products. We develop infant milk formula products primarily for the routine feeding of infants and toddlers to satisfy their nutritional needs. The main ingredient in our infant milk formula products is fresh cow milk sourced from high quality dairy farms, most of which are located in close proximity to our production facilities, and in some cases can be delivered to us for processing within two hours of milking at the soonest. As such, we generally do not use any artificial flavoring in our products.

Our infant milk formula products are formulated based on the specific nutritional needs of infants at different developmental stages. In general, our infant milk formulas have the following main components: (i) a combination of proteins with a profile similar to breast milk; (ii) carbohydrates, such as lactose from cow milk; (iii) a blend of vegetable fats and OPO structured fats to better resemble the composition of breast milk of Chinese mothers; and (iv) a blend of vitamins and minerals added to the infant milk formula to meet the specific needs of the infant at different development stages. We provide three stages for all of our infant milk formula product series, each stage engineered and crafted to meet an infant's changing nutritional needs. The shelf life of our box-packaged infant milk formula products is 18 months, and the shelf life of our tin-packaged infant milk formula products is 24 months.

BUSINESS

The following table sets forth our revenue from infant milk formula products, gross profit and gross profit margin breakdown by infant milk formula product series for the periods indicated:

	For the years ended December 31,					For the three months ended March 31,												
	2016		2017		2018		2018		2019									
	Revenue	Gross Profit Margin %	Revenue	Gross Profit Margin %	Revenue	Gross Profit Margin %	Revenue	Gross Profit Margin %	Revenue	Gross Profit Margin %								
	(In thousands of RMB, except percentages)																	
	(unaudited)																	
High-end infant milk formula product series																		
Super-premium Astrobaby	711,464	22.4%	2,453,725	45.3%	1,906,807	77.7%	5,108,200	55.5%	4,052,599	79.3%	910,126	52.0%	756,886	83.2%	1,205,954	48.8%	855,745	71.0%
Super-premium Organic Zhenzhi ⁽¹⁾	-	-	49,616	0.9%	28,645	57.7%	357,382	3.9%	230,022	64.4%	48,450	2.8%	33,066	68.2%	116,126	4.7%	76,486	65.9%
Premium product series	874,532	27.5%	555,984	63.6%	1,292,076	68.0%	1,192,054	13.0%	808,506	67.8%	289,120	16.5%	192,539	66.6%	490,207	19.8%	320,471	65.4%
Sub-total	1,586,016	49.9%	1,093,037	68.9%	3,795,417	74.1%	6,657,636	72.4%	5,091,127	76.5%	1,247,696	71.3%	982,491	78.7%	1,812,287	73.5%	1,252,702	69.1%
Regular infant milk formula product series																		
	1,594,912	50.1%	873,027	54.7%	1,621,214	29.9%	2,541,562	27.6%	1,593,051	62.7%	502,991	28.7%	303,880	60.4%	661,437	26.7%	389,849	58.9%
Total	3,180,928	100.0%	1,966,064	61.8%	5,416,631	69.4%	9,199,198	100.0%	6,684,178	72.7%	1,750,687	100.0%	1,286,371	73.5%	2,473,724	100.0%	1,642,551	66.4%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.


BUSINESS

Our High-end Infant Milk Formula Product Series


During the Track Record Period, we focused primarily on developing high-end infant milk formula products, in particular, super-premium products that closely resemble the composition of breast milk of Chinese mothers which aims to suit the growth needs of Chinese babies. Our high-end infant milk formula product series comprised our super-premium Astrobaby (星飛帆) product series, which was launched in 2010, super-premium Organic Zhenzhi (臻稚有機) product series, which was launched in 2017 and premium product series, including Zhenai Beihu (臻愛倍護), Zhenai Feifan (臻愛飛帆) and Jingcui Yijia (精粹益加). We design the formulations of our high-end infant milk formula products with a view of achieving closer resemblance to breast milk of Chinese mothers in various aspects by fine-tuning the composition and concentration of proteins and fats to mimic that of breast milk. Moreover, our super-premium and premium products contain numerous premium nutrients, such as OPO structured fats, lactoferrin and hydrolyzed whey protein, that have targeted benefits to infants' health and development. In certain of our product series that add OPO structured fats, we supplement Stage 2 and Stage 3 products with non-fat milk powder, which aims to increase the protein content of such infant milk formula products to meet the nutritional and development needs of infants falling under the relevant age groups.

<u>Product Series</u>	<u>Product Positioning</u>	<u>MSRP</u>	<u>Product Description</u>
Super-premium Astrobaby 星飛帆 	Focused on closely resembling the composition of breast milk of Chinese mothers.	Stage 1: RMB525.7 per kilogram Stage 2: RMB440.0 per kilogram Stage 3: RMB440.0 per kilogram	Our Astrobaby infant milk formula was launched in 2010. Each of our Astrobaby infant milk formula has the following specifications: <ul style="list-style-type: none"> • Contains OPO structured fat to promote easier digestion, soften stools for babies; • Contains hydrolyzed whey protein to promote better nutrient absorption; • Contains alpha-lactalbumin, a major protein found in breast milk and with high levels of amino acids that can induce sleep, boost moods.


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<u>Product Series</u>	<u>Product Positioning</u>	<u>MSRP</u>	<u>Product Description</u>
<p>Super-premium Organic Zhenzhi 臻稚有機</p> 	<p>Focused on providing organic, fresh and nutritious infant milk formula using organic raw materials.</p>	<p>Stage 1: RMB582.9 per kilogram Stage 2: RMB540.0 per kilogram Stage 3: RMB511.4 per kilogram</p>	<p>Our Organic Zhenzhi infant milk formula was launched in April 2017. Each of our Organic Zhenzhi infant milk formula has the following specifications:</p> <ul style="list-style-type: none">• Made with organic fresh milk sourced from certified-organic dairy farms;• Contains organic lactose and demineralized whey powder;• Contains DHA, an omega-3 fatty acid and ARA essential for brain development in infants.


BUSINESS

<u>Product Series</u>	<u>Product Positioning</u>	<u>MSRP</u>	<u>Product Description</u>
<p>Premium Zhenai Beihu 臻愛倍護</p> 	<p>Focused on benefiting infant immune system development.</p>	<p>Stage 1: RMB375.6 per kilogram Stage 2: RMB364.4 per kilogram Stage 3: RMB331.1 per kilogram</p>	<p>Our Zhenai Beihu infant milk formula was launched in 2012. Each of our Zhenai Beihu infant milk formulas has the following specifications:</p> <ul style="list-style-type: none">• Contains lactoferrin to protect against infections and inflammations and develop gastrointestinal and immune system in infants;• Contains hydrolyzed whey protein to promote better nutrient absorption;• Contains alpha-lactalbumin, a major protein found in breast milk and with high levels of amino acids that can induce sleep, boost moods;• Contains probiotics that promote healthy gastrointestinal bacteria growth and better digestion and nutrient absorption.

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Product Series	Product Positioning	MSRP	Product Description
<p>Premium Zhenai Feifan 臻愛飛帆</p> 	<p>Developed for the maternity specialty store sales channel and focused on benefiting infant immune system development.</p>	<p>Stage 1: RMB422.5 per kilogram Stage 2: RMB410.0 per kilogram Stage 3: RMB372.5 per kilogram</p>	<p>Our Zhenai Feifan infant milk formula was launched in 2012. Each of our Zhenai Feifan infant milk formula has the following specifications:</p> <ul style="list-style-type: none">• Contains lactoferrin to protect against infections and inflammations and develop gastrointestinal and immune system in infants;• Contains probiotics that promote healthy gastrointestinal bacteria growth and better digestion and nutrient absorption;• Contains lutein to protect infants' eyes from blue light and oxidation;• Contains nucleotide to improve immune system in infants.

BUSINESS

<u>Product Series</u>	<u>Product Positioning</u>	<u>MSRP</u>	<u>Product Description</u>
Premium Jingcui Yijia 精粹益加 	Developed for the maternity specialty store sales channel and focused on benefiting infant immune system development.	Stage 1: RMB422.5 per kilogram Stage 2: RMB410.0 per kilogram Stage 3: RMB372.5 per kilogram	Our Jingcui Yijia infant milk formula was launched in 2014. Each of our Jingcui Yijia infant milk formula has the following specifications: <ul style="list-style-type: none"> • Contains lactoferrin to protect against infections and inflammations and develop gastrointestinal and immune system in infants; • Contains probiotics that promote healthy gastrointestinal bacteria growth and better digestion and nutrient absorption; • Contains lutein that protect infants’ eyes from blue light and oxidation; • Contains nucleotide to improve immune system in infants; • Contains dietary fiber to creates healthy and comfortable intestinal environment in infants.

Our Astrobaby product series won the Monde Selection Gold Award issued by the International Quality Institute consecutively since 2015 and the International High Quality Trophy issued by the International Quality Institute in 2017. Our Zhenai Beihu infant milk formulas also won both the Monde Selection Grand Gold Award and Gold Award issued by the International Quality Institute consecutively since 2016 and the International High Quality Trophy issued by the International Quality Institute in 2018.

Our strategy in recent years has been to continuously improve our high-end infant milk formula products, focus on strengthening the association of our brand with our “More Suitable for Chinese Babies” message and increase marketing efforts for such products. Revenue from our high-end infant milk formula products amounted to RMB1,586.0 million, RMB3,795.4 million, RMB6,657.6 million and RMB1,812.3 million, accounting for 49.9%, 70.1%, 72.4% and 73.3% of our total revenue from infant milk formula products for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively.

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Our Regular Infant Milk Formula Product Series

During the Track Record Period, we also produced regular infant milk formulas made with high-quality fresh cow milk using the same production process as our high-end product series. Our regular infant milk formula products target a more cost conscious consumer base and contain the essential nutrients for infant development, such as DHA, vitamins and minerals.

The following table sets forth details of our major regular infant milk formula products during the Track Record Period:

<u>Product Series</u>	<u>Product Positioning</u>	<u>MSRP</u>	<u>Product Description</u>
<p>Xingjie Youhu 星階優護</p> 	<p>Focused on providing nutrients based on needs during different developmental stages.</p>	<p>Stage 1: RMB342.2 per kilogram Stage 2: RMB331.1 per kilogram Stage 3: RMB308.9 per kilogram</p>	<p>Our Xingjie Youhu infant milk formula was launched in 2014. Each of our Xingjie Youhu formula has the following specifications:</p> <ul style="list-style-type: none"> • Contains OPO structured fat to promote easier digestion, soften stools for babies; • Contains probiotics that promote healthy gastrointestinal bacteria growth and better digestion and nutrient absorption; <p>Our Stage 1, Stage 2 and Stage 3 Xingjie Youhu products focus on promoting digestive development, immune system development and brain development, respectively.</p>

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Product Series	Product Positioning	MSRP	Product Description
<p>Feifan 飛帆</p> 	<p>Focused on providing nutrients that benefit infant physical and brain development.</p>	<p>Stage 1: RMB264.4 per kilogram Stage 2: RMB253.3 per kilogram Stage 3: RMB220.0 per kilogram</p>	<p>Our Feifan infant milk formula was launched in 2007. Each of our Feifan infant milk formula has the following specifications:</p> <ul style="list-style-type: none"> • Contains OPO structured fat to promote easier digestion, soften stools for babies; • Contains a nucleotide mix that benefits infant immune system development; • Contains DHA, an omega-3 fatty acid, ARA, natural walnut oil and lutein essential for brain and vision development in infants.
<p>BabyRich 貝迪奇⁽¹⁾</p> 	<p>Developed for the maternity specialty store sales channel and focused on providing nutrients that benefit infant physical and brain development.</p>	<p>Stage 1: RMB422.5 per kilogram Stage 2: RMB410.0 per kilogram Stage 3: RMB372.5 per kilogram</p>	<p>Our BabyRich infant milk formula was launched in 2011. Each of our BabyRich infant milk formula has the following specifications:</p> <ul style="list-style-type: none"> • Contains DHA, an omega-3 fatty acid, ARA, natural walnut oil and lutein essential for brain and vision development in infants; • Contains alpha-lactalbumin, a major protein found in breast milk and with high levels of amino acids that can induce sleep, boost moods.

(1) MSRP of certain products, including BabyRich, may not be indicative of market positioning of such products. We position certain products which has relatively high MSRP as regular infant milk formula products, taking into consideration various factors including our internal business strategies.

Revenue from our regular infant milk formula products amounted to RMB1,594.9 million, RMB1,621.2 million, RMB2,541.6 million and RMB661.4 million, accounting for 50.1%, 29.9%, 27.6% and 26.7% of our total revenue from infant milk formula products for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively.

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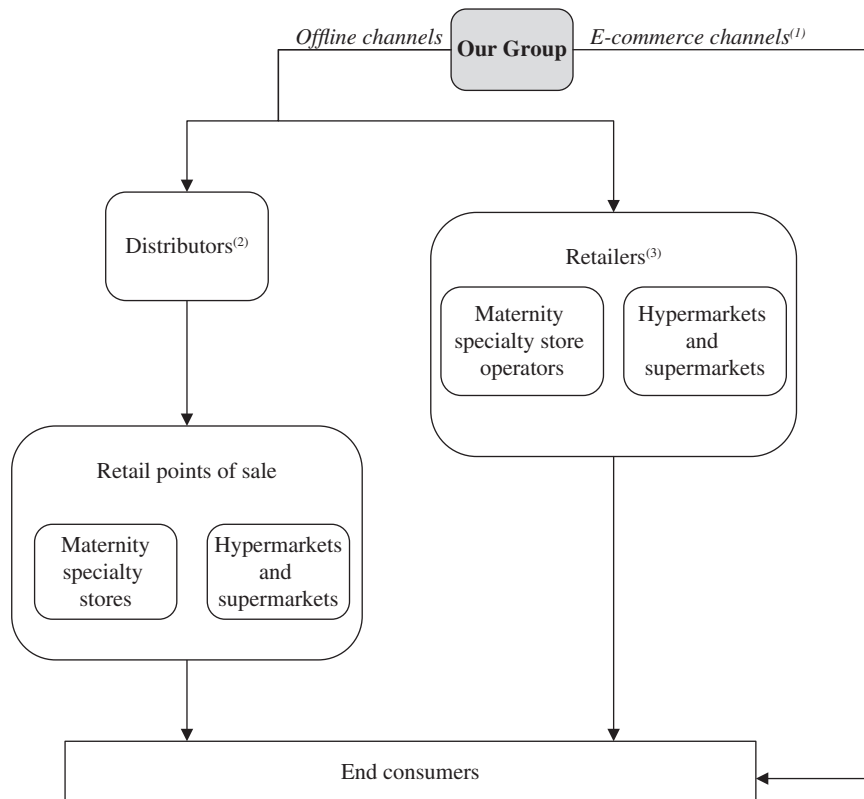
Other Dairy Products

Other than infant milk formula products, we also manufactured and sold a range of adult milk powder, liquid milk products, goat milk infant formula and soybean powder, among others, during the Track Record Period. In 2016, we launched our Classic 1962 adult milk powder products which contain calcium and vitamins to supplement the nutrients needed by teenagers, adults and the elderly. We believe such products have been well-received by consumers and will allow us to enhance consumer acceptance of the Feihe brand and gain presence in certain markets in China in which we have relatively low penetration.

Revenue from our sales of other dairy products amounted to RMB543.5 million, RMB470.6 million, RMB550.4 million and RMB124.1 million, accounting for 14.6%, 8.0%, 5.6% and 4.8% of our total revenue from dairy products for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 2019, respectively.

SALES AND DISTRIBUTION CHANNELS

Our products are sold nationwide through our extensive sales and distribution network that covers most regions in China. During the Track Record Period, we sold our products to (i) distributors, (ii) retailers, and (iii) e-commerce platforms and end consumers through e-commerce channels. The following chart illustrates the structure of our sales and distribution network:



(1) We sell our products through our website and WeChat account. We also sell our products directly to end consumers through e-commerce platforms, such as Tmall, JD.com and Suning.com.

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- (2) During the Track Record Period, we sold our liquid milk to several educational bureaus and schools, which accounted for a minimal proportion of our total revenue.
- (3) Due to our effective geographic selling restrictions over our distributors, our retailer customers did not overlap with our distributors' points of sale during the Track Record Period.

Our distributors sell to the maternity specialty stores, hypermarkets and supermarkets, which are not owned or operated by such distributors. Our retailers cover the maternity specialty stores, hypermarkets and supermarkets, which are self-owned or -operated by such retailers. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, the total number of points of sale covered by our distributors and retailers was over 58,000, 67,000, 90,000 and 92,000, respectively.

The following table sets forth our revenue from dairy products by sales channel for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	(unaudited)									
	<i>(In thousands of RMB, except percentages)</i>									
Sales to distributors	2,888,431	77.6%	4,513,417	76.7%	7,017,400	72.0%	1,372,117	74.4%	1,913,761	73.7%
Sales to retailers	715,230	19.2%	986,614	16.8%	1,646,733	16.9%	328,652	17.8%	505,048	19.4%
Online sales	120,720	3.2%	387,229	6.5%	1,085,448	11.1%	143,420	7.8%	178,970	6.9%
Total revenue	<u>3,724,381</u>	<u>100.0%</u>	<u>5,887,260</u>	<u>100.0%</u>	<u>9,749,581</u>	<u>100.0%</u>	<u>1,844,190</u>	<u>100.0%</u>	<u>2,597,779</u>	<u>100.0%</u>

Our selection of the sales channel is mainly based on a number of criteria, including coverage of sales network and retail points of sale, experience and industry background, track record performance and financial condition. We may choose to work directly with a retailer customer instead of a local distributor if such retailer customer has a strong network of retail points of sale and we believe such retailer customer is a good fit for us in terms of other criteria mentioned above.

Our Distributors

During the Track Record Period, a significant portion of our revenue was generated through sales to our distributors, accounting for 77.6%, 76.7%, 72.0% and 73.7% of our total revenue from dairy products for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively. Our distributors generally are local distributors involved in the distribution of infant milk formula products, many of whom also engage in distribution of other food products and retail products. Generally, our distributors have sizeable local operations with industry experience and competitive market shares in the local infant milk formula market. Our distributors during the Track Record Period were corporations with a registered capital ranging from RMB3,000 to RMB2.3 billion, as well as non-corporate entities. During the Track Record Period, our revenue generated from a distributor ranged from approximately RMB4,000⁽¹⁾ to over RMB80.0 million. Generally, our distributors sell our products to maternity specialty stores, supermarkets and hypermarkets.

(1) The revenue generated from certain distributors, with whom we established cooperative relationship at the end of the year, or we terminated cooperative relationship at the beginning of the year, is small.

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The following table sets forth details of our distributors by operating scale, which is categorized based on the registered capital of such distributors:

Registered Capital ⁽¹⁾	For the years ended December 31,						For the three months ended March 31,					
	2016		2017		2018		2019					
	Number of distributors	Sales	%	Number of distributors	Sales	%	Number of distributors	Sales	%			
	<i>(In thousands of RMB, except for percentage)</i>											
Non-corporate entities No more than RMB0.3 million	776	986,722	34.2%	625	1,408,065	31.2%	596	2,131,683	30.4%	502	565,934	29.6%
More than RMB0.3 million - No more than RMB0.5 million	223	375,865	13.0%	203	614,660	13.6%	208	991,682	14.1%	184	275,255	14.4%
More than RMB0.5 million - No more than RMB1.0 million	199	438,992	15.2%	180	708,970	15.7%	192	1,156,435	16.5%	176	303,097	15.8%
	164	489,411	16.9%	144	798,068	17.7%	146	1,147,474	16.4%	137	326,875	17.1%
	189	597,442	20.7%	180	983,654	21.8%	186	1,590,126	22.6%	169	442,600	23.1%
Total	1,551	2,888,431	100.0%	1,332	4,513,417	100.0%	1,328	7,017,400	100.0%	1,168	1,913,761	100.0%

(1) The registered capital of our distributors reflects the status as of March 31, 2019.

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The following table sets forth details of our key distributors by operating scale, which is categorized based on the registered capital of such distributors, for the periods indicated. Such distributors primarily sold our products to hypermarkets, supermarkets and maternity stores.

Registered Capital ⁽²⁾	For the years ended December 31,				For the three months ended March 31,				
	2016		2017		2018		2019		
	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category	Geographic Coverage of Ten Largest Distributors in the Category	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category	Geographic Coverage of Ten Largest Distributors in the Category	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category	
Non-corporate entities	145,582	14.7%	Henan, Liaoning, Heilongjiang, Zhejiang, Shandong	199,815	14.1%	Henan, Liaoning, Shandong, Heilongjiang, Shanxi	294,857	13.8%	Henan, Liaoning, Shandong, Shanxi, Zhejiang, Jiangxi, Heilongjiang
No more than RMB0.3 million	93,622	24.9%	Hebei, Shandong, Heilongjiang, Jiangsu, Henan	153,697	25.0%	Hebei, Shandong, Heilongjiang, Jiangsu, Liaoning	208,963	21.1%	Hebei, Shandong, Chongqing, Guizhou, Liaoning, Jiangsu
More than RMB0.3 - No more than RMB0.5 million	117,823	26.8%	Henan, Hebei, Liaoning, Chongqing, Shanxi, Hunan, Anhui, Shaanxi, National ⁽¹⁾	209,922	29.6%	Heilongjiang, Liaoning, Hunan, Hebei, Henan, Liaoning, Shaanxi, Anhui, Shaanxi	323,275	28.0%	Hunan, Heilongjiang, Chongqing, Gansu, Liaoning, Henan, Shaanxi, Shanxi
							80,959	26.7%	Heilongjiang, Hunan, Shaanxi, Henan, Shaanxi, Liaoning, Guangxi, Zhejiang, Anhui

(In thousands of RMB, except for percentage)

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Registered Capital ⁽²⁾	For the years ended December 31,				For the three months ended March 31,							
	2016		2017		2018		2019					
	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category	Geographic Coverage of Ten Largest Distributors in the Category	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category	Geographic Coverage of Ten Largest Distributors in the Category	Total Sales to Ten Largest Distributors in the Category	% of Total Sales in the Category				
More than RMB0.5 - No more than RMB1.0 million	156,985	25.9%	Henan, Shanxi, Hebei, Shandong, Guangxi, Shaanxi, Gansu, Chongqing National ⁽¹⁾	263,081	33.0%	Henan, Shaanxi, Hebei, Shandong, Shaanxi, Gansu	348,323	30.4%	Henan, Chongqing, Shandong, Shanxi, Shaanxi, Guangxi, Hebei, Gansu	95,233	29.1%	Henan, Shaanxi, Gansu, Shandong, Chongqing, Hebei, Shaanxi
More than RMB1.0 million	199,287	33.5%	Jiangsu, Beijing, Shandong, Heilongjiang, Henan	316,967	32.4%	Shaanxi, Beijing, Jiangsu, Henan, Hebei, Shandong, Sichuan	529,749	33.5%	Shaanxi, Beijing, Jiangsu, Sichuan, Guangdong, Shandong	153,941	34.9%	Shaanxi, Beijing, Jiangsu, Shandong, Sichuan, Henan

(In thousands of RMB, except for percentage)

(1) A distributor for Guanshan Dairy products. In general, distributors for Guanshan Dairy products were not subject to geographic restrictions.

(2) The registered capital of our distributors reflects the status as of March 31, 2019.

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Considering that we worked with over 1,300 distributors for each year during the Track Record Period, and such distributors are generally local distributors subject to our geographic selling restrictions, we did not rely on any single distributor or a limited number of distributors. Our revenue generated from any single distributor accounted for less than 1.0% of our total revenue for each year or period during the Track Record Period.

We operate a single-layer distribution system where our distributors generally sell our products to retail points of sale directly. We believe that this single-layer distribution system provides us with competitive advantages as compared to competitors who use multi-layer distribution systems, such as higher margins and greater visibility over inventory as well as control over end product sales. Furthermore, we believe that the single-layer distribution system allows us to directly gain first-hand knowledge and feedback from our distributors on key market information across China in a timely manner, which in turn allows us to react more quickly than our competitors to changes in market trends.

It is not uncommon for non-corporate entities to be distributors of infant milk formula in lower-tier cities in China, especially for some domestic infant milk formula enterprises who mainly target lower-tier cities, according to the F&S Report. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our revenue generated from distributors which were non-corporate entities accounted for 34.2%, 31.2%, 30.4% and 29.6% of our total revenue generated from distributors for the same periods, respectively. Sales to the ten largest non-corporate entity distributors accounted for less than 4.0% of our total revenue for each of the years or periods comprising the Track Record Period and sales to each of such non-corporate entity distributors accounted for less than 1.0% of our total revenue for each of the years or periods comprising the Track Record Period.

The following table sets forth the background of distributors who were among our ten largest non-corporate entity distributors in one or more years for the years ended December 31, 2016, 2017 and 2018:

<u>Distributor</u>	<u>Geographic coverage</u>	<u>Number of retail points of sale</u>	<u>Length of business relationship</u>
		<i>(As of December 31, 2018)</i>	<i>(years)</i>
Distributor A	Henan province	574	6
Distributor B	Jiangxi province	321	5
Distributor C	Liaoning province	277	32
Distributor D	Shandong province	243	2
Distributor E	Shanxi province	241	7
Distributor F	Shandong province	235	9
Distributor G	Jiangsu province	209	4
Distributor H	Henan province	174	7
Distributor I	Henan province	160	6
Distributor J	Zhejiang province	130	16
Distributor K	Heilongjiang province	101	2
Distributor L	Henan province	94	4
Distributor M	Shandong province	63	9
Distributor N	Henan province	62	6
Distributor O	Shandong province	54	6
Distributor P ⁽¹⁾	Hubei province	N/A	N/A

(1) We terminated business relationship with this distributor in 2017.

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During the Track Record Period, we established strong business relationships of five or more years with most of our ten largest non-corporate entity distributors and nine of them were among our ten largest non-corporate entity distributors for more than one year, which we believe reflects their stable business. Moreover, we believe that our geographic selling restrictions have been effective in protecting our distributors, including non-corporate entity distributors, from unhealthy competition and cannibalization, which has fostered an environment that enables our non-corporate entity distributors to develop strong sales networks in their respective geographic regions. These non-corporate entities are also able to maintain a stable business and generate significant revenue because they have developed their respective sales networks in many lower-tier cities and rural areas in provinces such as Shandong and Henan, where dense populations and the relatively smaller presence of large supermarket chains have resulted in strong demand for non-corporate entity distributors, according to the F&S Report. We manage non-corporate entity distributors based on the same sales policies and enter into standard distribution agreements with such distributors, the terms of which are summarized in “— Management of Distributors.”

Considering that our distribution channel is important to our business, we carefully select our distributors based on a set of strict criteria, including their industry background, financial condition, sales channels and retail points of sale and business strategies. We require our distributors to be in good financial condition and without any non-performing assets and record of commercial fraud. Moreover, we require our distributors to have dedicated sales personnel for our products, maintain the condition and safety standards of its warehouse in accordance with our internal requirements and maintain sufficient delivery capacity to fulfill orders for our products. Our regional sales personnel are responsible for identifying potential distributors with established sales networks, distribution channels and industry experience. Upon evaluation of a potential distributor by our regional sales personnel, our provincial-level sales managers will prepare a report for approval by the sales department at our headquarters. We enter into distribution agreements with new distributors only upon the approval of the sales department. Pursuant to the distribution agreements between our distributors and us, our distributors are required to represent that they hold all relevant licenses or approvals required for distributing our products.

Management of Distributors

In general, we enter into standard distribution agreements with our distributors and maintain a buyer and seller relationship with them. We recognize revenue when our products are handed over to logistics service providers, at which time the control of such products is transferred to distributors. Major terms of our standard distribution agreements include:

- *Order placement.* We require our distributors to submit before the 20th of each month the estimated order volume for the following month and require such estimated order volumes to be not less than 85% accurate so that we can accurately plan our production operations. We provide different deadlines to our distributors to place orders for each month to better manage our inventory and meet our distributors' needs. We do not impose minimum purchase requirements on our distributors.
- *Sales targets.* We set monthly and annual sales targets for our distributors and we regularly monitor their sales performance. Based on our monthly and quarterly evaluations of their performance, we are entitled to terminate the relevant distribution agreement if a distributor fails to meet sales targets for three consecutive months. We are also entitled to terminate the relevant distribution agreement if the distributor fails to meet sales targets for two or more quarters of the year, or fails to meet 45% of the annual sales target in the first half of the year.

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- *Term.* Our distribution agreements generally have a term of one-year, which we believe is in line with industry norm.
- *Payments.* Our distributors are generally required to pay us before our delivery of products. Credit purchase for orders placed by distributors is generally not allowed. As such, we did not have significant accounts receivables from distributors during the Track Record Period.
- *Prices.* We provide MSRPs to distributors and may amend our MSRPs by written notice to distributors. We inspect our distributors and retail points of sale every one to two months to monitor whether our products are being sold in compliance with our MSRPs. We actively negotiate with our distributors that do not sell at our MSRPs to reach a mutual agreement.
- *Selling restrictions and exclusivity.* Our distributors are required to abide by selling restrictions stipulated in the distribution agreement, including but not limited to the restrictions on geographic coverage, distribution channels and product series.
- *Sales and policies.* We conduct regular spot inspections of our distributors and the retail points of sale to ensure that our distributors adhere to our sales and marketing policies and branding strategies. They are also strictly forbidden to change the manufacture and expiration dates labeled on our products, tamper with product packaging or sell any counterfeit products. Our distributors are required to allocate certain resources, including capital, personnel, transportation and product and inventory management resources, for our products.
- *Prevention of cannibalization.* Any sales outside of the stipulated geographic sales region will be deemed as cannibalization. In addition, any sales of promotional goods and any unauthorized online sales of our products will be deemed as cannibalization. If we discover any cannibalization activity of our distributor, such distributor must repurchase all products sold in breach at a price markup within five business days and bear all costs incurred. If such breach is not cured, we are entitled to deduct the volume of promotional goods provided to the distributor, or deduct from the distributor's deposit or payments. In addition, we are entitled to cut supply of our products and claim penalties ranging from RMB20,000 to RMB60,000 depending on the materiality of the breach. We are entitled to terminate the distribution agreement with any distributor that engages in cannibalization on two or more occasions.
- *Prevention of stock accumulation.* We prevent distributors from accumulating our stock through various measures, including (i) reviewing the monthly inventory and sales performance of our distributors, (ii) requiring our distributors to pay for our products before delivery, and (iii) conducting on-site inspections of our distributors' inventory. Moreover, we do not impose a minimum purchase requirement on distributors. If we find that our distributors' inventory is significantly higher than its monthly purchase from us, we may lessen or discontinue product delivery to them to prevent stock accumulation. Based on our review of the monthly inventory and sales performance of our distributors and periodic on-site inspections of our distributors' inventory, inventory levels remained relatively stable during the Track Record Period and we did not encounter any instances of stock accumulation.

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- *Stock reallocation.* All distributors are allowed to apply for stock reallocation subject to our permission. The reallocation price is paid on the ex-factory price and such payments shall be settled directly between the distributors. The distributors engaged in the reallocation shall be responsible for the transporting costs incurred.
- *Inventory management.* Historically, we required our distributors to provide monthly reports containing inventory, sales volume, costs and other information. To further enhance the monitoring, traceability and control of our inventory and sales at the distributor level and optimize our production operations, we launched a barcode scanning function in our DRP system and began to require our distributors to switch to this new barcode scanning function in the second half of 2016. Since the first quarter of 2017, we have required our distributors to fully transit to the barcode scanning function and ceased the monthly report system. Through our barcode scanning system, we are able to track our products and receive automatically-generated information on our distributors' inventory levels, thereby reducing our labor costs and the risk of human error in collecting such information and allows us to better manage our own inventory levels and plan our production operations.
- *Marketing activities.* We are entitled to plan and organize promotional and marketing activities, and related costs are shared between the distributors and us. Unless we have given prior approval, we will not bear any costs incurred in relation to independent marketing events held by our distributors. All distributors are required to participate or contribute in such activities and maintain our brand image and reputation.
- *Logistics and warehouses.* Once payment has been received from a distributor, we will engage Independent Third Party logistics service providers to deliver our products to the distributor's designated warehouses. Delivery costs are included in the selling price of our products. Distributors' warehouses must comply with relevant environmental, safety and hygiene standards set by us.
- *Return and exchange of products.* Our distributors are generally not allowed to return products except for defective or damaged products. In principle, our distributors are entitled to exchange products close to expiry but generally may not exchange more than 1.0% of the total products sold to them per year. Moreover, we only allow exchanges of products at a 35% discount of the original price of the products sold, meaning for RMB100.0 worth of returned products, we dispatch RMB65.0 worth of replacement products to our distributors. We make provision for sales returns based on current agreement terms with our customers. Sales returns are accrued and deducted against gross revenue upon recognition of revenue. During the Track Record Period, the amount of goods returned or exchanged by our distributors accounted for less than 0.1% of our total revenue. Goods that are returned or exchanged close to expiry are disposed of appropriately.
- *Termination.* We are entitled to terminate the distribution agreements with immediate effect in any of the following events: (i) the distributor breaches part or all of the distribution agreement or its appendices and is disqualified by us; (ii) the distributor fails to participate in promotional and marketing activities for at least three months or fails to meet the monthly or annual sales target; (iii) the distributor voluntarily quits and submits a written explanation; (iv) the distributor provides any false statement when becoming a distributor; (v) the distributor engages in illegal operations and is subject to any legal liability or other sanctions by relevant authorities; (vi) the distributor engages in product dumping with

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malice or unauthorized sales that cause material harm to the market, and refuses to rectify the breach or to compensate the losses incurred to us or other distributors; or (vii) the distributor does not operate proactively (other than due to market reasons) or causes its inventory or the inventory of the retail points of sale to fall below the safety stock level for a period of two months or more. If the distribution agreement is terminated for any reason whatsoever, our distribution agreements stipulate that the distributor shall handover any unsold products in its inventory and other information related to its sales network to us or any person we designate in the manner that we request, and shall settle any balances with its customers and business partners. If the distributor does not complete the handover in the manner that we request, we have the right to withhold any prepayments or deposits paid to us by such distributor or to refuse any returns of unsold products.

We generally renew our distribution agreements upon their expiration, unless any of the foregoing termination events is triggered. We may also decide not to renew a distribution agreement if a distributor is no longer a good fit with our business strategies or if we consider a distributor's performance to be unsatisfactory for any other reason.

Our Relationship with Distributors

We believe that we have established stable and long-term relationships with a significant number of our distributors. As of March 31, 2019, we had over 800 distributors whom we have worked with for over two years. The following table sets out the total number of our distributors and their movement (including addition and termination) during the Track Record Period:

	For the years ended December 31,			For the three months ended
	2016	2017	2018	March, 31
Number of distributors at the beginning of the period	1,159	1,139	1,167	1,131
Number of new distributors ⁽¹⁾	392	193	161	37
Number of terminated distributors ⁽²⁾	412	165	197	45
Number of distributors at the end of the period	<u>1,139</u>	<u>1,167</u>	<u>1,131</u>	<u>1,123</u>

(1) To grow our goat milk infant formula business, in 2016, we engaged 218 new distributors for Guanshan Dairy.

(2) We terminated distribution agreements with all 239 Guanshan Dairy distributors in 2016 because we disposed of Guanshan Dairy in December 2016.

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We engaged 174, 193, 161 and 37 new distributors of our Feihe brand products in line with our business expansion in 2016, 2017 and 2018 and in the first quarter of 2019, respectively. We gradually decreased the number of new distributors we engaged as our distribution network became more stable and established.

We terminated distribution agreements with a total of 173, 165, 197 and 45 distributors of our Feihe brand products in 2016, 2017 and 2018 and in the first quarter of 2019, respectively, primarily because such distributors: (i) changed their business focus and ceased to sell our infant milk formula products, or (ii) were deregistered due to poor sales performance. Revenue generated from distributors that we terminated in 2016, 2017 and 2018 and in the first quarter of 2019 accounted for 2.4%, 0.9%, 1.4% and 1.3% of our total revenue for the same periods, respectively.

In general, any Feihe products remaining in the inventory of terminated distributors are reallocated to those distributors that we designate to take over the relevant geographic regions covered by such terminated distributors. As such, distributors usually do not hold any unsold Feihe products after they have been terminated. Of the 173, 165, 197 and 45 distributors unrelated to Guanshan Dairy that we terminated in 2016, 2017 and 2018 and in the first quarter of 2019, 38, 68, 91 and five were required to reallocate their remaining inventory of Feihe products to other designated distributors. The total value of such reallocated inventory of Feihe products amounted to RMB2.8 million, RMB14.1 million, RMB11.0 million and RMB0.7 million for the same periods, equivalent to 0.08%, 0.24%, 0.11% and 0.03% of our total revenue for the same periods, respectively. The remaining distributors did not hold any unsold inventory of Feihe products when they were terminated. The reallocation price is paid on the ex-factory price and such payments, as well as the handover process, is typically carried out and settled directly between the designated receiving distributor and the terminated distributor. We require terminated distributors with remaining Feihe products and the designated receiving distributor to sign a handover note indicating the amount of reallocated Feihe products. Save as disclosed above, we generally are not involved in the handover process.

In the Guanshan Dairy Incident, unsold products that were held by terminated Guanshan Dairy distributors and subject to the product recall were used as animal's feeds by our quality control department in accordance with our quality control procedures. Based on negotiations, we and all of the terminated Guanshan Dairy distributors agreed that they would receive cash or non-defective products as a replacement for the unsold products that were recalled. Subsequent to our disposal of Guanshan Dairy in December 2016 and commencing from January 2017, Guanshan Dairy became an Independent Third Party distributor of Baby Mom brand regular infant milk formula products of our Company. Under the standard distribution agreement, we do not allow any product returns from Guanshan Dairy. Our revenue generated from sales to Guanshan Dairy amounted to RMB52.0 million for the year ended December 31, 2017, accounting for 0.9% of our total revenue. Guanshan Dairy ceased to be our distributor in 2018.

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In addition, one of our distributors, Dalian Hewang, was our connected person during the Track Record Period. Two of our distributors, namely Aiben HLJ and Qianqi SH, were our connected persons before April 2017 and December 2016, respectively. Our revenue generated from sales to these three distributors amounted to RMB11.6 million, RMB25.3 million, RMB6.5 million and RMB1.4 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively. As of the Latest Practicable Date, Dalian Hewang continued to be our distributor and connected person, while Aiben HLJ continued to be our distributor but had ceased to be our connected person since April 2017 due to changes in its shareholding. As we had terminated our distribution agreement with Qianqi SH in December 2016, we did not sell any products to, or generate revenue from, Qianqi SH for the years ended December 31, 2017 and 2018 and for the three months ended March 31, 2019. Accordingly, as of the Latest Practicable Date, Dalian Hewang was the only connected person that was also a distributor of our Company. We believe our distribution agreements with these three distributors have or had been on normal commercial terms that were fair and reasonable to both parties and generally consistent with the terms offered to our other distributors.

As of December 31, 2016 and 2017, 12 and one of our distributors conducted their business under our trade name, respectively. We had notified such distributors and requested them to cease to use our trade name, and two of such distributors signed a confirmation letter undertaking to cease using our trade name before January 2018. As of the Latest Practicable Date, such distributors have ceased to use our trade name. According to the F&S Report, historically, it was in line with industry norm for major infant milk formula producers in China to permit the use of their trade names by their distributors as a marketing strategy to promote brand awareness and increase sales. In recent years, major infant milk formula producers in China have become more established, and have developed awareness of the value of intellectual property rights. As such, many major infant milk formula producers in China, including us, have adopted stricter policy over the use of trade names and management of distributors.

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During the Track Record Period, all of our dairy products were sold in China. As of March 31, 2019, our dairy products were sold in almost every province, municipality and region in China, to over 1,300 distributors and carried by over 92,000 retail points of sale across China. During the Track Record Period, our distributors did not operate any retail points of sale. The map below shows the breakdown of number of retail points of sale and distributors by province as of March 31, 2019:



Our Retailers

We also directly sell our products to retailers, which are maternity specialty store operators, supermarkets and hypermarkets. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we sold our products to 735, 631, 674 and 610 retailers, covering over 9,000, 10,000, 19,000 and 20,000 points of sale, respectively. Our sales to retailers amounted to RMB715.2 million, RMB986.6 million, RMB1,646.7 million and RMB505.0 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, accounting for 19.2%, 16.8%, 16.9% and 19.4% of our revenue from dairy products for the same periods, respectively.

Maternity specialty store operators are retailers which sell clothes, food, baby care products and daily necessities for infants and young children. We believe this is a very important sales channel for us

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because their target audiences are the same as ours which are consumers with needs for infant and baby products. By focusing on developing this sales channel, we believe that we are able to reach out to more parents and promote our products through targeted sales. We have developed products, such as our BabyRich product series, that are exclusively sold to maternity specialty stores. We believe that the success of our BabyRich product series has enabled us to market other products into these channels, which has in turn allowed us to generate additional sales from our core products. We also sell our products to local supermarkets. We generally enter into standard one-year agreements with maternity specialty store operators and supermarkets, the terms of which are similar to the terms set forth in our distribution agreements. See “ — Our Distributors — Management of Distributors.”

During the Track Record Period, all of the hypermarkets we sold to were state-owned hypermarkets. Our sales to such state-owned hypermarkets accounted for less than 5% of our total revenue during the Track Record Period. For these state-owned hypermarket customers, we provided more favorable terms, including credit period and return policies, to these hypermarket customers. Generally, these hypermarket customers settled payments on a monthly basis with credit periods ranging from 30 to 90 days. In addition, such hypermarket customers were allowed to return products with quality defects and unmarketable goods. During the Track Record Period, we did not have any material product returns from such hypermarket customers.

Our E-commerce Sales

As of the Latest Practicable Date, we sold our products through our website and WeChat account. We also sold our products directly to end consumers through e-commerce platforms, such as Tmall, JD.com and Suning.com. During the Track Record Period, we managed our online sales channels directly so as to better control our costs and manage product delivery times relating to our online sales. Our products sold online are similarly priced as those sold through offline channels to prevent cannibalization of our sales channels. We aim to provide 28 days factory-to-door delivery for online stores operated by ourselves. Revenue from our e-commerce sales amounted to RMB120.7 million, RMB387.2 million, RMB1,085.4 million and RMB179.0 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, accounting for 3.2%, 6.5%, 11.1% and 6.9% of our revenue from dairy products for the same periods, respectively. Although e-commerce sales only contributed a relatively small portion of our revenue from dairy products during the Track Record Period, in light of the increasing importance of e-commerce we believe our online sales channel has great growth potential as it addresses the purchasing habits of younger generations.

Our Customers

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, three, three, nil and three of our five largest customers were distributors, and two, nil, one and nil of our five largest customers were retailers, respectively. During the same period, nil, two, four and two of our five largest customers were e-commerce platforms, which resold our products to end-customers. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, sales to our five largest customers accounted for 4.4%, 6.1%, 8.1% and 6.2% of our total revenue, respectively, and sales to our largest customer accounted for 1.0%, 1.7%, 2.8% and 1.9% of our total revenue, respectively. All of our five largest customers during the Track Record Period were Independent Third Parties except for Guanshan Dairy, in which we entered into an agreement to invest in February 2014 and disposed of in December 2016. Subsequent to the disposal, Guanshan Dairy became an Independent Third Party distributor and was our largest customer in 2017. Save as disclosed above, none

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of our Directors, their respective close associates or any Shareholders holding more than 5% of the issued share capital of our Company held any interest in any of our five largest customers during the Track Record Period.

To the best of our knowledge after due inquiry:

- except for (i) Guanshan Dairy, in which we entered into an agreement to invest in February 2014 and disposed of in December 2016, (ii) Aiben HLJ, a distributor and connected person during the Track Record Period until it became an Independent Third Party in April 2017 due to a change in shareholding, and (iii) Qianqi SH, a connected person that was one of our distributors in 2016, none of our Directors, Shareholders, senior management or their respective close associates held any interest in or was employed by any of our customers during the Track Record Period (including the customers to whom we had provided entrusted loans during the Track Record Period);
- except for Heilongjiang Feihe Fulaien Commerce Co., Limited, of which a former employee of our Group was the legal representative, none of our major customers during the Track Record Period was, or was controlled by, (A) any existing employee of our Group as of the Latest Practicable Date, or (B) any person who had been, for the three years prior to and during the Track Record Period, an employee of our Group; and
- except for the customers to which we had provided entrusted loans during the Track Record Period, there did not exist any financing relationship between our Group or our Directors, Shareholders, senior management or their respective close associates, on the one hand, and any of our five largest customers, on the other hand, during the Track Record Period and up to the Latest Practicable Date.

Entrusted Loans to Customers

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we provided entrusted loans to certain of our customers, with an aggregate of RMB57.8 million, RMB45.7 million, nil and nil in entrusted loans, respectively. Pursuant to the entrusted loan agreements, such loans shall be used for product purchases. All of these entrusted loans have been fully repaid as of January 22, 2018. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, the total amount of interest that we generated from such loans amounted to RMB2.4 million, RMB1.7 million nil and nil, respectively. All of the entrusted loans that we provided to our customers had a term of approximately one year and interest rates of 7% per annum. We provided entrusted loans to customers primarily to increase the yield of our cash on hand and for our customers to meet their short-term cash flow requirements. According to the F&S Report, it is not uncommon in China for infant milk formula producers to provide entrusted loans or other forms of financial assistance to their customers, including distributors. Except for the entrusted loans provided to customers as disclosed in the Document, we did not provide any other financial assistance to our customers during the Track Record Period. There was no employment or family relationship between customers to which we had provided entrusted loans and us, our Directors, Shareholders and senior management or their respective associates. Moreover, to the best of our knowledge after due inquiry, none of our Directors, Shareholders, senior management or their respective close associates provided any financial assistance to our customers during the Track Record Period. We have ceased to provide new entrusted loans to our customers since May 10, 2017 and do not plan to provide any entrusted loans to customers going forward. As advised by our PRC Legal Advisers, our entrusted loan arrangements were in compliance with the relevant PRC laws and regulations.

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For the years ended December 31, 2016 and 2017, we provided 112 entrusted loans to 105 customers. The following table summarizes the registered capital of such 105 customers:

Registered capital	Number of customers to whom we provided entrusted loans in the category
Non-corporate entity	1
No more than RMB0.3 million	15
More than RMB0.3 million – No more than RMB0.5 million	30
More than RMB0.5 million – No more than RMB1.0 million	32
More than RMB1.0 million	27
Total	105

Such 105 customers sold our products in regions including, among others Shandong province, Shanxi province, Hebei province, Henan province, Jiangsu province, Zhejiang province and Anhui province. Six of these distributors were among our top ten distributors in one or more of the years comprising the Track Record Period. After we granted entrusted loans to these customers, total purchases⁽¹⁾ from such customers slightly increased by 3.4% from RMB275.3 million for the three months prior to the receipt of the entrusted loans to RMB284.7 million for the three months following the receipt of the entrusted loans. For those customers who had repaid the entrusted loans as of January 22, 2018, total purchases⁽¹⁾ from such customers increased by 28.0% from RMB492.1 million for the year ended December 31, 2017 to RMB630.0 million for the year ended December 31, 2018 following repaying the entrusted loans. Of the 105 customers to whom we had provided entrusted loans, 90 continued to purchase from us pursuant to our standard distribution agreement after we ceased to grant new entrusted loans on May 10, 2017 and up to the Latest Practicable Date.

Considering that the total amount of the entrusted loans we provided to customers for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 was equivalent to approximately 11.8%, 9.3%, nil and nil of our aggregated revenue generated from such customers for the same periods, respectively, we believe these customers did not materially rely on the entrusted loans for their business. Moreover, considering that (i) the total amount of entrusted loans we provided to customers for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 was equivalent to approximately 1.6%, 0.8%, nil and nil of our total revenue for dairy products for the same periods, respectively, (ii) our revenue generated from such customers for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 accounted for approximately 17.7%, 16.3%, 11.8% and 12.5% of our total revenue for dairy products for the same periods, respectively, and (iii) the total amount of interest that we generated from such entrusted loans for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 accounted for less than 2.0% of our other income and gains for the same periods, respectively, we believe that we would have been able to achieve a similar level of revenue for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 without such entrusted loan arrangements in place and that, moreover, ceasing such entrusted loan arrangements going forward will have a minimal impact on our business, financial condition and results of operations.

(1) Purchases from these customers are not equal to the revenue contribution from such customers because slotting fees are included in the purchases amounts but not in our revenue.

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Pricing

We price our products based on various factors including premium ingredients, market position and competing brands. We conduct thorough market research on a regular basis in order to compete more effectively with our competitors. We price our products similarly throughout all sales channels and we provide all of our sales channels with similar MSRPs to facilitate the standardization and stability of our distribution system. Our sales staff regularly monitors our product prices sold at our retail points of sale to review and evaluate our MSRPs and update our pricing and sales policies as necessary.

Marketing

Through our 57 years of dedicated operation in the infant milk formula market in China and due in part to our marketing techniques, we believe our Feihe brand has become one of the most widely recognized infant milk formula brands among Chinese consumers. Since 2015, we have sought to concentrate our resources to develop and market high-end products by positioning them to be “More Suitable for Chinese Babies” (更適合中國寶寶體質). We have adopted a multi-channel strategy that enables us to market our products to reach a wider consumer base with different purchasing power and habits, including but not limited to the following:

- *Hold face-to-face seminars for in-depth education.* We hold a number of face-to-face seminars, including Shows (秀), both small and large scales events in which sales representatives set up booths with a recreational area to educate parents about our products while their children engage in recreational activities, and Carnival (嘉年華), both small and large scale events to introduce our products in regions where we have low brand presence. Since August 2016, we introduced our Mother’s Love (媽媽的愛) seminars to provide free information to consumers on topics related to pregnancy and childrearing. We utilize this opportunity to educate consumers on our products, complemented with blind taste tests that allow existing and potential customers to experience first-hand the high quality of our products alongside other brands. In 2018, we conducted over 5,500 Mother’s Love seminars, which had over 600,000 attendees in total;
- *Maximize online interactivity with consumers.* We seek to engage our consumers and to be the consumer’s go-to source for all matters related to pregnancy and childrearing, which we believe develops strong brand loyalty and secures recurring sales. We have created user-oriented virtual communities on our WeChat accounts to serve our members. On a weekly basis, we publish customized articles and information to members based on their stage of pregnancy or their child’s age, helping to guide and educate members as well as establishing our brand recognition. Moreover, we have built an online membership system to engage and incentivize consumers, which would enable registered members to gain access to consultancy services provided by nutritionists, doctors or other experts as well as special promotional offers;
- *Targeted and results-driven exposure on media.* We use traditional media to spread our message of “More Suitable for Chinese Babies” to a wider audience, including selective advertising on highly-rated television programs with targeted age-group audiences. We have recently taken a more results-driven approach to ensure that our traditional media advertisements are effectively enlarging our consumer base. For example, we require certain of our advertisers, such as Hunan Province Cable TV’s Happy Camp (快樂大本營)

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television program, to actively promote our brand. The appointment of international celebrity, Zhang Ziyi (章子怡), whom herself is a mother, as our ambassador has also enhanced our brand image in the local and international markets.

We believe it is vital to understand the needs and preferences of consumers. To that end, we have established a customer relationship management (CRM) system, which records data related to the consumers of our products. Such data includes their purchase history, consumption pattern, personal information, their participation in our marketing activities and complaints about our products. Based on the collected data, we are able to conduct more proactive and effective marketing activities, such as pushing short messages and phone calls providing information on baby care advisory services based on the ages of the babies registered with our CRM system and information on our products. For more information on our selling and distribution expenses, see "Financial Information — Description of Key Components of Results of Operations — Selling and Distribution Expenses."

Sales Department

We centralize our sales and marketing functions in Beijing, from where we organize well-coordinated sales and marketing campaigns and activities. As of March 31, 2019, we had more than 2,500 sales staff that allow us to maximize our penetration in different regions. They are primarily responsible for collecting market information, visiting retail channels, organizing sales and marketing events with our local distributors and retailers.

We have built up a department which is responsible for maintaining cooperative relationships with our important offline customers. We assign relevant personnel in such department to keep contact with our important offline customers, and help draw up marketing and promotion plans and strategies for the customers. The department also provides training materials on product sales and distribution as well as relevant training courses for important offline customers. Moreover, the department periodically organizes meetings among some important offline customers for the purpose of experience exchange.

Customer Service

We have set up procedures to handle consumer complaints, including a hotline to receive such complaints. For complaints related to a common product attribute that does not violate national regulations, we will conduct internal product examination and fully explain the nature of such occurrences to consumers. For serious complaints related to product quality, we will conduct full investigation and, where necessary, recall the implicated products and compensate the consumers for their loss. We have established a set of recall control procedures which are to be followed by different departments and our distributors. Pursuant to our recall control procedures, any products recalled by us shall be destroyed or disposed of by our quality control department. We will bear all costs related to any product recall that may be issued. During the Track Record Period, we had no material product recalls. For more information on our quality assurance policies, see "— Quality Control — Our Quality Assurance Program."

Seasonality

Due to the nature of our products, we are not subject to material fluctuations in seasonality.

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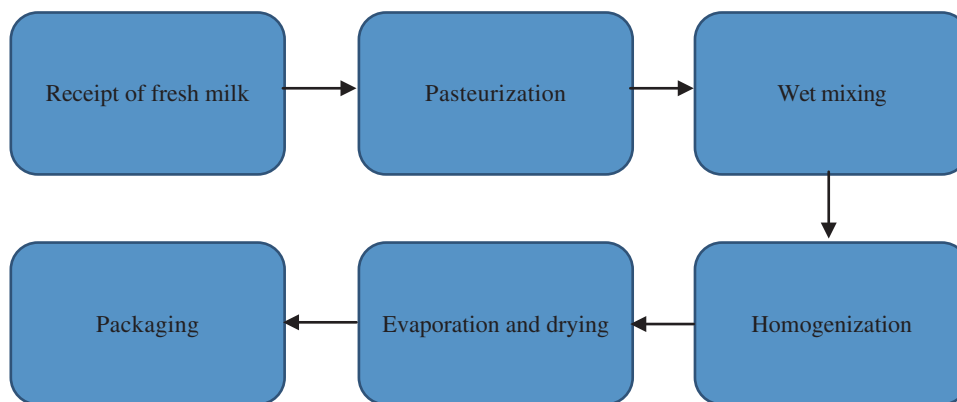
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Production Process

According to the F&S Report, we are one of the leading infant milk formula providers in China that uses fresh milk as the main ingredient in all of its products, and as such we use the wet blending-spray drying production process exclusively to manufacture our infant milk formula products. According to the F&S Report, wet blending-spray drying production process, as compared with the dry blending process, allows our infant milk formula products to have higher solubility in water and more uniformly distributed nutrients in each batch.

We introduced the World Class Manufacturing (WCM) concept in our Gannan Plant in 2018. By applying the WCM concept in the whole production process, we are able to identify minor problems which may result in losses, reduce costs in relation to each step of our production, and improve production efficiency. We plan to introduce such concept to our other plants in the future.

In general, the entire production process for each batch of infant milk formula takes approximately two hours at the soonest to be completed. We have designed our production lines and procured advanced imported equipment and machinery that enables our production process to be highly automated, which we believe decreases risks of contamination and human error and increases production efficiency. The following chart illustrates and describes the major steps in our production process:



- *Receipt of fresh milk.* Fresh milk is pumped into the milk tank with the fresh milk receiving system upon the arrival of milk car. The fresh milk passes through a pipeline and then a heat exchange plate for cooling. This process takes approximately 620 to 630 seconds.
- *Pasteurization.* The fresh milk in the milk tank passes through the milk purification machine, and the solid impurities in the fresh milk is removed. Then the fresh milk passes through the pasteurization pipe for sterilization. This process takes approximately 925 to 945 seconds.
- *Wet mixing.* Various nutrients are added to the fresh milk. In order to ensure that such nutrients are fully dissolved in the fresh milk, wet mixing usually requires a specific mixing time of approximately 3,600 seconds.

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- *Homogenization.* Various oils and fats are evenly distributed in the ingredient milk with shear strength, giving the product a more homogeneous characteristic. This process takes approximately 615 seconds depending on the length of the pipeline.
- *Evaporation and drying.* Evaporation increases the concentration of the ingredient milk to about 50% by removing 30% of water in the homogenized ingredient milk, which takes approximately 450 to 480 seconds. Drying turns the 50% concentrated milk after evaporation into powder form, which takes 615 seconds.
- *Packaging.* The finished product is transferred to our packaging line where it is fed into the can filling line. Filled cans are flushed with inert gas, seamed, labeled, coded and packed into cartons. The finished product then goes through a final quality inspection. This process takes approximately five minutes at the soonest.

Our Existing Production Facilities

As of March 31, 2019, we owned and operated five production facilities to manufacture our products. The following table summarizes key information regarding our production facilities as of March 31, 2019:

<u>Production facility</u>	<u>Year of commencing productions</u>	<u>Gross floor area</u> <i>sq. meters</i>	<u>Main products</u>
Kedong Plant Qiqihar city, Heilongjiang province	2004	30,599.9	Infant milk formula products and liquid milk products
Gannan Plant Qiqihar city, Heilongjiang province	2008	48,129.8	Infant milk formula products
Longjiang Plant Qiqihar city, Heilongjiang province	2014	48,690.2	Infant milk formula products
Feihe Zhenlai Plant Baicheng city, Jilin province	2015	12,670.9	Infant milk formula products
Baiquan Plant Qiqihar city, Heilongjiang province	2016	17,368.2	Adult milk powder

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The following table sets forth the designed annual production capacity, actual production volume and utilization rate of our production facilities for the periods indicated:

Facility	Product type	For the years ended December 31,				For the three months ended March 31,							
		2016		2017		2018		2019					
		Designed annual production capacity ⁽¹⁾ tonnes	Actual production volume ⁽²⁾ tonnes	Utilization rate ⁽³⁾ %	Designed annual production capacity ⁽¹⁾ tonnes	Actual production volume ⁽²⁾ tonnes	Utilization rate ⁽³⁾ %	Designed annual production capacity ⁽¹⁾ tonnes	Actual production volume ⁽²⁾ tonnes	Utilization rate ⁽³⁾ %			
Kedong Plant	Infant milk formula products; adult milk powder	12,000.0	8,995.3	75.0	12,000.0	8,711.0	72.6	12,000.0	11,690.8	97.4	12,000.0	2,150.8	71.7
Gannan Plant	Infant milk formula products; adult milk powder	39,000.0	16,434.0	42.1	39,000.0	26,080.0	66.9	45,600.0	29,802.6	65.4	45,600.0	7,260.2	63.7
Longjiang Plant	Infant milk formula products; adult milk powder	21,000.0	15,451.0	73.6	21,000.0	19,606.4	93.4	28,000.0	25,112.4	89.7	28,000.0	6,484.4	92.6
Feihe Zhenlai Plant	Infant milk formula products; adult milk powder	6,000.0	2,763.0	46.1	6,000.0	3,190.0	53.2	7,200.0	7,206.8	100.1	7,200.0	1,560.3	86.7
Baiquan Plant ⁽⁴⁾	Adult milk powder	-	-	-	-	-	-	7,200.0	1,824.5	101.4	7,200.0	1,843.1	102.4
Total		78,000.0	43,643.3	56.0 ⁽⁵⁾	78,000.0	57,587.4	73.8 ⁽⁵⁾	100,000.0 ⁽⁷⁾	75,637.2	75.6 ⁽⁵⁾	100,000.0 ⁽⁷⁾	19,298.8	77.2
Kedong Plant ⁽⁶⁾	Liquid milk products	8,800.0	6,856.1	77.9	8,800.0	6,067.8	69.0	8,800.0	5,842.6	66.4	8,800.0	1,509.0	68.6
Baiquan Plant ⁽⁴⁾⁽⁶⁾	Soybean powder	5,400.0	1,041.0	38.6	5,400.0	1,308.3	24.2	5,400.0	-	-	5,400.0	-	-

(1) Designed annual production capacity is calculated based on the designed production capacity per hour of our spray dryer, which we believe is the most critical potential bottleneck in our production process. In our calculations, we assumed that (i) we operate 300 days per year at all of our production facilities, and (ii) we operate 20 hours per day.

(2) Production volume means the actual volume of finished products we manufactured for the periods indicated.

(3) Utilization rate is calculated by dividing our actual production volume for each period by the designed production capacity of the same period, and the utilization rate in the first quarter of 2019 is calculated on a pro-rata basis.

(4) The utilization rate of soybean powder in our Baiquan Plant in 2016 is calculated on a pro-rata basis as we commenced production at the Baiquan Plant in June 2016. Baiquan Plant commenced the production of soybean powder in 2016 and ceased such production in 2017 as a result of the change in business development strategies. The utilization rate of adult milk powder in our Baiquan Plant in 2018 is also calculated on a pro-rata basis, as Baiquan Plant commenced the production of adult milk powder in October 2018.

(5) The total utilization rate in 2016 and 2017 was calculated based on the original designed annual production capacity of 78,000 tonnes, and the total utilization rate in 2018 and the first quarter of 2019 was calculated based on the enhanced designed annual production capacity of 100,000 tonnes.

(6) Utilization rates of liquid milk products and soybean powder are calculated separately from infant milk formula and adult milk products, primarily because such two products are produced using different production lines.

(7) The total designed annual production capacity of infant milk formula and adult milk powder products increased by 22,000 tonnes from 78,000 tonnes in 2016 and 2017 to 100,000 tonnes in 2018 and the first quarter of 2019, as we improved and upgraded the production facilities in our Gannan Plant, Longjiang Plant and Feihe Zhenlai Plant in 2018,

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The overall increase in the actual production volume of our Gannan Plant and Longjiang Plant, being the primary production facilities for our high-end infant milk formula products, was in line with the growing demand and sales of our high-end infant milk formula products during the Track Record Period. Specifically, our utilization rate of infant milk formula products at Gannan Plant increased from 42.1% in 2016 to 65.4% in 2018 and remained relatively stable in the first quarter of 2019 primarily in line with the increased market demand for our infant milk formula products. Moreover, our utilization rate at Longjiang Plant increased from 73.6% in 2016 to 89.7% in 2018 and further to 92.6% in the first quarter of 2019 due to the rise in demand for our Zhenai Beihu product series during the same period. The utilization rates of such two plants decreased slightly in 2018 compared with 2017, primarily due to the improvement and upgrade of production facilities in 2018, result in an increase in the designed annual production capacity. Our utilization rate at Feihe Zhenlai Plant was relatively low in 2016 and 2017 primarily because we acquired the Feihe Zhenlai Plant in December 2015 and had not reached full production capacity. The utilization rate of our Feihe Zhenlai Plant reached 100.1% in 2018, primarily because (i) we optimized production allocation among our plants which in turn resulted to shorter maintenance period, and (ii) the actual production volume significantly increased in line with the market demand. We commenced production at the Baiquan Plant in June 2016 for soybean powder and subsequently ceased such production in 2017; we subsequently reconfigured the production line in Baiquan Plant and re-commenced production at Baiquan Plant in October 2018 for adult milk powder. The utilization rate of adult milk powder in our Baiquan Plant amounted to 101.4% in 2018 and 102.4% in the first quarter of 2019 (both on a pro-rate basis), primarily because we allocated the majority of the production of adult milk powder in our Baiquan Plant. The utilization rate of our Kedong Plant remained relatively stable in 2017 and 2018, and further increased significantly to 97.4%, primarily due to the increased market demands for our infant milk formula and adult milk powder products. The utilization rate in our Kedong Plant decreased to 71.7% in the first quarter of 2019, primarily due to the optimization of production allocation among our plants. Going forward, we plan to adjust the product mix manufactured at our production facilities based on the anticipated order volume of different product series with a view to optimize the utilization of our production facilities.

Planned Production Facilities

We regularly upgrade and expand our production facilities to meet our production needs. Our Directors are of the view that such investment in our continued expansion is essential considering that (i) demand for our high-end products, and in particular, our super-premium Astrobaby products, is anticipated to grow at a significantly higher rate than the industry growth rate. Our Astrobaby product series has grown significantly during the Track Record Period at a CAGR of 168.0% from RMB711.5 million in 2016 to RMB5,108.2 million in 2018, compared to the super-premium segment in China which grew at a CAGR of 39.5% from 2014 to 2018; (ii) the utilization rates of our production facilities is anticipated to gradually reach full capacity as we increased production to meet our rapidly growing demand, in particular, the overall utilization rate of our production facilities for infant milk formula products and adult milk powder has increased from 56.0% in 2016 to 75.6% in 2018, and our Longjiang Plant and the infant milk formula production line of our Kedong Plant achieved an annualized utilization rate of 89.7% and 97.4% in 2018, respectively; (iii) the construction of the Kingston Plant, which will have production lines for both cow and goat milk infant formula products, and Tailai Plant, which is a production facility for goat milk infant formula products, is in line with our business strategy to broaden our product offering in China and overseas; (iv) we expect continued rapid growth in demand for our high-end products and we would need to expand our existing facilities to provide additional designed annual production capacity for our high-end infant milk formula products; and (v) although we have not yet reached full capacity at our existing production facilities, we need to lay the groundwork for our

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future success ahead of time given that the construction and expansion of a production facility requires a significant amount of time, typically requiring a minimum of two years from plant design to completion of construction and the commencement of trial production. Our newly-constructed and expanded production facilities are expected to experience a three-year ramp-up period before reaching their full designed annual production capacities. Based on the plans for our planned production facilities as disclosed below, we expect to increase our designed annual production capacity by 129,000 tonnes, when we complete the ramp-up of such facilities to their full designed annual production capacities.

On May 23, 2019, Feihe Harbin entered into the contracts for state-owned construction land use right assignment with relevant competent authorities, to obtain the land use right of two parcels of land in Harbin with a total site area of approximately 362,049 sq.m., with an intention of constructing a new plant. As of the Latest Practicable Date, we had no specific plans for such construction.

Kingston Plant

We invested in a cow milk and goat milk infant formula production facility in Kingston, Ontario. We believe the strategic location of this project will enable us to develop our overseas business. In October 2016, we entered into a strategic cooperation agreement with the Canadian Dairy Commission, pursuant to which the Canadian Dairy Commission agreed to provide various forms of support to us. In particular, the Canadian Dairy Commission has agreed to assist us to ensure that we have the necessary cow milk supply required for production at the Kingston Plant and to purchase or arrange for the purchase of the cream or butter generated from, but not required for, our production activities at the Kingston Plant. Moreover, the Canadian Dairy Commission agreed to provide us with support and industry information in relation to (i) determining a suitable site, (ii) obtaining the necessary approvals and licenses for the Kingston Plant, (iii) conducting clinical trials and research and development activities, (iv) complying with relevant federal and provincial laws and regulations, and (v) negotiating agreement terms with designers and contractors for construction of the Kingston Plant. For goat milk supplies, we seek to source from local commercial dairy goat farms in Canada and were in the preliminary stages of evaluating suitable suppliers as of the Latest Practicable Date.

Our Kingston Plant will feature a research and development facility as well as incorporate smart manufacturing technologies using cloud computing and big data to manage the exacting and complex process of infant milk formula production. We plan to install one production line each for cow milk infant formula products and goat milk infant formula products, each with an expected designed annual production capacity of 20,000 tonnes.

We commenced construction of this facility in the fourth quarter of 2017 and expect to complete the construction in the first half of 2020. For details of the material licenses and permits necessary for our operations in Canada, see “— Licenses and Permits — Canadian Operations.” The total estimated capital expenditure for our Kingston Plant is approximately C\$330.0 million (equivalent to approximately RMB1,711.7 million), of which C\$243.7 million (equivalent to approximately RMB1,225.6 million) was incurred as of March 31, 2019. We expect to fund the remaining capital expenditures by internal funding.

We plan to launch the cow milk and goat milk infant formula products from our Kingston Plant in the Chinese market once the construction of our Kingston Plant is completed, in order to satisfy various consumer demands for differentiated products. In the future, we also plan to expand into the North American and Southeast Asian markets. As of the Latest Practicable Date, we had not engaged any distributors in the North American market, nor had we made any specific plans for such arrangements.

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Tailai Plant

We invested in the construction of a Tailai Plant, located in Tailai county, Heilongjiang province, for the production of goat milk infant formula and goat milk powder products. As of the Latest Practicable Date, Tailai Plant was still under construction. On June 21, 2017, we procured land in Tailai county for our Tailai Plant and commenced construction in August 2017. For more information, see “— Properties — Owned Properties — PRC.” Upon completion in the second half of 2019, the Tailai Plant is expected to have a designed annual production capacity of 20,000 tonnes. The total estimated capital expenditure for our Tailai Plant is approximately RMB400.0 million, of which RMB244.9 million was incurred as of March 31, 2019 and we expect to fund the remaining capital expenditure by internal funding.

Jilin Plant

We invested in the construction of a Jilin Plant, located in Zhenlai county, Jilin province, for the production of infant milk formula products. As of the Latest Practicable Date, Jilin Plant was still under construction. Upon completion in the first half of 2020, the Jilin Plant is expected to have a designed annual production capacity of 20,000 tonnes. The total estimated capital expenditure for Jilin Plant is approximately RMB400.0 million, of which RMB99.1 million was incurred as of March 31, 2019 and we expect to fund the remaining capital expenditure by internal funding.

Expansion of Kedong Plant

We commenced expansion of our Kedong Plant in October 2018 by adding a new production line with an increase in designed annual production capacity from 12,000 tonnes to 52,000 tonnes. We expect to have a designed annual production capacity of 32,000 tonnes in the first year of commencing operations, 40,000 tonnes in the second year and the full designed annual production capacity of 52,000 in the third year. As of the Latest Practicable Date, the expansion of Kedong Plant was still in progress. We expect to complete the construction of the new production line in the first half of 2020. During the construction period, the current operations at the Kedong Plant were not affected. The total estimated capital expenditure for the expansion of our Kedong Plant is approximately RMB530.0 million, of which RMB75.4 million was incurred as of March 31, 2019 and we expect to fund the remaining capital expenditure by internal funding.

Expansion of Longjiang Plant

We commenced expansion of our Longjiang Plant in May 2019 by adding a new production line with an increase in designed annual production capacity from 28,000 tonnes to 59,000 tonnes. We expect to have a designed annual production capacity of 43,500 tonnes in the first year of commencing operations, 49,700 tonnes in the second year and the full designed annual production capacity of 59,000 in the third year. As of the Latest Practicable Date, the expansion of Longjiang Plant was still in progress. We expect to complete the construction of the new production line in the first half of 2021. During the construction period, the current operations at the Longjiang Plant were not affected. The total estimated capital expenditure for the expansion of our Longjiang Plant is approximately RMB442.8 million, of which RMB37.2 million was incurred as of March 31, 2019 and we expect to fund the remaining capital expenditure by internal funding.

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Our Equipment and Machinery

We invest significantly in our production equipment and machinery because we believe the quality of our equipment and machinery affects the quality of our products. We import most of the key machinery used in the production process, such as spray dryers and pasteurizers, from internationally-renowned companies. We also procure a number of high-quality packaging lines and other ancillary equipment from domestic suppliers.

We purchase and own all of our production equipment and machinery. Our major production equipment and machinery have estimated average useful lives of ten to 14 years and are depreciated at an annual rate of 7% to 10%. Depreciation is calculated on a straight-line basis to write off costs of each item of equipment and machinery to its residual value over its estimated useful life. The remaining useful life of such equipment and machinery is approximately eight years.

We clean our production equipment and machinery on a daily basis and between the manufacture of different product types. We also regularly service, maintain and repair our production equipment and machinery, replace consumable parts and components subject to wear and tear, as well as inspect our equipment and machinery according to maintenance plans. Our production department is responsible for monitoring and maintaining our production equipment and machinery.

SUPPLIERS AND RAW MATERIALS

Our Raw Materials

The principal raw material for our infant milk formula products is fresh milk. We also procure other raw materials, including whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose, for our infant milk formula products. We mainly source our raw materials from leading international brands. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we incurred raw material (including packaging materials) costs of RMB1,441.9 million, RMB1,826.0 million, RMB2,607.6 million and RMB815.0 million, respectively, representing 85.3%, 87.1%, 77.3% and 82.4% of our cost of sales, respectively. We may not be able to secure favorable prices to protect us against the risk of price fluctuations, or pass on increased costs to our customers. See "Risk Factors — Risks Relating to Our Business — Our operating results may be materially and adversely affected by changes in prices and quality of raw materials." For our control measures on inventory of raw materials, see "— Inventory Management." See "Financial Information — Financial Risks — Sensitivity Analysis" for an analysis on the effect of fluctuations in the price of raw materials on our net profit during the Track Record Period.

Fresh Milk

Fresh milk is the primary raw material that we use in our infant milk formula production. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our fresh milk costs amounted to RMB569.9 million, RMB666.4 million, RMB888.1 million and RMB266.7 million, respectively, accounting for 33.7%, 31.8%, 26.4% and 27.0% of our cost of sales, respectively.

We believe the quality of fresh milk that we procure is one of the most important factors in producing high quality infant milk formula. As such, we are extremely selective in our fresh milk procurement. We believe the highest-quality premium fresh milk in China is produced by dairy farms

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located in northern Heilongjiang province in China, 47 degrees north latitude. The dry and cold climate, fertile soil, sparse population and clean environment make the region highly suitable for raising dairy cows. In addition, low temperatures inhibit bacteria growth in the fresh milk that we procure. We have established long-term relationships with suppliers located in this region, including YST Group and other dairy farms, to supply our fresh milk. During the Track Record Period, we procured fresh milk from over 20 suppliers other than YST Group.

Fresh Milk Procurement from YST Group

During the Track Record Period, YST Group was our largest supplier. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019 purchases from YST Group amounted to RMB456.4 million, RMB531.2 million, RMB762.9 million and RMB182.4 million, respectively, equivalent to 84.2%, 83.5%, 86.8% and 88.1% of our total fresh milk procurement costs, respectively. For the same periods, the average price per tonne of fresh milk we procured from YST Group was approximately RMB3,986.8, RMB3,965.3, RMB3,933.7 and RMB4,069.8, respectively. See "Risk Factors — Risks Relating to Our Business — We rely on a limited number of dairy producers as our major suppliers of fresh milk, and any shortage or interruption in supply from such suppliers could delay our production and reduce sales of our products."

Our Historical Relationship with YST Group

We have developed a stable, mutually beneficial business relationship with YST Group since it commenced production operations in 2010. Our Controlling Shareholder, Chairman and Chief Executive Officer, Mr. Leng, is a long time business partner of the founder of YST Group. Early in the development of YST Group, its founder sought advice and assistance from us with respect to various matters in relation to YST Group's business operations such as the choice of farm location, construction and operation of dairy farms primarily due to our experience, reputation and business network in the dairy market in Heilongjiang province. Since 2010, we have been one of YST Group's top five customers.

Prior to 2011, we built two dairy farms near each of our Kedong Plant and Gannan Plant to produce and supply fresh milk for our infant milk formula production business. In 2011, we made the strategic decision to focus on the production and sales of infant milk formula products, which is our core business. Considering our strategic decision, our relationship with YST Group and YST Group's expansion strategy at the time, we entered into a sale and purchase agreement with Ruixinda (a member of the YST Group) on August 1, 2011 to sell the entire equity interests in each of the Kedong Feedlots and Gannan Feedlots (which own our dairy farm located in each of Kedong and Gannan, respectively) to Ruixinda for a total consideration of RMB849.0 million (the "**YST Sales Agreement**"). Such consideration represented (i) the RMB114.5 million registered capital of Kedong Feedlots and Gannan Feedlots as of June 30, 2011 and (ii) the RMB734.5 million outstanding receivables owned by Kedong Feedlots and Gannan Feedlots to us.

Under the YST Sales Agreement, we received partial consideration in the form of cash payment of RMB114.5 million from Ruixinda, and the remaining consideration under the YST Sales Agreement in the form of fresh milk supplies valued at RMB734.5 million to be provided by YST Group to us for a period of 18 months. Considering that we needed to secure stable supplies of high quality fresh milk after selling our dairy farms, we believe that such arrangement was commercially beneficial to us given that: (i) we are familiar with the operations of such dairy farms; (ii) we believe the milk produced by YST Group is of high quality; and (iii) we have a strong business relationship with YST Group.

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To ensure that we are able to continue to procure the level of fresh milk supplies required for our operations, on August 1, 2011, in connection with the YST Sales Agreement, we entered into an exclusive fresh milk supply contract with Ruixinda, Kedong Feedlots and Gannan Feedlots (the "**Exclusive Fresh Milk Supply Contract**"), pursuant to which Kedong Feedlots and Gannan Feedlots agreed to provide fresh milk supplies valued at RMB122.4 million in total on a quarterly basis for 18 months. During this 18-month period, before YST Group satisfies its fresh milk supply obligation to us each quarter, it shall not provide fresh milk to any other third party. As part of our normal commercial activities, we regularly communicated with YST Group to adjust the level of fresh milk supply to match our needs.

On April 25, 2013, we entered into a supplemental milk supply agreement with Ruixinda Kedong Feedlots and Gannan Feedlots (the "**Supplemental Milk Supply Agreement**"), which replaced the Exclusive Fresh Milk Supply Contract and gave us priority to purchase fresh milk from Ruixinda Kedong Feedlots, Gannan Feedlots, and any of their respective subsidiaries under the same conditions as those governing its agreements with other dairy products manufacturers. Under the Supplemental Milk Supply Agreement, the then-outstanding consideration of RMB532.3 million shall be satisfied in the form of fresh milk supplies valued at RMB48.4 million in total on a quarterly basis for 33 months starting April 1, 2013 until December 31, 2015, or cash payments.

As of December 31, 2015, YST Group had performed all of its obligations under the YST Sales Agreement, the Exclusive Fresh Milk Supply Contract and the Supplemental Milk Supply Agreement.

Existing Supply Agreements with YST Group On December 14, 2015, we entered into a three-year master framework supply agreement with YST Group (the "**Three-Year Framework Agreement**") to continue our strategic business relationship with YST Group. This framework agreement is effective from 2016 to 2018. We enter into separate one-year fresh milk supply agreements, the terms of which are discussed below.

On May 12, 2017, we entered into a new three-year legally binding master framework supply agreement with YST (the "**New Framework Agreement**") to replace the Three-Year Framework Agreement, with a view to securing long-term and stable supplies of high-quality fresh milk for our operations. This New Framework Agreement was approved by the independent shareholders of YST on July 17, 2017. See "Risk Factors — Risks Relating to Our Business — We rely on a limited number of dairy producers as our major suppliers of fresh milk, and any shortage or interruption in supply from such suppliers could delay our production and reduce sales of our products." The following are major terms of the New Framework Agreement:

- *Order placement.* We may submit unofficial written orders to YST Group from time to time during the term of the framework agreement. Each order shall include information on the purchase volumes, delivery time and place, among other details. Within five days of receiving a written order, YST Group shall confirm the purchase price with our Group and notify us in writing of their confirmation of our order, pursuant to which we may enter into separate purchase order with them.
- *Priority supply.* YST Group shall give us priority access to purchase fresh milk, under the same condition, in the event that they receive orders from us and their other customers at the same time.

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- *Pricing.* The purchase prices shall be negotiated by us and YST Group on an arm's length basis, and the following factors shall be considered: (i) the latest indicative fresh milk price released by Heilongjiang Animal Husbandry & Veterinary Bureau (黑龍江省畜牧獸醫局), (ii) previous inspection results in relation to the safety and quality requirements, including, among others, microbe count, the level of protein content and fat content, and the freezing point of fresh milk, and (iii) prices of the same products sold by YST Group to third parties. Such price determination basis may be adjusted from time to time through negotiations between us and YST Group according to market conditions on an arm's length basis.
- *Payment.* The payment terms shall be set forth in each purchase order and the consideration for each purchase order shall be settled with a monthly lump sum payment, with a credit term of no more than one month, during which no interest will accrue.
- *Non-exclusivity.* The New Framework Agreement shall not affect our and YST Group's ability to deal with third parties.
- *Term.* The initial term of the New Framework Agreement shall commence from the date of approval by the independent shareholders of YST to December 31, 2019 and may be extended for a period of three years after the expiry of the initial term, subject to the approval by the independent shareholders of YST.
- *One-year fresh milk supply agreements.* Before the end of each calendar year during the term of the New Framework Agreement, we shall enter into one-year fresh milk supply agreements with YST Group. Each one-year fresh milk supply agreement shall include the following information: (i) fresh milk procurement volume for the year, (ii) price determination basis for the year, (iii) quality requirements, (iv) inspection and payment arrangements, and (v) transportation method.
- *Conflict of terms.* The one-year fresh milk supply agreements and separate purchase orders supplement the terms of the New Framework Agreement. The New Framework Agreement shall govern in the event of any conflict of terms between the New Framework Agreement, the one-year fresh milk supply agreements and separate purchase orders.
- *Amendment and termination.* Each party is entitled to amend the New Framework Agreement at any time through written agreement. Each party is entitled to terminate the framework agreement with a three-month prior written notice. In addition, each party is entitled to terminate the framework agreement at any time by written notice in the event of any of the following: (i) the other party breaches the contract, and does not rectify the breach or does not take adequate, effective and timely action to eliminate the breaching consequences or to compensate the complying party within 30 days after the complying party sends out a written notice; (ii) the other party is under liquidation and such liquidation is not revoked in 14 days; and (iii) the other party closes operation for 14 days.

The New Framework Agreement will expire on December 31, 2019. We consider there is no material impediment for us to renew the New Framework Agreement.

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During the Track Record Period, we also entered into separate one-year fresh milk supply agreements with the relevant entities in YST Group to procure fresh milk produced by the dairy farms held by such entities. Each of these one-year fresh milk supply agreements sets forth the detailed commercial terms of the fresh milk procurement under the relevant one-year fresh milk supply agreement, and such terms are negotiated and determined on a case-by-case basis. The major terms of these one-year fresh milk supply agreements are set forth below:

- *Purchase volume.* We may set out the daily purchase volume from YST Group in the fresh milk supply agreements or notify YST Group of our fresh milk demand separately. Generally the actual purchase volume may be adjusted by negotiation between both parties and may fluctuate based on the actual fresh milk supply available from YST Group.
- *Pricing.* The purchase price shall be determined based on market price.
- *Payment.* Generally, we settle payments with YST Group once a month or twice a month depending on the terms of the agreement and YST Group grants us a credit period of one month.
- *Term.* The term for each of our fresh milk supply agreements is for one year.
- *Quality.* Each batch of fresh milk supply shall meet the National Raw Milk Quality Standards (國家生鮮乳品質標準) and our quality standards. Each batch of fresh milk supplied by YST Group to us must be produced by YST Group. YST Group must maintain the hygiene and safety conditions of its production site.
- *Cause for rejection of fresh milk.* We have the right to refuse acceptance of fresh milk from YST Group if the fresh milk: (i) fails to pass safety and quarantine inspections; (ii) is produced by milking cows that gave birth within seven days of production; (iii) is produced by milking cows that were undergoing antibiotic treatment when milked or had been milked within a certain period after receiving such treatment; (iv) is produced by milking cows that were infected by mastitis, bovine tuberculosis, bacillus bacteria or other infectious diseases, (v) is spoiled or adulterated; (vi) has not been refrigerated for more than two hours; (vii) does not comply with international fresh milk purchase standards; (viii) fails to meet other safety and quality standards.
- *Delivery and acceptance.* Each order shall be delivered by YST Group directly to our production facilities and deemed accepted by us when we provide YST Group with a quality inspection report.
- *Liability.* We may decline to accept any supplies from YST Group for any of the specified reasons for rejection. We are required to pay a penalty of RMB5,000 for each occurrence of rejecting YST Group's supplies without cause. If YST Group refuses to sell us fresh milk, they are required to pay a penalty of RMB5,000 to us for each day that they refuse to sell to us.
- *Quality disputes.* If we find any quality defects during inspection and YST Group contests our findings, YST Group may request a re-inspection and we would be required to carry out such re-inspection in accordance with the relevant procedures. If YST Group continues to contest the re-inspection results, both parties agree to submit the sample supply to a third-party agency for further inspection.
- *Amendment and termination.* Each party is entitled to terminate or amend this agreement through negotiation.

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We believe that our fresh milk supply agreements with YST Group are, and have been, entered into on normal commercial terms that are fair and reasonable. Moreover, we believe that our arrangement to procure significant amounts of fresh milk from YST Group is commercially reasonable because we are able to secure a stable and high quality supply of fresh milk from a trusted supplier with dairy farms located in close proximity. Considering our long-term, mutually beneficial business relationship with YST Group, we believe that our relationship with YST Group will remain strong in the future.

Availability of Other Fresh Milk Suppliers

Milk is a dairy commodity. While there is a general under-supply of high-quality fresh milk in China, Heilongjiang province is a large milk producer and there is an over-supply of high-quality fresh milk in Heilongjiang province, according to the F&S Report. Qiqihar city, where most of our production facilities are located, has more milking cows than any other city in the province, according to the F&S Report. According to the F&S Report, other than YST Group, there are over 75 alternative dairy farms that would be able to supply fresh milk that meet our quality standards within one to three hours driving distance from our production facilities. Two of such dairy farms are comparable in operations scale as YST Group with over 10,000 milking cows, and the rest are mid-sized dairy farms with over 300 milking cows and smaller family-run dairy farms, according to the F&S Report. Based on our estimate, the alternative suppliers in our vicinity have a fresh milk supply capacity of more than 300 tonnes in total per day, which we believe is sufficient for our operations.

In the past, we have limited our procurement from such suppliers because we have already developed a long-term and stable business relationship with YST Group and procuring from one or a few suppliers than from a number of smaller-scale dairy farms is more efficient from a management and quality control perspective. Nonetheless, we have in place a contingency plan in the event YST Group is unable to provide fresh milk to us in the amount and quality we require. We regularly conduct market research to identify the dairy businesses, large-scale dairy farms and other fresh milk sources near us. We have compiled a list of alternative fresh milk suppliers whom we may procure from and regularly update information regarding their production volume, product quality and financial condition, among other things. Given the availability of alternative fresh milk suppliers that meet our quality standards and the current excess supply of fresh milk on the market, in the unlikely event that we are unable to secure fresh milk from YST Group, we believe we would be able to procure sufficient high-quality fresh milk supplies without any material and adverse impact on our production operations. Moreover, because milk prices are relatively transparent, we believe procuring fresh milk from alternative suppliers would not significantly increase our costs.

Fresh Milk Procurement from Other Dairy Farms

During the Track Record Period, we also procured fresh milk from over 20 other third-party fresh milk suppliers at fair market prices in line with government policies to support local smaller-scale milk suppliers. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, purchases of fresh milk from dairy farms other than YST Group amounted to RMB80.4 million, RMB103.5 million, RMB116.2 million and RMB24.7 million, respectively. These suppliers are mainly local dairy farms located close to our production facilities with whom we have established stable business relationships. We generally enter into one-year framework agreements with our other fresh milk suppliers with terms and conditions similar to those with YST Group. With respect to the volume of fresh milk procured from these dairy farms, we generally agree to (i) procure at least 80% to 90% of the milk that meets our standards that such suppliers are able to supply on a daily basis, or (ii) procure amounts to be negotiated between the parties. We settle payments with such suppliers once every month.

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Other Raw Materials

For the production of our infant milk formula products, we also procure a variety of other ingredients, such as whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose. During the Track Record Period, we generally procured internationally-renowned brands of whey powder and lactose, among other ingredients, directly from the manufacturer or from domestic trading companies and sourced other ingredients from domestic suppliers. We generally procure non-fat milk powder manufactured in Australia and New Zealand from international suppliers and domestic trading companies. We generally procure such ingredients by entering into framework purchase agreements with terms ranging from a few months to up to two years. The price, purchase volume and delivery time are set forth in each framework purchase agreement or in individual purchase orders. Under the framework purchase agreements, the supplier shall provide inspection reports for each batch of supplies and international inspection reports and customs forms for imported supplies upon delivery. The supplier shall also provide a comprehensive inspection report issued by a third-party inspection agency each year. If we detect any defects in the supplies, we shall have the right to return such supplies and obtain damages for our losses, replace supplies that have less material defects, subject to our further inspection, or implement fines or obtain price discounts from suppliers on supplies with minor defects. We require suppliers to adhere to relevant laws and regulations and our internal policies with respect to raw material quality, packaging and labeling. Generally, we make payment to our suppliers within 45 to 90 days. In the event of any delivery delay, the supplier shall pay us liquidated damages equal to 0.03% of the cost of the delayed supplies for each day of the delay in delivery, with the total amount of liquidated damages not to exceed 5% of the total cost of the delayed supplies. In the event of any delay in payment, we shall pay the supplier liquidated damages equal to 0.03% of the delayed payment for each day of delay, with the total amount of liquidated damages not to exceed 5% of the total delayed payment. During the Track Record Period, we did not experience any shortages, delays in delivery or quality issues with respect to supplies of our other raw materials that had a material impact on our operations.

Packaging Materials

We procure packaging materials such as cans, cardboard boxes and packaging films primarily at market rates directly from domestic suppliers.

Our Suppliers

We have maintained stable and long-term relationships with our major suppliers. We procure fresh milk from qualified suppliers selected by our quality control department and other raw materials from qualified suppliers selected by our procurement department through a strict evaluation process. We consider a number of factors in our evaluation, including but not limited to the supplier's background, reputation, experience and financial condition, and the quality and price of their supplies. We conduct thorough market research, requests recommendations from relevant industry associations and conducts product sampling and site visits. We conduct annual on-site inspections on our major qualified suppliers and evaluate our qualified suppliers on an annual basis. For more information on the quality control of our raw materials, see "— Quality Control." According to the F&S Report, other than YST Group, there are over 75 alternative dairy farms that would be able to supply fresh milk that meet our quality standards within one to three hours driving distance from our production facilities. See "— Suppliers and Raw Materials — Our Raw Materials — Fresh Milk — Availability of Other Fresh Milk Suppliers." During the Track Record Period, we did not experience any material shortage of raw material supply or have any material disputes with our suppliers.

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For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, purchases from our five largest suppliers amounted to RMB696.3 million, RMB1,001.9 million, RMB1,363.1 million and RMB338.5 million, respectively, equivalent to 49.2%, 50.6%, 49.6% and 45.5% of our total purchase, respectively. During the same period, purchases from our largest supplier, YST Group, amounted to RMB456.4 million, RMB531.2 million, RMB762.9 million and RMB182.4 million, respectively, equivalent to 33.7%, 28.6%, 28.1% and 22.7% of our total purchase, respectively. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, three, three, two and two of our five largest suppliers were suppliers of our other raw materials, respectively.

Since June 2015, Mr. Gao Yu, one of our non-executive Directors, has held a certain number of shares in YST, our largest supplier during the Track Record Period, which amounted to approximately 0.01% of the outstanding shares of such supplier. Save as disclosed above, none of our Directors, senior management, their respective close associates, or any Shareholders holding more than 5% of the issued share capital of our Company held any interest in any of our five largest suppliers for the three years ended December 31, 2018.

Entrusted Loans to Suppliers

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, we provided RMB32.0 million, RMB54.0 million, nil and nil in entrusted loans to two, eight, nil and nil of our suppliers, respectively, which were fully repaid as of December 18, 2017. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, the total interest we collected on such loans amounted to RMB0.6 million, RMB1.1 million, nil and nil, respectively. The entrusted loans that we provided to our suppliers had a term of approximately one year or less and interest rates of 7% per annum. We provided such entrusted loans primarily to increase the yield of our cash on hand and for our suppliers to meet their short-term cash flow needs. We have ceased to provide new entrusted loans to our suppliers since July 2017 and do not plan to provide any entrusted loans to suppliers going forward. As advised by our PRC Legal Advisers, our entrusted loan arrangements were in compliance with the relevant PRC laws and regulations.

RESEARCH AND DEVELOPMENT

We place strong emphasis on research and development, which we believe is critical to maintaining our competitive advantage in the infant milk formula market. Our research and development efforts are designed to address the demands and requirements of our consumers. During the Track Record Period, our research and development efforts focused on continuing to improve our products in two key areas - making our products closer to breast milk of Chinese mothers and more suitable for Chinese babies' biological composition.

To that end, we have undertaken a number of research initiatives, including building a breast milk data bank for Chinese mothers, developing formulas for infants with special needs, conducting in-depth clinical trials and testing of new products and developing new and advanced macronutrients and manufacturing techniques. We had a strong in-house research and development team of 62 personnel as of the Latest Practicable Date, of which four held Ph.D.s and 23 held Masters degrees in nutrition, food sciences, biology or medicine, among others. Our in-house research and development team is led by Dr. Zhao Xuejun, who is our Chief Technology Officer with a Ph.D. degree in Medicine, together with Dr. Jiang Shilong, who is a certified senior engineer with a Ph.D. degree in agrobiological and bio-resources and over ten years of experience in the dairy industry. We also collaborate with leading international research institutions, as well as participate in national research programs for joint research projects and product development.

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According to the F&S Report, we were one of the first infant milk formula providers in China to successfully complete clinical trials on babies. In 2010, we worked with the Hunan Provincial Center for Disease Prevention and Control (湖南省疾病預防控制中心) to conduct clinical trials over a span of three months to study the health benefits to infants by adding OPO structured fat and other ingredients to our products. Upon measuring fatty acid and calcium content in urine and stool samples, the clinical trials showed that there were no significant differences in consuming our products and consuming breast milk. Stool samples for infants that consume our products became noticeably more similar to that of infants that consume breast milk, indicating that our products are able to promote digestive health and nutrient absorption as well as breast milk. As one of the few infant milk formula providers to conduct clinical trials on Chinese babies, we believe that we are better positioned to ensure that our products are more suitable for Chinese babies' biological composition.

We continue to contribute to the establishment of a comprehensive Chinese breast milk database. Our ongoing participation in this effort allows us to continue our extensive research on the diet and breast milk composition of Chinese mothers across different regions, with the aim of improving our infant milk formulas to meet the nutritional needs of infants in China during their most critical development stages and simulating breast milk as much as possible. In addition, we have conducted comparative studies on the breast milk composition of Chinese mothers and certain other populations to identify key differences in the composition and proportions of essential ingredients for the growth and development needs of infants in China. By analyzing the breast milk samples collected and based on comparative studies of breast milk from different populations, we have adjusted the levels of essential nutrients in our infant milk formula, such as fatty acids and other nutrients, by adding premium ingredients such as OPO structured fats, hydrolyzed whey protein, probiotics and alpha-lactalbumin, to better imitate breast milk and to meet the nutritional needs and promote the digestive health of Chinese babies.

Our infant milk formulas are result of extensive research and design using high-quality fresh milk and other ingredients without the use of any artificial flavoring. For example, we use lactose in our products. Lactose is a naturally-occurring sugar in breast milk that aids in the absorption of other minerals, which in turn benefits the physical development of infants. Moreover, because we use locally-sourced fresh milk to manufacture our products, our products are able to retain the natural and fresh taste and aroma of milk. We do not need to add artificial flavoring such as vanillin to mask or enhance certain flavors.

According to the F&S Report, as of the Latest Practicable Date, we were the sole infant milk formula provider that participated in the National 863 Program, also known as the State High-technology Development Plan, (國家高技術研究發展計劃), a program funded by the PRC Government intended to stimulate the development of advanced technologies in key technological fields. We were commissioned by the National Institute for Nutrition and Health under the Chinese Center for Disease Control and Prevention (中國疾病預防控制中心營養與健康所) to undertake a National 863 Program research topic to develop nutrient-fortified foods that promote physiological growth and development.

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As of the Latest Practicable Date, we are in the process of further developing milk products for infants and adults, with more than ten products in the pipeline. For example, we are developing a new infant milk formula product, which is designed to contain abundant phospholipid and be beneficial to the growth and development of infants' brains. We are also developing new product using fresh milk from certain pasture, which naturally contains more selenium and DHA. Moreover, we are developing a hypoallergenic infant milk formula for infants that are lactose intolerant. We intend to explore opportunities to launch such products, some of which were undergoing review by relevant government authorities as of the Latest Practicable Date.

In 2014, we established the Feihe Nutrition Laboratory in Boston, Massachusetts at the Beth Israel Deaconess Medical Center of Harvard Medical School (BIDMC) through a US\$4.5 million contribution to engage in nutrition research and teaching activities. The Feihe Nutrition Laboratory leveraged BIDMC's position as a leading teaching hospital in the United States and its focus on nutrition and health to conduct scientific research on the nutritional needs of infants and adults. The Feihe Nutrition Laboratory engaged leading scientists in glycoscience, neurology, cytology and nutrition to conduct research on nutritional needs for infants and adults. Feihe Nutrition Laboratory has made numerous scientific contributions, which we believe provide scientific evidence to support the health benefits of our products and empowers consumers to make educated choices when selecting infant milk formula products.

In recent years, we also engaged in a number of research projects with various research entities, including projects to study and build a Chinese breast milk database, to develop infant milk formula that closely resemble breast milk of Chinese mothers. The ownership arrangements of intellectual property developed jointly through collaborations with entities may differ based on the terms of the relevant agreements. During the Track Record Period, we did not have any intellectual property ownership disputes with our research collaborators. Depending on commercial considerations, we may apply for patent protection for certain of our products and technologies. As of the Latest Practicable Date, we had 16 patent applications in China, all of which were related to our research and development results. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our research and development costs amounted to RMB13.8 million, RMB14.7 million, RMB108.9 million and RMB29.6 million, respectively. Our research and development costs are charged to our statements of profit and loss as incurred. We expect our investment in research and development to continue at levels in line with our plans to develop new products and enhance our existing products.

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QUALITY CONTROL

Overview

The quality, safety and reliability of our products are vital to our continued success, since most of our products are designed for consumption by infants and babies. We have instituted a comprehensive quality assurance program that is managed and implemented by our quality control department in order to ensure that our products are of the highest quality and safety standards, and comply with the relevant PRC laws and regulations.

Our Quality Control Department

As of the Latest Practicable Date, our quality control department comprised 290 employees. Our quality control department is led by Ms. Luo Huarong, who has over ten years of food safety and quality control management experience. Ms. Luo served various management roles in quality control at international food and drink companies before joining us in 2014. Members of our quality control department are stationed at each of our production facilities to supervise the implementation of our quality assurance program, evaluate the quality of our products and the conditions of our production environment and further optimize our quality control processes. We also station our quality control staff at some of our suppliers' dairy farms and production facilities to supervise their production operations and to inspect the quality of raw materials. We regularly monitor changes in quality control and food safety PRC laws, regulations and national standards to ensure the compliance of our products. Generally, we require members of our quality control department to have educational backgrounds in food science, nutrition, chemistry or other relevant fields, hold technical qualifications as required by local regulations and have at least five years of food quality control management experience.

Our Quality Accreditations

The following table sets forth the major accreditations we have received for our quality control program:

<u>Type of Accreditation</u>	<u>Year of Latest Renewal</u>	<u>Production Facility</u>	<u>Description</u>
GMP	2019	Kedong Plant	Good manufacturing practices are the practices required in order to conform to the guidelines recommended by agencies that control authorization and licensing for manufacture and sale of food, drug products, and active pharmaceutical products to assure that the products are of high quality and do not pose any risk to the consumer or public.

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Type of Accreditation	Year of Latest Renewal	Production Facility	Description
ISO9001	2018	Kedong Plant	A set of standards and guidelines for quality management systems and represents an international consensus on good quality management practices.
FSSC	2018	Kedong Plant	A management system in which food safety is addressed through the analysis and control of biological, chemical and physical hazards from production, procurement and handling of raw materials, to manufacturing, distribution and consumption of the finished product.
PEOP	2016	Kedong Plant, Gannan Plant and Longjiang Plant	PEOP (Protected Eco-Origin Products) certificate demonstrates that our products that are PEOP certified are authenticated and traceable at each stage of the supply chain, and that we adopt safe, sustainable and eco-conscious practices in our fresh milk procurement process, including by sourcing from responsibly managed dairy farms and meeting stringent safety and environmental requirements.

Our Quality Assurance Program

Our operations comply with the applicable PRC laws and regulations in relation to infant milk formula manufacturing and sale, and are subject to annual, quarterly and monthly inspections by various government agencies. To ensure compliance and the high quality of our products, we apply 25 comprehensive quality control procedures with over 300 checkpoints from the inspection of feed used by our raw materials suppliers, throughout our production process to the delivery of finished products. The main features of our quality assurance program are described below.

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Raw Material Quality Control

We believe the quality of our raw materials is critical to the high quality of our products. For each batch of raw materials, our quality control personnel takes a sample and conducts inspections using advanced testing apparatus to analyze nutrient contents and ensure that the composition and nutritional values of such raw materials meet our standards.

Fresh milk is the main ingredient in our infant milk formula products and we take extra quality control measures to ensure the high quality of our fresh milk supply. We station our quality control department at our major fresh milk suppliers' production sites to regularly inspect the hygiene and safety conditions of the production sites of such suppliers, the quality of feed materials and the health conditions of dairy cows. Our suppliers' dairy farms are located in close proximity to many of our production facilities, which enables us to process the fresh milk that delivered to us within two hours of milking at the soonest to preserve the fresh taste of milk in our products and minimize the risk of product contamination. We generally require our fresh milk suppliers to meet the following key quality indicators, among others, which are more stringent compared to industry standards in Europe and China:

	<u>Our standards</u>	<u>PRC national standards⁽¹⁾</u>	<u>European standards⁽²⁾</u>
Aerobic plate count ⁽³⁾	≤10,000/mL	≤2,000,000/mL	≤100,000/mL
Somatic cell count ⁽³⁾	≤200,000/mL	N/A	≤400,000/mL
Protein content	≥3.4%	≥2.8%	≥3.2%
Fat content	≥4.2%	≥3.1%	≥3.7%

(1) As set forth in the National Food Safety Standard - Fresh Milk (食品安全國家標準-生乳) published on March 26, 2010.

(2) As set forth in the Fresh Milk Quality Standards in Council Directive 92/46/EEC adopted on June 16, 1992 in the EU. Indicators are for freshly milked raw milk and before treatment.

(3) Aerobic plate count and somatic cell count are two of the major indicators used to determine safety quality of fresh milk. Generally, a lower somatic cell count indicates better animal health, while a lower aerobic plate count indicates improved sanitation. The PRC national standard does not impose a maximum somatic cell count requirement.

As a result of the stringent quality control measures in place at our suppliers' dairy farms and at our own production facilities, we did not encounter any quality defects in our fresh milk supply during the Track Record Period.

Production Process Quality Control

Our highly automated production lines eliminate contact between our products and the external environment from the time fresh milk is delivered to us until the finished product is made in order to lower risk of contamination. Moreover, we have implemented numerous testing procedures at various checkpoints throughout the production process to ensure that our raw materials, works in progress and finished products meet quality standards throughout the production process and are free from harmful contents. We have invested significantly in advanced testing equipment, which are incorporated into our automated production process, that can detect and measure various quality indicators, such as the levels

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of certain chemical compounds and microorganisms. Our automated production lines are centrally controlled by a software system that records quality inspection results and key information on each batch of products and alerts us in the event of any quality issues during the production process.

Besides production process monitoring, we also consider the health and hygiene of our employees to be an essential factor in ensuring the safety of our production process and quality of our products. All personnel entering into our production facilities are required to undergo disinfectant sprays and wear sterilized production gear. We conduct annual health checkups for our employees and require them to maintain good personal hygiene. We also provide quality control, production safety and other technical training on a regular basis to our employees to ensure they can satisfy our technical and hygiene requirements.

Packaging and Final Inspection

Upon completion of the production process, our products are automatically sifted, packaged and labeled with packaging materials that have been disinfected and treated in accordance with relevant industry standards and regulations. Our packaging lines are equipped with industrial sifters, x-ray detectors and metal detectors to detect and remove any foreign objects. Automatic packaging minimizes contact of our product with the external environment, increases packaging efficiency and capacity and lowers safety risks and human error. We conduct final inspection of our finished products before they are dispatched to our customers. Our quality control department performs random sample testing for each batch of products to confirm the quality and safety of our products are in compliance with our internal standards.

After-sales Quality Control

For serious complaints relating to product quality that we receive through our customer service hotline, our quality control department will conduct full investigation and, where necessary, recall the implicated products. Recalled products shall be destroyed or disposed of in accordance with our recall control procedure.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material customer complaints, claims, or product recalls due to quality control issues. Furthermore, to the best of our knowledge, we did not experience any material instances of counterfeiting or imitation of any of our products during the Track Record Period. As a result of our commitment to quality and full traceability of our products, we were one of the few companies not involved in the melamine incident in 2008 that implicated many infant milk formula manufacturers in China.

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INVENTORY MANAGEMENT

Our inventory primarily comprises raw materials, packaging materials, works in progress and finished products. We manage our inventory levels based principally on expected demand, production schedules and volume of sales orders.

To further enhance the monitoring, traceability and control of our inventory and sales at the distributor level and optimize our production operations, we launched a barcode scanning function in our DRP system and began to require our distributors to use this new barcode scanning function in the second half of 2016. Since the second half of 2016, we required distributors to fully-transition to the barcode scanning function. Our barcode scanning provides information on manufacturing and packaging dates, quality control inspection dates and results and shipping date, raw material source and supplier, and distributor information. Through our barcode scanning system, we are able to track our products and receive automatically-generated information on our distributors' inventory levels, which reduces our labor costs and human error in collecting such information and allows us to better manage our own inventory levels and plan our production operations. According to our inventory management policy, we typically hold a safety stock for 24 days of production for raw materials, except perishable raw materials such as fresh milk, which is utilized within 24 hours of receipt. In addition, we typically keep 13 days safety stock for packaging materials. Through our effective inventory management system, we aim to provide fresh and high quality products within 15 days for distributors and 28 days factory-to-door delivery for online stores operated by ourselves. Our inventory turnover days were 71.9, 59.9, 57.1 and 63.9 days for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively. We believe our inventory turnover days were generally in line with our inventory management system. We plan our procurement and production based on estimated order volumes provided by our distributors at least one month in advance.

To ensure the quality of our inventory, we maintain storage spaces with different temperature and humidity levels based on the nature of the inventory. We store different types of inventory in separate areas to avoid cross contamination and specify precise distances from the wall and the ground to maintain the quality of our infant milk formula products. We also strictly monitor the safety, quality and preservation period of raw materials and packaging materials we receive and conduct inspections on finished products before delivery. We dispose of damaged or defective inventory appropriately.

LOGISTICS

As of March 31, 2019, we engaged warehousing service providers in Shanghai, Zhengzhou, Tianjin, Harbin, Suzhou, Chengdu and Xi'an, to store our finished products before our products are dispatched to our distributors.

During the Track Record Period, we outsourced substantially all of our logistics needs to Independent Third Party logistics companies. We believe outsourcing logistics allows us to reduce capital investment and the risk of liability for transportation accidents, delivery delays or losses. Our products are delivered by enclosed-body trucks. We select our logistics service providers based on thorough and regular review of their price and service quality, including risk control, accuracy and timeliness. We regularly work with over 20 logistics service providers, many of whom we have developed stable relationships with. We usually enter into standardized logistics agreements with one-year term. Under the terms of our agreements, logistics service providers shall be liable for any damages to our products during the transportation process. During the Track Record Period, we did not have any material disputes

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with our logistics providers or major delays in delivery of our products. We do not anticipate any shortage of logistics services in the foreseeable future.

VITAMIN WORLD


Overview

While focusing on our principal business of production and sales of infant milk formula products, we have been actively seeking opportunities to diversify our businesses. To build upon the customer loyalty and trust established with our end consumers and continue offering various products to solidify our market leadership in both infant milk formula and nutrition brand, we acquired the retail health care business of Vitamin World in early 2018. See “History, Development and Reorganization — Major Acquisition, Disposals and Deregistration — Acquisition of the Retail Health Care Business of Vitamin World.”




Vitamin World engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated 134 specialty stores across the United States, mostly in malls and outlet centers, and employed over 700 people as of March 31, 2019. We also sell such products through our own website of Vitamin World, and e-commerce platforms, such as Tmall Global and JD.hk. Our revenue generated from nutritional supplement products was RMB642.3 million and RMB158.2 million, accounting for 6.2% and 5.7%, of our total revenue for the year ended December 31, 2018 for the three months ended March 31, 2019, respectively.

Our Nutritional Supplement Products

As of March 31, 2019, we offered a wide selection of over 1,300 nutritional supplement products under the brand Vitamin World. Our nutritional supplement products can be broadly classified by nature into various categories, including but not limited to Children’s, Women’s, Men’s, Healthy Aging to Cardiovascular, Joint Health, Probiotics, Health & Beauty, Sports Nutrition, and Herbal Remedies. The active ingredients in our nutritional supplement products are primarily extracts from natural resources, which are aimed to enhance the general physical health or specific body functions of the consumers. We also sold third-party-branded nutritional supplement products through our stores during the Track Record Period. The following table sets forth the pictures and descriptions of our best-selling nutritional supplement products under the brand Vitamin World:

Product Series	Product Positioning	Product Description
<p>Children’s</p> 	<p>Great Tasting Source of Essential Vitamins and Minerals for Children</p>	<ul style="list-style-type: none"> • Naturally flavored gummies provide 15 essential nutrients to support the nutritional needs of growing children • Contains vitamin A for eye health, vitamin D for strong bones and teeth, vitamins C and E for immune health and B-vitamins for energy metabolism • Suitable for children of two years and older

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Product Series	Product Positioning	Product Description
<p>Women's</p> 	<p>High Potency Daily Multivitamin for Women</p>	<ul style="list-style-type: none"> • Full spectrum multi-nutrient formula specifically designed for women's health • Contains collagen, biotin, and other nutrients scientifically studied to support vibrant skin and healthy hair and nails • Contains calcium and vitamin D to help maintain healthy bones, folic acid for reproductive health, and antioxidant blend to help neutralize harmful free radicals
<p>Men's</p> 	<p>High Potency Daily Multivitamin for Men</p>	<ul style="list-style-type: none"> • Contains over 50 vitamins, minerals, and nutritional ingredients designed specifically for men's overall wellness • Contains Ultra Man Amino Blend • Contains Ultra Man Bio-Active Blend
<p>Platinum Acai</p> 	<p>2-in-1 Acai Beauty Support Formula</p>	<ul style="list-style-type: none"> • Delivers a super-concentrated 20:1 Extract (8000 mg equivalent) of Acai berry extract per serving • Contains Red Orange Complex sourced from the juice of Sicilian blood oranges • Healthy aging formula that provides extensive beauty support, protects and promotes healthy skin, and promotes improvement in skin appearance

Procurement and Suppliers

We purchase finished products mostly from our eight major suppliers located in the U.S. States of California, New York and Illinois. We carefully select our suppliers and require them to satisfy certain evaluation and assessment criteria. Before we engage a new supplier, our team evaluates various aspects, including its ability to meet our requirements, production capacity, product quality and reputation, quality control capacity.

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We typically enter into supply framework agreements with our suppliers setting forth general terms that will be used in each purchase order. Depending on the actual sales performances of each store, our products are made on a purchase order basis, and we specify the product type, quantity, delivery timeline and address, and other items in each purchase order we send to our suppliers. Our suppliers are typically responsible for the logistics. Our suppliers generally provide us with credit terms of 30 days. We typically settle our trade payables by bank transfer.

Sales and Marketing

We have established a multi-channel sales network, including (i) our self-operated specialty stores in the United States, and (ii) online channels, comprising Tmall Global, JD.hk and our own website of Vitamin World.

Our offline channels comprise specialty stores located in malls and outlet centers in the United States. All of such specialty stores are self-operated, as we believe the own-and-operate model enables us to (i) exert stronger control over the retail outlet, including the layout and the implementation of our pricing policy; (ii) achieve higher gross margin by eliminating a layer of intermediary; and (iii) better access to market intelligence such as prevailing trends and consumer preferences in the local market. We actively manage our specialty store network. We conduct periodic evaluation of the performance of each store as well as adherence to our uniform standards or policies. After our acquisition of Vitamin World, we closed a number of specialty stores that failed to meet our performance targets. We will continue to evaluate to ensure that the current size of our retail network enables us to manage our operations in a cost-effective manner.

Quality Control and After-sales Service

Product safety is of the utmost importance in our industry. As such, we implement stringent product safety and quality control standards and measures throughout our entire product procurement and marketing processes, covering supplying chains, logistics, inventory and sales channels, to ensure the full safety and high quality of our products.

We require our suppliers to provide us with reports from independent laboratories periodically with regards with to the quality of their products. We have also established a quality control team, including three personnel. Our quality control team performs routine checking on all the products purchased and delivered to us by conducting periodic inspections on the quality control compliance level of such products. Any sub-standard products will be returned, and any suppliers that do not meet our standards will be replaced. We have a dedicated team of customer service personnel and maintain a customer service hotline to ensure a timely response to all customer concerns, which we believe helps us reinforce our high-quality control standards to our customers and instils confidence in our nutritional supplement products.

LICENSES AND PERMITS

We operate in a heavily regulated industry. As a result, we are required to obtain various licenses, permits and certifications for our operations. For details of the relevant laws, regulations and requirements, see "Regulatory Overview — Laws and Regulations Relating to the Industry."

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PRC Operations

Our PRC Legal Advisers have confirmed that we have obtained all necessary licenses, permits, approvals, certifications and filings from relevant regulatory authorities for our operations in China in all material respects as of the Latest Practicable Date. The following table sets forth the details of our material licenses, permits, approvals and certifications:

	<u>Holding entity</u>	<u>Issuance authority</u>	<u>Issue date</u>	<u>Expiration date</u>
Food Production License (食品生產許可證) for Health Care Products, Dairy Products, Drinks, Infant Milk Formula Products and Food Additives	Feihe HLJ	Market Supervision Administration, Qiqihar Municipality	February 26, 2019	January 16, 2022
Food Operation License (食品經營許可證) for Pre-packaged Food (excluding Refrigerated Food) and Infant Milk Formula Products	Feihe HLJ	Market Supervision Administration, Kedong County	March 21, 2018	February 23, 2023
Food Production License (食品生產許可證) for Dairy Products, Drinks, Infant Milk Formula Products and Food Additives	Feihe Gannan	Food and Drug Administration Bureau, Qiqihar Municipality, Heilongjiang Province	January 26, 2017	January 21, 2022
Food Production License (食品生產許可證) for Dairy Products, Drinks, Infant Milk Formula Products and Food Additives	Feihe Longjiang	Food and Drug Administration Bureau, Heilongjiang Province	April 13, 2017	April 11, 2022
Food Production License (食品生產許可證) for Dairy Products, Drinks and Food Additives	HLJ Shanghegu Nutraceutical Food	Food and Drug Administration Bureau, Qiqihar Municipality, Heilongjiang province	September 30, 2018	December 10, 2020
Food Operation License (食品經營許可證) for Pre-packaged Food (excluding Refrigerated Food), Infant Milk Formula Products, Production and Sales of Hot Food	HLJ Shanghegu Nutraceutical Food	Market Supervision Administration, Baiquan county, Heilongjiang province	February 22, 2018	March 20, 2022

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	<u>Holding entity</u>	<u>Issuance authority</u>	<u>Issue date</u>	<u>Expiration date</u>
Food Operation License (食品經營許可證) for Pre-packaged Food (excluding Refrigerated Food), Special Food (Infant Milk Formula)	Beijing Biotech	Food and Drug Administration Bureau, Miyun county, Beijing	February 17, 2016	February 16, 2021
Food Production License (食品生產許可證) for Dairy Products, Food Additives, Infant Milk Formula Food	Feihe Zhenlai	Food and Drug Administration Bureau, Jilin province	December 18, 2017	January 18, 2022
Food Operation License (食品經營許可證) for Pre-packaged Food (including Refrigerated Food), Sales of Bulk Food (including Refrigerated Food), Infant Milk Formula Products and Other Infant Milk Formula Food	Feihe Tailai	Market Supervision Administration, Tailai county, Heilongjiang province	February 23, 2017	February 22, 2022
Food Operation License (食品經營許可證) for Pre-packaged Food (excluding Refrigerated Food), Infant Milk Formula Products and Other Infant Milk Formula Food	HLJ Feihe E-commerce	Food and Drug Administration Bureau, Kedong county, Heilongjiang Province	June 21, 2016	June 20, 2021

Our PRC Legal Advisers have advised us that, according to the relevant PRC laws and regulations, especially the Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administrative of Foreign Investment Projects of Sale through Internet and Automat (《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》), Feihe HLJ is not required to obtain the value-added telecommunication service license (增值電信業務經營許可證) and only needs to make the Internet Content Provider filing (ICP備案) with the competent telecommunication administration authority to conduct its e-commerce sales (and Feihe HLJ had duly made such filing as of the Latest Practicable Date), and therefore, Feihe HLJ's e-commerce sales is not subject to the foreign ownership restrictions under the currently effective Catalogue, considering that Feihe HLJ directly sells products manufactured by itself or purchased from third parties through its own network platform (www.feihe.com) and does not provide network services for other transacting parties through its own network platform.

As of the Latest Practicable Date, we have successfully registered the product formulas of 12 of our infant milk formula product series, including Astrobaby and Xingjie Youhu, with the CFDA pursuant to the Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder, and we were in the process of registering the product formulas of our other infant milk formula product series. For more information on the relevant laws and regulations, see "Regulatory Overview — Laws and Regulations Relating to the Production and Distribution of Dairy Products — Registration of Product Formulas of Infant Formula Milk Powder."

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Canadian Operations

Our legal advisers as to Canadian law have confirmed that we have obtained the material licenses, permits, approvals and certifications from relevant regulatory authorities necessary at this stage for our operations in Canada as of the Latest Practicable Date. The following table sets forth the details of the material licenses, permits, approvals and certifications for our operations in Canada:

	<u>Holding entity</u>	<u>Issuance authority</u>	<u>Issuance date/ Expected date of issuance</u>
Extra-provincial License to carry on business in Ontario	Canada Royal Milk and Canada Kingston Dairy	Ontario Ministry of Government Services	December 12, 2016
Permit to Construct or Alter a Building Intended for Use as a Plant	Canada Royal Milk	OMAFRA	June 13, 2017
Notice to Establish a New Canadian Business	Canada Royal Milk and Canada Kingston Dairy	Innovation, Science and Economic Development Canada *formerly Industry Canada	January 26, 2017
Permit to Construct or Alter a Building Intended for Use as a Plant	–	Kingston City Council, Canada	October 23, 2017
Environmental Compliance Approval	–	Ministry of the Environment and Climate Change Ontario	October 16, 2018
Operation License	–	OMAFRA	Expected to be obtained in the third quarter of 2019
Certificate of Registration	–	Canadian Food Inspection Agency	Expected to be obtained in the third quarter of 2019

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COMPETITION

In recent years, the infant milk formula market in China has faced challenges due to factors such as declines in birth rates and an increase in cross-border purchases by Chinese consumers. The total retail sales value of infant milk formula products in China grew from RMB160.5 billion in 2014 to RMB245.0 billion in 2018, with a CAGR of 11.2%, according to the F&S Report. For more information, see “Industry Overview — The Infant Milk Formula Market in China — Retail Sales Value of Infant Milk Formula Market — Overview.” Nonetheless, the high-end infant milk formula market continues to demonstrate substantially higher growth than the regular infant milk formula market as appreciation for quality and nutritional value in infant milk formula products grows. We position ourselves as a provider of high-end infant milk formula on the basis that our products are produced from high-quality raw materials sourced from nationally renowned dairy farms and international brands, and we believe that we are well-positioned to compete with other high-end brands in China.

The infant milk formula market in China is highly competitive. Our competitors in the infant milk formula market in China comprise international brands and domestic brands. We compete on the basis of brand recognition and loyalty, product quality, price, product availability, effectiveness of marketing, and wide distribution network in China, among other factors. Feihe was the largest infant milk formula brand in China in terms of 2018 retail sales value, with a market share of 7.3%. We were also the largest domestic brand infant milk formula company in China in terms of 2018 retail sales value, with a market share of 15.6% among domestic companies.

AWARDS AND ACHIEVEMENTS

As a testimony to our achievements and the quality of our products, we have received various awards and recognitions throughout our operations. The table below sets forth our major awards and recognitions received during the Track Record Period and up to the Latest Practicable Date:

Year	Awards and recognitions	Issuing authority
2019	Gold Award	Monde Selection, International Quality Institute
2018	Advanced Technology Award (技術進步獎) Outstanding New Product (優秀新產品獎) Benchmarking Enterprise in Safety Management of Dairy Product (乳品質量安全管理標桿企業)	China Dairy Industry Association (中國乳製品工業協會)
2018	2018 Outstanding Dairy Enterprise (2018年優秀乳品加工傑出企業)	China Milk Association (中國奶業協會)
2018	Gold Quality Award (質量金獎)	China Dairy Industry Association (中國乳製品工業協會)
2017	Gold Award, Grand Gold Award and International High Quality Trophy	Monde Selection, International Quality Institute
2017	National Model Enterprise for Product and Service Quality (全國產品和服務質量誠信示範企業)	China Association for Quality Inspection (中國質量檢驗協會)

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<u>Year</u>	<u>Awards and recognitions</u>	<u>Issuing authority</u>
2017	Gold Quality Award (質量金獎)	China Dairy Industry Association (中國乳製品工業協會)
2016	Gold Award and Grand Gold Award	Monde Selection, International Quality Institute
2016	Gold Award (金鼎獎)	Chinese Food Enterprises Social Responsibility Annual Summit (中國食品企業社會責任年會)
2016	Innovative Product Award (產品創新大獎)	China International Children and Women Industry Expo (中國(北京) 國際婦女兒童產業博覽會)
2016	China Brands Annual Innovative Enterprise (中國品牌年度創新企業) and China Ecological Origin Famous Brand (中國生態原產地知 名品牌)	Asia Brands Net (亞洲品牌網)

INTELLECTUAL PROPERTY

Intellectual property rights are important to our business. As of the Latest Practicable Date, we held 426 trademarks for our trade name “飛鶴,” as well as our Chinese and English brand names, including “星飛帆,” “飛帆,” “臻愛倍護,” “Astrobaby” and “Firmus,” among others, and applied for 52 trademarks in China. We have registered trademarks for our trade name “飛鶴” and “Firmus” in the United States and in Hong Kong. We believe our trademarks are vital to our ability to promote our brand and gain name recognition, and we plan to strategically enhance our trademark portfolio and enforce our trademark rights as we continue to develop our brand. As of the Latest Practicable Date, we also held nine patents in China and 49 domain names, and had applied for 16 patents in China. For more information on our intellectual property, see “Appendix IV — Statutory and General Information.”

We also rely on know-how and trade secrets in relation to our proprietary product formulations and production processes which we believe are material to our operations. We believe these know-how and trade secrets cannot be adequately protected by patents, trademarks and copyrights. Therefore, we protect such intellectual property by relying on the protection afforded under applicable trade secret laws, implementing intellectual property management policies, installing secure information technology systems and entering into confidentiality agreements with employees with access to such information.

During the Track Record Period, we had authorized a company, Qiqihar Feihe Ecological Breeding Co., Limited (齊齊哈爾飛鶴生態養殖有限公司) (“**Feihe QQH Ecological Breeding**”), to use our trade name. Since the beginning of 2017, we have increased efforts to protect our intellectual property and we have notified and requested ten parties who, to the best of our knowledge, were still conducting their businesses under our trade name to cease using our trade name. In order to regulate the use of the “飛鶴” trade name and trademark by Feihe QQH Ecological Breeding, on April 18, 2017, we entered into a trade name and trademark licensing agreement with Feihe QQH Ecological Breeding. Under the agreement, we have granted it a non-exclusive, royalty-free right to use our “飛鶴” trade name and trademark in its business name and for its “Feihe Milk Shop” (飛鶴奶吧) business, “Feihe Dairy Farm Tour” business and “Feihe Dairy Farm Tour” brand cow milk and goat milk products business in Qiqihar city, Heilongjiang province until December 31, 2018. The agreement stipulates that the licensee shall not use our trade name and trademark in any manner that may have an adverse impact on our brand image and

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reputation. In the event of a breach, we would have the right to terminate the agreement and claim damages for any loss that we may suffer as a result of such use. We do not intend to renew the agreement upon its expiry. As of the Latest Practicable Date, Feihe QQH Ecological Breeding had ceased to use our trade name.

Save as disclosed above, no other third parties are authorized by us to use our trademarks, trade names or brand names as of the Latest Practicable Date. In line with our increased efforts to protect our intellectual property, we have ceased to authorize the use of our trademarks, trade names and brand names by other third parties. Going forward, we will monitor the use of our registered trademarks on the market. Our legal department will take appropriate measures in the event of any material infringement of our trademarks. Our Directors are of the view that the foregoing measures are effective in protecting our intellectual property rights.

During the Track Record Period and as of the Latest Practicable Date, we were not involved in any threatened or pending disputes or legal proceedings regarding intellectual property that may have a material and adverse effect on our business.

EMPLOYEES

We believe that our long-term growth depends on the expertise, experience and development of our employees. Our human resources department is responsible for recruiting, managing and training our employees. We have a labor union that protects our employees' rights, assists us in attaining our economic objectives and encourages employees to participate in management decisions. We recruit employees primarily through referrals, headhunters, recruitment websites and on-campus recruitment. We provide training programs to our employees, including new hire training for new employees and continuing technical training for our production and research and development personnel to enhance their skill and knowledge. We take measures to promote equal opportunities, anti-discrimination, and diversity among employees.

As of March 31, 2019, we had 5,294 full-time employees. Generally, we enter into labor contracts with our employees. We did not have any dispatched labor as of the Latest Practicable Date. As of the Latest Practicable Date, most of our employees were located in China. The following table sets forth the number of our employees by function as of March 31, 2019:

	Number of employees
Sales and marketing	3,163
Production	1,447
Quality control	292
Administrative	227
Finance	78
Research and development	62
Management	25
Total	5,294

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We are required by PRC social security laws and regulations to maintain and make contributions for mandatory social insurance policies and housing provident funds for our employees. As advised by our PRC Legal Advisers, except as disclosed in “— Legal Proceedings and Non-compliances — Non-compliances — Failure to Make Full Contributions to Social Insurance and Housing Provident Funds,” we were in compliance with applicable laws and regulation related to labor and employee benefit plans in all material aspects during the Track Record Period and as of the Latest Practicable Date. The remuneration package for our employees generally includes salary and bonuses. We conduct periodic performance reviews for our employees, and their remuneration is performance-based.

We have complied with applicable Canadian and U.S. labor laws and regulations in all material aspects as of the Latest Practicable Date.

Our Directors consider that our Group has maintained a good relationship with our employees and is expected to remain amicable in the future. During the Track Record Period and up to the Latest Practicable Date, there was no incident of disruption of work which had an adverse impact on our operation, or no material dispute between our Group and our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material labor disputes or strikes which may have a material and adverse effect on our business, financial condition or results of operations.

ENVIRONMENTAL PROTECTION

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. For more details, see “Regulatory Overview.” Although we do not operate in a highly polluted industry, our manufacturing processes generate solid waste, exhaust gas and waste water. We have adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. In respect of our Kingston Plant, as of the Latest Practicable Date, we have obtained the material licenses and permits for our Canada operations necessary at this stage.

Our PRC Legal Advisers have advised us that our business operations are in compliance with all applicable PRC environmental laws and regulations in all material aspects. As of the Latest Practicable Date, we were not subject to any fines or legal actions for violations of applicable PRC environmental laws or regulations. During the Track Record Period, our expenses in relation to environmental protection were insignificant and we expect such expenses to remain at relatively low levels in the foreseeable future.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to the PRC laws and regulations in respect of employee health and safety. We have in place safety guidelines with which our employees are required to strictly comply and equip our production personnel with adequate safety equipment. We regularly evaluate our equipment and production facility to ensure their safety for our operations. We also conduct periodic and annual training for employees to strengthen their awareness and knowledge on safety procedures and accident prevention from time to time. During the Track Record Period and as of the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damage. We were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents.

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INSURANCE

We maintain insurance policies with respect to property, equipment, and inventory covering losses due to fire, explosion, earthquake, typhoon, flood and certain other risks. Consistent with the customary practice in China, we currently do not maintain product liability insurance for our products, and we do not carry any business interruption or litigation insurance. Our Directors consider that our existing insurance coverage is consistent with industry practice in the PRC and sufficient for our present operations. We have purchased insurance for our nutritional supplement products in accordance with applicable US laws.

PROPERTIES

Our corporate headquarters are located in Beijing. All of our production facilities as of the Latest Practicable Date are located in Heilongjiang and Jilin provinces.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of March 31, 2019, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

PRC

As of the Latest Practicable Date, we owned nine parcels of land with a total site area of approximately 1,024,363.9 sq.m. and 70 buildings with a gross floor area of approximately 180,669.56 sq.m. As of the Latest Practicable Date, we have obtained land use right certificates for such nine parcels of land and building ownership certificates for such 70 buildings. As confirmed by our PRC Legal Advisers, we are entitled to use such land and we legally own such buildings. We use the land and buildings we own primarily as our production facilities.

As of the Latest Practicable Date, we had four properties under construction, which is related to the construction of our Tailai Plant and Jilin Plant, and expansion our Kedong Plant and Longjiang Plant. For more information, see "— Production — Planned Production Facilities." Our PRC Legal Advisers have confirmed that we obtained the construction approvals and permits for such property required for the stage of construction as of the Latest Practicable Date.

Canada

In November 2016, we entered into a land purchase and sale agreement to procure 15.4 hectares of land in the city of Kingston to build our Kingston Plant. As of the Latest Practicable Date, we were in the process of applying for the relevant permits and licenses. For more information on the Kingston Plant, see "— Production — Planned Production Facilities — Kingston Plant."

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United States

In 2015, we procured (i) two parcels of industrial land with a total site area of approximately 24,159.5 sq.m., and (ii) one building with a gross floor area of approximately 197.3 sq.m. in the state of California, the United States. We procured these parcels of land and the building as part of our original plans to construct a production facility in the state of California, the United States, to further our strategy of developing our overseas operations. We paid a total of approximately US\$2.7 million to acquire such properties. As we continued to explore the optimal approach to proceed with such plans, we were subsequently presented with various opportunities including but not limited to, the opportunity to become the first and only manufacturer of dry infant milk formula products in Canada. As such, we made the commercial decision to terminate our plans to build the production facility in the United States and proceeded with our plans to construct the Kingston Plant as part of the same strategy. See “— Production — Planned Production Facilities — Kingston Plant.” In May 2017, we sold the building to an Independent Third Party for a small profit and we plan to sell the remaining two properties in the United States in due course, with the timing of such sale dependent on market conditions.

Leased Properties

As of the Latest Practicable Date, we did not have any leased land. We leased five properties with an aggregate gross floor area of approximately 1,653.99 sq.m. The following table sets out a summary of the properties leased by us:

<u>Location</u>	<u>Use of property</u>	<u>Gross floor area (sq.m)</u>	<u>Expiration of lease</u>
Chaoyang district, Beijing	Office	415.87	December 31, 2019
Chaoyang district, Beijing	Storage	48.3	December 31, 2019
Chaoyang district, Beijing	Office	385.79	February 29, 2020
Yangpu district, Shanghai	Office	789.03	September 30, 2020
Miyun district, Beijing	Registered address	15.0	December 31, 2024

We expect that there will be no material obstacles in renewing the lease agreements with respect to the above properties.

As of the Latest Practicable Date, the landlords for two leased properties have not provided us with the relevant title certificates for such leased properties. As advised by our PRC Legal Advisers, there is a risk that our landlords do not have the right to lease such properties to us, in which case we may not be able to continue to use such properties. See “Risk Factors — Risks Relating to Our Business — Our legal right to certain leased properties may be challenged and we did not register our lease agreements.” We believe we can find alternative premises for such uses, if necessary, on similar terms within a reasonable time and using reasonable efforts.

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We are using our five leased properties in accordance with the permitted usages under the relevant lease agreements. We did not register such lease agreements with the relevant authority in accordance with applicable PRC regulations. As advised by our PRC Legal Advisers, the non-registration of our lease agreements does not affect the validity and enforceability of such lease agreements but we may be subject to fines ranging from RMB1,000 to RMB10,000 in respect of each lease agreement that is not registered should we and our landlords fail to register the lease agreements upon request by the relevant authority. As of the Latest Practicable Date, we were not subject to any such fines by the relevant regulatory authorities.

LEGAL PROCEEDINGS AND NON-COMPLIANCES

Legal Proceedings

We may from time to time be involved in litigations in the ordinary course of our business. During the Track Record Period, we were not involved in any litigation, arbitration or administrative proceedings against us or any of our Directors which could have a material and adverse effect on our financial condition or results of operations. As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries which could have a material adverse effect on our business, financial condition or results of operations.

Non-compliances

Except for the non-compliance incidents disclosed below, as advised by our PRC Legal Advisers, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period and as of the Latest Practicable Date.

Administrative Sanctions on Feihe Zhenlai

We acquired Feihe Zhenlai on December 24, 2015. Prior to the acquisition and during the period from November 30, 2015 to December 2, 2015, the CFDA conducted a food safety audit on Feihe Zhenlai and found that Feihe Zhenlai had failed to meet certain requirements prescribed in relevant PRC laws and regulations, including with respect to (i) maintaining production conditions in certain production facilities, (ii) implementing internal procedures relating to supplier and inventory management, (iii) keeping clear and complete records of test results for certain infant milk formula products in the pre-delivery inspection reports, (iv) ensuring sufficient on-site testing capabilities for vitamin A and vitamin B6, and (v) comprehensively analyzing defective products and evaluating the scale of a possible product recall. In connection with the CFDA's findings, on December 8, 2015, the Jilin FDA ordered Feihe Zhenlai to suspend production in order to rectify these non-compliance issues.

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Feihe Zhenlai immediately suspended productions to carry out a number of rectification measures, including (i) formulating a rectification plan and forming a special investigation unit, which consisted of our quality control, production and equipment and machinery managers, to address the non-compliance issues, (ii) dispatching members of our senior management and technical staff to offer on-site guidance, and (iii) further integrating Feihe Zhenlai's raw material procurement, production plan and production control into our operations. Shortly after the acquisition and on January 4, 2016, Jilin FDA conducted an on-site inspection of the relevant production facilities and confirmed that our rectification measures had been implemented and the non-compliance issues had been rectified. On January 6, 2016, we received notice from the Jilin FDA that production could be resumed. Accordingly, we resumed operations later that month and thereafter we also commenced production of our Feihe brand products at Feihe Zhenlai.

On April 6, 2016, Feihe Zhenlai received notices of administrative sanctions from Jilin FDA citing that an inspection conducted before our acquisition, on December 9, 2015, found that (i) certain products manufactured by Feihe Zhenlai were mislabeled with incorrect expiration dates, and (ii) Feihe Zhenlai had added self-produced nitrogen in its products as a food additive without obtaining the relevant nitrogen production permits. Pursuant to such notices, Feihe Zhenlai was ordered to pay a total administrative penalty of approximately RMB0.7 million, which was fully paid on April 13, 2016. We also applied for and obtained the relevant production permit for food additives after receipt of such notice. On April 15, 2019, we obtained a confirmation from the Zhenlai County Market Supervision Administration (鎮賚縣市場監督管理局), being the competent authority, that as of the date of the confirmation, Feihe Zhenlai did not have any non-compliance of relevant national and local food and food additive laws and regulations and was not subject to any actual or potential penalty due to any non-compliance of relevant national and local food and food additive laws and regulations.

During our due diligence process prior to the acquisition of Feihe Zhenlai, we were made aware of the non-compliance incident identified by the CFDA. After performing a cost-benefit analysis, our management made the commercial decision to acquire Feihe Zhenlai primarily for the following reasons:

- our management considered that the non-compliance could be rectified within a short period of time without incurring significant costs. Feihe Zhenlai took immediate action to carry out rectification measures and resumed production within a one-month period following the acquisition of Feihe Zhenlai, which our management considered did not have a material impact on our business, product sales and results of operations;
- the acquisition presented us with an opportunity to purchase an existing production facility as well as other complementary assets, which has enabled us to expand our designed annual production capacity for our Feihe brand infant milk formula products by 6,000 tonnes. Moreover, we took into consideration the expansion opportunities available at Feihe Zhenlai Plant in the long term to further increase our production capacity, which we believed would be more cost-efficient than building a new facility. In addition, as the CFDA published the Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder (for Trial Implementation) 《嬰幼兒配方乳粉配方註冊管理辦法(試行)》 for public comment in September 2015, we believed that acquiring another infant milk formula producer would enable us to register more formulas, making us more competitive in the PRC infant milk formula market; and we intended to dispatch our own experienced personnel, implement our production processes and apply our internal control and risk management measures at Feihe Zhenlai to minimize the risk of recurrence.

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We did not find any food quality issues with the Alfbeta-brand infant milk formula supplied to us by the predecessor of Feihe Zhenlai, and we did not find any food quality issues with such infant milk formula during inspections before we sold such products. In addition, as our revenue from sales of Alfbeta products manufactured by the predecessor of Feihe Zhenlai prior to the acquisition accounted for only 1.7% and 2.5% of our total revenue in 2014 and 2015, respectively, our Directors were of the view that such non-compliance incident did not have a material impact on our overall business, product sales or results of operations prior to the acquisition of Feihe Zhenlai. Given that we resumed production at Feihe Zhenlai within a one-month period following the acquisition and the sanctions and related penalty administered by the Jilin FDA in relation to the notices received on April 6, 2016 were relatively insignificant, our Directors believe that the non-compliance incident did not have a material impact on our business, product sales, financial condition and results of operations.

Failure to Make Full Contributions to Social Insurance and Housing Provident Funds

Before April 2016, we did not make full contributions to social insurance and housing provident funds for a certain number of our employees. Our PRC Legal Advisers have advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the outstanding social insurance premiums within a prescribed time limit and may be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the overdue payment. Our PRC Legal Advisers have advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

In April and May 2019, we obtained confirmation letters from relevant social insurance and housing provident fund authorities, confirming that they will not request us to pay the contribution shortfall or any overdue fine thereon. Since April 2016, we have contributed to social insurance and housing provident funds for all of our employees based on the amount and standard prescribed by competent government authorities as set forth in these confirmation letters. Our PRC Legal Advisers have advised us that the confirmation letters were issued by competent government authorities and that the possibility of us being requested by the competent government authorities to pay historical contribution shortfall or overdue fine is remote. We have made adequate provisions for our historical contribution shortfall. See "Risk Factors — Risks Relating to Our Business — Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties."

We have taken the following rectification measures: (i) strengthen legal compliance training to our management team; (ii) enhance our internal control policy to manage our social insurance fund and housing provident fund contributions; and (iii) our human resources staff will prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to enforce our internal control policy.

BUSINESS

Non-compliant Inter-company Loans

During the Track Record Period, we entered into certain agreements to provide inter-company loans directly to Independent Third Parties. For the year ended December 31, 2016, our other receivables in relation to inter-company loans amounted to RMB128.0 million. As of December 31, 2018, all of our inter-company loans had been settled and repaid in full. Interest income we received in relation to inter-company loans amounted to RMB22.5 million for the year ended December 31, 2016.

We primarily provided such inter-company loans to Independent Third Parties (i) to supplement their working capital based on their short-term cash flow needs, and (ii) because our relevant management personnel were not aware of the prohibitions as prescribed under the Lending General Provisions (貸款通則).

We have been advised by our PRC Legal Advisers that such inter-company loan agreements did not comply with the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. Article 61 of the Lending General Provisions prohibits any financing arrangements/lending transactions between non-financial institutions. Pursuant to the Lending General Provisions, lenders must be approved by PBOC to engage in lending business and they must hold financial institution legal person licenses (金融機構法人許可證) or financial institution business licenses (金融機構營業許可證) issued by PBOC. If enterprises engage in lending and borrowing, or lending and borrowing in a disguised form between themselves without authorization, PBOC shall impose a fine ranging from one to five times the interest income gained by the enterprise in violation of the Lending General Provisions.

Our PRC Legal Advisers have further advised that, notwithstanding the Lending General Provisions, the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) ("**Judicial Interpretations on Private Lending Cases**") has made new interpretations concerning financing arrangements/lending transactions between non-financial institutions, which prevails over the relevant prohibitive rules of the Lending General Rules. According to Article 11 of the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognizes the validity and legality of financing arrangements/lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied.

We did not experience any defaults with respect to the inter-company loans that we provided during the Track Record Period. As of the Latest Practicable Date, all such inter-company loans had been settled and repaid in full and we did not have any disputes in relation to these loans. We have ceased to provide inter-company loans since January 2017 and do not plan to provide any inter-company loans going forward. On this basis, in the event of any disputes between us and the borrower after the implementation of the Judicial Interpretations on Private Lending Cases in September 1, 2015, our PRC Legal Advisers are of the opinion that such inter-company loan agreements with Independent Third Parties were legal, valid and enforceable and the possibility for the PBOC to impose administrative liability on us, as the lender, in relation to such loans is remote. No provision has been made in our accounts.

BUSINESS

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations and have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, namely [Mr. FAN Yonghong], who serves as chairman of the committee, Mr. GAO Yu and [Mr. Jacques Maurice LAFORGE]. For the qualifications and experience of these committee members, see "Directors and Senior Management;"
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks; and
- attend training session by our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

Shortly after the incidents at Feihe Zhenlai, we implemented a number of rectification measures and internal control policies to remedy the issues identified, including:

- improving the production facilities and inspection equipment;
- enhancing our reporting and records system for such entities, including centralizing their quality control and safety management systems, establishing weekly reporting procedures in relation to storage conditions, inventory labelling and inventory hygiene conditions, and conducting bi-weekly inspections of the facilities;
- establishing a set of emergency procedures in the event of major quality related issues, which set forth details of the reporting system and product recall procedures, among other instructions; and
- providing enhanced training programs on quality assurance and product safety procedures, which were mandatory for all employees.

BUSINESS

For details on the internal control measures we implemented with respect to the incident at Feihe Zhenlai, see “— Legal Proceedings and Non-compliances — Non-compliances — Administrative Sanctions on Feihe Zhenlai.” To prevent similar non-compliance incidents from occurring in our existing operations and the operations of businesses that we may acquire in the future, we will continue to implement our centralized management and internal control policies with respect to quality control, food safety, hygiene, production management and raw materials procurement, among others.

We have engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. In addition to the internal control measures we adopted in relation to our non-compliances, certain other internal control matters were identified and we have adopted corresponding internal control measures to improve on these matters. We have adopted the recommendations made by the internal control consultant and our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us in June 2019 and have not identified any material deficiencies in our internal control system.

Having considered that (i) the incidents at Feihe Zhenlai occurred prior to our acquisition and we implemented strict internal control measures and rectification measures shortly after our acquisition to ensure that the internal control system at Feihe Zhenlai meets the high standards required at our Group level, (ii) assimilating our corporate culture and integrating our management practices into any newly acquired business is a gradual process that takes time, (iii) our failure to make full contributions to social insurance and housing provident funds was due to the lack of comprehensive understanding of relevant labor laws and regulations by relevant staff in the past, (iv) we have not been subject to any fines relating to the non-compliances other than disclosed, and (v) the non-compliances were unintentional and do not raise concerns as to the integrity of our Directors, our Directors are of the view, and the Joint Sponsors concurs, that the historical non-compliances would not affect the suitability of our Directors under Rule 3.08 and 3.09 of the Listing Rules or our suitability for [REDACTED] under Rule 8.04 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme), Garland Glory will be entitled to exercise voting rights of approximately [REDACTED] of the issued share capital of the Company. Garland Glory is wholly-owned by LYB International, which is in turn held by Harneys Trustees as the trustee of Leng Family Trust, a discretionary trust established by Mr. Leng (as the settlor and the only discretionary object). Accordingly, each of Mr. Leng, LYB International and Garland Glory is our Controlling Shareholder.

For more information relating to our Controlling Shareholders and their shareholdings in the Company, please refer to "Substantial Shareholders" in this Document.

COMPETING INTEREST

Each of our Controlling Shareholders confirms that it/he does not have any interest in a business, apart from the business of the Group, which competes or is likely to compete (directly or indirectly) with our business and would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders [have] executed a deed of non-competition (the "**Non-competition Undertaking**") in favor of the Group, pursuant to which, for so long as we remain listed on the Main Board of the Hong Kong Stock Exchange and our Controlling Shareholders or their close associates remain controlling shareholders (as defined in the Listing Rules) of the Company, our Controlling Shareholders jointly and severally undertake to us that:

- they shall not, and shall procure that their close associates shall not, either on their own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest in any business which is in competition with or is likely to be in competition with, either directly or indirectly, the core businesses carried on by the Group from time to time during the validity period of the Non-competition Undertaking (the "**Restricted Business**");
- any business investment or other commercial opportunity relating to any Restricted Business (the "**New Opportunity**") identified by or offered to our Controlling Shareholders or any of their close associates (the "**Offeror**") be first referred to us, and we shall be given written notice of any New Opportunity containing all information reasonably necessary, including but not limited to the financial and operating information and a description of the business involved, for us to consider whether (i) such New Opportunity would constitute competition with any Restricted Business; and (ii) it is in the interest of the Group and the Shareholders as a whole to pursue such New Opportunity (the "**Offer Notice**"). Upon receipt of the Offer Notice, we will seek determinations from a committee of our Board consisting exclusively of independent non-executive Directors who do not have a material interest in the matter, as to whether (i) such New Opportunity would constitute competition with any Restricted Business; and (ii) it is in the interest of the Group and the Shareholders as a whole to pursue the New Opportunity;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- the Offeror will be entitled to pursue the New Opportunity only if the Offeror has received a notice from us declining the New Opportunity. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity, as so revised, to us in the manner set out above;
- in the event that, during the validity period of the Non-Competition Undertaking, our Controlling Shareholders or any of their close associates (except any members of the Group) intend to dispose of any business to be acquired pursuant to any New Opportunity, or any interest therein, the seller shall first offer to us the right to acquire such business or interest, and none of our Controlling Shareholders or any of their close associates (except any members of the Group) may proceed with such disposal to any third party, unless the terms of disposal are not more favorable than those offered to us, following the written rejection of such offer by us; and
- our Group will be entitled to an option to acquire any business acquired by our Controlling Shareholders or any of their close associates pursuant to any New Opportunity, or any interest therein, on and in accordance with commercial terms which shall have been opined upon by a committee of our Board consisting exclusively of independent non-executive Directors, after taking into account the advice from independent experts as being, inter alia, normal commercial terms, in line with the ordinary commercial practice of our Group, fair and reasonable and in the interests of our Group as a whole.

Each of our Controlling Shareholders also jointly and severally undertakes to:

- (i) procure that all relevant corporate and financial information in its/his possession relating to any Restricted Business be provided to us from time to time;
- (ii) to the extent not inconsistent with any confidentiality agreements, allow the authorized persons or internal auditors of the Group to access the material financial or corporate information in relation to any third-party transaction, so as to determine whether the terms of the Non-Competition Undertaking are complied with by the Controlling Shareholders and their close associates; and
- (iii) provide us, within ten Business Days from receipt of our written request, with a written confirmation in respect of its/his compliance with the Non-Competition Undertaking, and consent to the inclusion of such confirmation in our annual report.

Our Controlling Shareholders and their close associates (except any members of the Group) have also agreed to disclose, from time to time, information on the New Opportunity and the decisions made by us to pursue or decline such New Opportunity, to the extent necessary to comply with any applicable laws and regulating requirements.

The Non-Competition Undertaking above does not apply to the following circumstances:

- our Controlling Shareholders and their close associates have interests in the shares of any member of the Group or are conducting businesses on behalf of any member of the Group; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- our Controlling Shareholders and their close associates have interests in the shares of a company (other than any member of our Group) provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated sales or consolidated assets, as shown in that company's latest audited accounts; and
 - (ii) the total number of the shares held by our Controlling Shareholders and their close associates in aggregate does not exceed 10% of the issued shares of that class of such company, and our Controlling Shareholders and their close associates are not entitled to appoint a majority of the directors of that company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our businesses independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

Our Board comprises six executive Directors (including Mr. Leng, our Controlling Shareholder), two non-executive Directors and four independent non-executive Directors. Our management and operational decisions are made by our executive Directors and senior management, most of whom have served the Group for a long time and/or have substantial experience in the industry in which we are engaged. Please refer to "Directors and Senior Management" for further details.

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because: (a) each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she must act for the benefit of and in the best interests of the Company and not allow any conflict between his/her duties as a Director and his/her personal interests; (b) we believe our independent non-executive Directors bring independent judgment to the decision-making process of our Board; (c) our Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest, and shall not be counted in the quorum present at the particular Board meeting; and (d) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between the Group and our Controlling Shareholders which would support our independent management. Please refer to "– Corporate Governance Measures" in this section below for further information.

Based on the above, our Directors are satisfied that our Board together with our senior management team are able to manage the Group independently from our Controlling Shareholders.

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in the Company after the [REDACTED], we have full rights to make all decisions regarding, and to carry out, our own business operations independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Company (through its subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry out its business in all material respects, and has sufficient capital, equipment and employees to operate its business (including but not limited to product development and marketing and sales activities) independently from our Controlling Shareholders. Each of Garland Glory and LYB International is an investment holding company, and we do not rely on any of its operational, administration or human resources. In addition, our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal control measures to facilitate the effective operation of our business.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

Financial Independence

The Group has its own internal control, accounting, funding, reporting and financial management system and accounting and finance department, and has the ability to operate independently from our Controlling Shareholders from a financial perspective.

In addition, the Group does not rely on the Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance. Our Directors confirmed that, as of the Latest Practicable Date, none of the Controlling Shareholders or their respective close associates had provided any loans, guarantees or pledges to the Group. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Our Directors also confirmed that, as of the Latest Practicable Date, the Group did not provide any loans, guarantees or pledges to our Controlling Shareholders or their respective close associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that it/he fully comprehends its/his obligations to act in the best interests of the Company and our Shareholders as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) where a Shareholders' meeting is to be held for considering proposed transactions in which a Controlling Shareholder or any of its/his close associates has a material interest, such Controlling Shareholder will abstain from voting on the relevant resolutions;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) the Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if the Company enters into connected transactions with a Controlling Shareholder or any of its/his associates, the Company will comply with the applicable requirements under the Listing Rules;
- (d) we are committed that our Board shall include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). We have appointed four independent non-executive Directors, and we believe our independent non-executive Directors (i) possess sufficient experience, (ii) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment, and (iii) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole;
- (e) in the event that our independent non-executive Directors are requested to review any conflict of interests circumstances between the Group on one hand and our Controlling Shareholders and/or our Directors on the other hand, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information for consideration and our independent non-executive Directors can seek advices from independent advisers at the cost of the Company where necessary;
- (f) the independent non-executive Directors will review the compliance with the Non-competition Undertaking on an annual basis. We will disclose in our annual report the decisions (if any) of the independent non-executive Directors on matters relating to the New Business Opportunities and the relevant basis; and
- (g) we have appointed Anglo Chinese Corporate Finance, Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

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

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

The following table sets forth certain information about our Directors and senior management:

Name	Age	Position	Date of joining the Group	Date of appointment	Responsibilities	Relationship with other Directors or senior management debtors
Mr. LENG Youbin (冷友斌)	50	Executive Director, Chairman, Chief Executive Officer	August 21, 1996	January 9, 2013	Responsible for the overall development strategies and business plans of the Group	None
Mr. LIU Hua (劉華)	46	Executive Director, Vice Chairman, Chief Financial Officer	November 6, 2000	June 26, 2013	Responsible for the audit, accounting and financial management of the Group	None
Mr. CAI Fangliang (蔡方良)	50	Executive Director, President	November 22, 2010	June 26, 2013	Responsible for the overall management and business development of the Group	None
Mr. LIU Shenghui (劉聖慧)	48	Executive Director, Vice President of Finance	August 21, 1996	June 26, 2013	Responsible for the internal audit and financial management of the Group	None

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining the Group</u>	<u>Date of appointment</u>	<u>Responsibilities</u>	<u>Relationship with other Directors or senior management debtors</u>
Ms. Judy Fong-Yee TU (涂芳而)	43	Executive Director, Vice President, Joint Company Secretary	October 1, 2006	June 26, 2013	Responsible for the international business development, capital market matters and legal affairs of the Group	None
Mr. CHEUNG Kwok Wah (張國華)	54	Executive Director, Chairman of Vitamin World International Co., Ltd.	April 2, 2019	April 28, 2019	Responsible for overseas sales and promotion of infant milk formula products, and overseas development strategies of Vitamin World	None
Mr. GAO Yu (高煜)	45	Non-executive Director	June 26, 2013	June 26, 2013	Responsible for providing strategic advice on the business development of the Group	None
Mr. Kingsley Kwok King CHAN (陳國勁)	42	Non-executive Director	June 26, 2013	June 26, 2013	Responsible for providing strategic advice on the business development of the Group	None
Ms. LIU Jinping (劉晉萍)	47	Independent Non-executive Director	June 18, 2019	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board	None

DIRECTORS AND SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining the Group</u>	<u>Date of appointment</u>	<u>Responsibilities</u>	<u>Relationship with other Directors or senior management debtors</u>
Mr. SONG Jianwu (宋建武)	55	Independent Non-executive Director	June 18, 2019	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board	None
Mr. FAN Yonghong (范勇宏)	51	Independent Non-executive Director	June 18, 2019	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board	None
Mr. Jacques Maurice LAFORGE	63	Independent Non-executive Director	June 18, 2019	June 18, 2019	Responsible for overseeing and providing independent judgment to the Board	None

Executive Directors

Mr. LENG Youbin (冷友斌), aged 50, is an executive Director, the Chairman of the Board and the Chief Executive Officer of the Company. He has over 30 years of experiences in the dairy industry. Mr. Leng has been a Director, the Chairman of the Board and the Chief Executive Officer of the Company since January 2013, and was re-designated as an executive Director in April 2017. Mr. Leng has been a director of Vitamin World since December 2017 and has been the executive director of Feihe Gannan since March 2006. He has served as the general manager and director of Feihe HLJ since August 1996, during which he concurrently served as the deputy head of Zhaoguang Farm from December 1999 to December 2001. Before that, he worked in Zhaoguang Dairy since from March 1987 to May 1993.

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

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. LIU Hua (劉華), aged 46, is an executive Director, the Vice Chairman of the Board and the Chief Financial Officer of the Company. He joined Feihe HLJ in November 2000 and has been the chief financial officer of Feihe HLJ since then. He has been a Director, the Vice Chairman of the Board and the Chief Financial Officer of the Company since June 2013, and was re-designated as an executive Director in April 2017. Mr. Liu has been a director of Vitamin World since December 2017. Mr. Liu has been involved in the financing activities of the Group, including the quotation of Flying Crane U.S. on the OTCBB in 2003 and the listing of Flying Crane U.S. on the NYSE in 2009.

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

Mr. CAI Fangliang (蔡方良), aged 50, is an executive Director and the President of the Company. He joined Feihe HLJ in November 2010 and has been the president of Feihe HLJ since then. He has been a Director and the President of the Company since June 2013, and was re-designated as an executive Director in April 2017. He has been a director of Vitamin World since December 2017. Mr. Cai has focused on the marketing management of the Group and the overall management of the Company and business development. Before joining the Group, Mr. Cai worked at Jiangxi Meilu Dairy Co., Ltd. (江西美廬乳業有限公司) from December 2008 to October 2010. Before that, Mr. Cai worked at Yashili Group Co., Ltd. (廣東雅士利集團有限公司).

Mr. LIU Shenghui (劉聖慧), aged 48, is an executive Director and the Vice President of Finance of the Company. He joined Feihe HLJ in August 1996 and has been the vice president of finance of Feihe HLJ since then. He has been a Director and the Vice President of Finance of the Company since June 2013, and was re-designated as an executive Director in April 2017.

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

Ms. Judy Fong-Yee TU (涂芳而), aged 43, is an executive Director, a Vice President and a Joint Company Secretary of the Company. She joined Feihe HLJ in October 2006 and has been a vice president of Feihe HLJ since then. She has been a Director and a Vice President of the Company since June 2013, a Joint Company Secretary of the Company since July 2017, and was re-designated as an executive Director in April 2017. Ms. Tu has been a director of Vitamin World since June 2018. Ms. Tu has been extensively involved in the international business development and capital market matters of the Group, including the listing of Flying Crane U.S. on the NYSE in 2009, the FCUS Privatization in 2013, the establishment of Feihe Nutrition Laboratory with Beth Israel Deaconess Medical Center of Harvard Medical School in 2014, the Group's expansion in Canada in 2015 and the acquisition of Vitamin World in 2018.

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. CHEUNG Kwok Wah (張國華), aged 54, is an executive Director of the Company. He has been the Chairman of Vitamin World International and the Chairman of Vitamin World USA since April 2019. Before joining the Group, Mr. Cheung held various senior positions within the Nestle Group from December 2012 to March 2018, including the global business head of Wyeth Infant Nutrition from October 2016 to March 2018, the chairman and chief executive officer of Nestle Greater China Region from May 2014 to September 2016, and a regional president of Wyeth Nutrition, Greater China Region from December 2012 to February 2014. Before that, Mr. Cheung also took the following positions within the Wyeth Nutrition, including the regional president of China and Hong Kong of Pfizer Nutritionals and the associate vice president of Wyeth Nutritional (China) Co., Ltd.. Mr Cheung worked at the Shanghai and Hong Kong offices of Coca-Cola (listed on the New York Stock Exchange, Stock Code: KO) from October 1997 to December 2004 and was appointed as the vice president and director of Strategic Marketing of Coca-Cola in February 2000. Before that, Mr. Cheung worked in the marketing department of Procter & Gamble (listed on the New York Stock Exchange, Stock Code: PG) until 1996.

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

Non-executive Directors

Mr. GAO Yu (高煜), aged 45, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. Mr. Gao has been working in the Morgan Stanley group of companies since August 2005 and is currently a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited. He currently serves as an independent non-executive director of China Dongxiang (Group) Co., Ltd. (listed on the Hong Kong Stock Exchange, Stock Code: 3818), a non-executive director of Sparkle Roll Group Limited (listed on the Hong Kong Stock Exchange, Stock Code: 0970) and a director of Shandong Buchang Pharmaceuticals Co., Ltd. (山東步長制藥股份有限公司, listed on the Shanghai Stock Exchange, Stock Code: 603858). Mr. Gao has a long history of working within the investment banking industry before joining Morgan Stanley Asia Limited.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kingsley Kwok King CHAN (陳國勁), aged 42, has been a Director since June 2013, and was re-designated as a non-executive Director in April 2017. Mr. Chan has been working in the Morgan Stanley group of companies since May 2007 and is currently a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited. He currently holds directorship in various companies invested by Morgan Stanley as its representative. He is at the same time a non-voting observer on the board of Yirendai Ltd. (宜人貸, listed on the New York Stock Exchange, NYSE: YRD). Before joining Morgan Stanley Asia Limited, Mr. Chan worked in Credit Suisse (Hong Kong) Limited from July 2004 to April 2007 and the Asia Investment Banking Department of Citigroup Global Markets Asia Limited from September 1999 to June 2004.

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

Independent Non-executive Directors

Ms. LIU Jinping (劉晉萍), aged 47, has been an independent non-executive Director since June 2019. Ms. Liu is currently a deputy director of the Center of Extracorporeal Circulation and the director of the Department of Pediatric Extracorporeal Circulation of Fu Wai Hospital (阜外醫院). She has been a chief physician of the Department of Extracorporeal Circulation in anesthesiology of Fu Wai Hospital since September 2012. Before that, she served in several positions in the Department of Extracorporeal Circulation of Fu Wai Hospital, including an associate chief physician from September 2006 to September 2012, an attending physician from August 2001 to August 2005, and a resident physician from August 1995 to August 2001.

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

Mr. SONG Jianwu (宋建武), aged 55, has been an independent non-executive Director since June 2019. Mr. Song has been a professor and doctoral supervisor of Renmin University of China (中國人民大學) since August 2015. Before that, he served in several positions in China University of Political Science and Law (中國政法大學), including the director of the School of Journalism and Communication from October 2008 to March 2013 and a deputy director of the School of Humanities from January 2006 to October 2008.

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

DIRECTORS AND SENIOR MANAGEMENT

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

Mr. FAN Yonghong (范勇宏, former name: 范永红), aged 51, has been an independent non-executive Director since June 2019. Mr. Fan has been an independent director and a member of the audit committee of Yintech Investment Holdings Limited (銀科投資控股有限公司, listed on the Nasdaq Stock Exchange, Stock Code: YIN) since May 2018, Mr. Fan used to serve as the general manager of Hongshi Capital Management Co., Ltd. (宏實資本管理有限公司) since March 2016 and hold various management position in China Construction Bank Corporation (中國建設銀行股份有限公司) and Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from 1988 to 1998. Mr. Fan served as the general manager of China Asset Management Co., Ltd. (華夏基金管理有限公司) and then the chairman of the board of China Asset (Hong Kong) Co., Ltd. (華夏基金(香港)有限公司) from 1998 to 2013. Mr. Fan served as the chief investment officer (首席執行投資官) of China Life Asset Management Company Limited (中國人壽資產管理有限公司) from December 2013 to April 2015. Mr. Fan also served as the vice chairman of Asset Management Association of China (中國證券投資基金業協會) 2007 to 2011 and a member of the third and fourth session of Issuance Examination Committee of China Securities Regulatory Commission (中國證券監督管理委員會發行審核委員會) from 1997 to 2001, where he was involved in the review of listing application from all aspects (including financial) of PRC companies. Mr. Fan has also accumulated extensive experience in financial investments during his serving as general manager of China Asset Management Co., Ltd. and the chief investment officer of China Life Asset Management Company Limited.

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

Mr. Jacques Maurice LAFORGE, aged 63, has been an independent non-executive Director since June 2019. He has extensive experience in Canadian dairy industry. He was the chief executive officer and commissioner with Canadian Dairy Commission from February 2012 to May 2018. Before that, he served in Dairy Farmers of Canada, a non-profit organization funded by dairy farmers from January 1989 to July 2011 at several positions, including a board member from January 1989 to August 1999, a member of executive committee from August 1999 to March 2001, the second vice president from March 2001 to August 2003, the first vice president from August 2003 to August 2004 and the president from August 2004 to July 2011. Mr. Laforge currently serves as the president of Laforge Environmental Inc. and Laforge Holsteins Ltd., a waste to energy facilities and mixed farming operation located in Canada.

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

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Ms. Judy Fong-Yee TU (涂芳而), an executive Director and a Vice President of the Company, also serves as a Joint Company Secretary. For her biography, please refer to "Directors and Senior Management" in this section.

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

Ms. Chan is a director of Corporate Services of Tricor Services Limited, a global professional services provider specialising in integrated business corporate and investor services. Ms. Chan has over 20 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chan is currently the company secretary or a joint company secretary of five listed companies on the Hong Kong Stock Exchange, including Razer Inc. (stock code: 1337), IMAX China Holding, Inc. (stock code: 1970), SITC International Holdings Company Limited 海豐國際控股有限公司 (stock code: 1308), China Polymetallic Mining Limited 中國多金屬礦業有限公司 (stock code: 2133), Sun Art Retail Group Limited 高鑫零售有限公司 (stock code: 6808), Ms. Chan was a former company secretary of TCC International Holdings Limited 台泥國際集團有限公司 (stock code: 1136, delisted on 20 November 2017) and China Maple Leaf Educational Systems Limited 中國楓葉教育集團有限公司 (stock code: 1317).

Ms. Chan is a Chartered Secretary, a Chartered Governance Professional and Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from The Hong Kong Institute of Chartered Secretaries. Ms. Chan holds an honours bachelor's degree in accountancy from the City University of Hong Kong and a bachelor of laws degree from the University of London.

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

BOARD COMMITTEES

Audit Committee

We [have] established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee [consists] of three members, namely Mr. FAN Yonghong, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE, among whom Mr. FAN Yonghong [serves] as the chairman of the Audit Committee.

The primary duties of the Audit Committee are to oversee the financial reporting, risk management and internal control systems and procedures of the Company, review the financial information of the Company, consider issues relating to the external auditors and their appointment, and perform other duties and corporate governance responsibilities as may be assigned by the Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

We [have] established a Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee [consists] of three members, namely Ms. LIU Jinping, Mr. LIU Hua and Mr. Jacques Maurice LAFORGE, among whom Ms. LIU Jinping [serves] as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to advise on and formulate the remuneration and appraisal policy in respect of our Directors, senior management and other management members of the Group and make recommendations to the Board.

Nomination Committee

We [have] established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee [consists] of three members, namely Mr. LENG Youbin, Ms. LIU Jinping and Mr. SONG Jianwu, among whom Mr. LENG Youbin [serves] as the chairman of the Nomination Committee.

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Pursuant to A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Leng has been served as the Chairman of the Board and the Chief Executive Officer of the Company since January 2013. He is the founder of the Group and has been operating and managing the Group. Our Directors believe that it is beneficial to the business operations and management of the Group that Mr. Leng continues to serve as both the Chairman of the Board and the Chief Executive Officer of the Company.

Save as disclosed above, our Directors consider that upon [REDACTED], we will comply with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIVERSITY

We have adopted the board diversity policy which sets out the objects and approaches to achieve and maintain diversity of the Board in order to enhance the effectiveness of the Board. Pursuant to the board diversity policy, we seek to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and education background, professional experience, skills, relevant knowledge and/or length of service.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of fees, salaries, bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations.

The aggregate amount of compensation and benefits in kind paid to our executive Directors, who are also our five highest paid individual, for each of the three years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019, were approximately RMB[18.7] million, RMB[26.9] million, RMB[24.1] million and RMB[4.6] million, respectively. Our non-executive Directors did not

DIRECTORS AND SENIOR MANAGEMENT

receive any compensation or benefits in kind for each of the three years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019.

Under the arrangements currently in force, we estimate the aggregate remuneration and benefits in kind payable to our Directors (excluding discretionary bonuses) for the year ending December 31, 2019 to be approximately RMB[40] million.

During the Track Record Period, no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, our Directors or past directors of the Company or the five highest paid individuals for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group. None of our Directors had waived or agreed to waive any remuneration and/or emoluments during the Track Record Period.

Save as disclosed above, no other payments have been made or are payable to our Directors by the Group in respect of each of the three years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019.

COMPLIANCE ADVISER

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance adviser (the "Compliance Adviser") upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 and Rule 3A.24 of the Listing Rules, the Compliance Adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular, or financial report;
- where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the [REDACTED] in a manner different from that detailed in this Document;
- where our business activities, developments, or results deviate from any forecast, estimate or other information in this Document; and
- where the Hong Kong Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules regarding unusual movements in the price or trading volume of our securities, the possible development of a false market in our securities or any other matters.

The term of appointment of the Compliance Adviser shall commence on the [REDACTED] and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

[REDACTED] SHARE OPTION SCHEME

We have adopted the [REDACTED] Share Option Scheme on [●], 2019. For details, please refer to "Appendix IV – Statutory and General Information – D. [REDACTED] Share Option Scheme."

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and its subsidiaries:

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Shares or underlying Shares</u>	<u>Approximate percentage of interest in the Company⁽⁴⁾</u>
Harneys Trustees ⁽¹⁾⁽²⁾	Trustee of a trust	[REDACTED]	[REDACTED]
Mr. Leng ⁽²⁾⁽³⁾	Founder of a discretionary trust and interest in a controlled corporation	[REDACTED]	[REDACTED]
LYB International ⁽²⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Garland Glory ⁽²⁾	Beneficial owner	[REDACTED]	[REDACTED]
Morgan Stanley ⁽³⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
MS Holdings Incorporated ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Morgan Stanley Private Equity Asia III, Inc. ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Morgan Stanley Private Equity Asia III, L.L.C. ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
NH LP ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
MSPEA III ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
NHPEA ⁽⁴⁾	Beneficial owner	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

- (1) Harneys Trustees acts as:
 - (i) the trustee of Leng Family Trust holding the entire issued share capital of LYB International, which in turn holds the entire issued share capital of Garland Glory. Accordingly, Harneys Trustees is deemed to be interested in the Shares held by Garland Glory by virtue of the SFO. Garland Glory directly holds [REDACTED] Shares;
 - (ii) the trustee of LH Family Trust holding the entire issued share capital of LH Capital, which in turn holds the entire issued share capital of LH Financial. Accordingly, Harneys Trustees is deemed to be interested in the Shares held by LH Financial by virtue of the SFO. LH Financial directly holds [REDACTED] Shares; and
 - (iii) the trustee of Liu Family Trust holding the entire issued share capital of LSH International, which in turn holds the entire issued share capital of LSH Investment. Accordingly, Harneys Trustees is deemed to be interested in the Shares held by LSH Investment by virtue of the SFO. LSH Investment directly holds [REDACTED] Shares.

Accordingly, Harneys Trustees is deemed to be interested in [REDACTED] Shares or underlying Shares in aggregate by virtue of the SFO.

- (2) Harneys Trustees, the trustee of Leng Family Trust, in its capacity as trustee holds the entire issued share capital of LYB International, which in turn holds the entire issued share capital of Garland Glory. Leng Family Trust is a discretionary trust established by Mr. Leng (as the settlor and the only discretionary object). Accordingly, each of Harneys Trustees, Mr. Leng and LYB International is deemed to be interested in the Shares held by Garland Glory by virtue of the SFO.
- (3) Dasheng limited directly holds [REDACTED] Shares. Mr. Leng, holding approximately 33.33% equity interest in Dasheng Limited, is also interested in the shares held by Dasheng Limited.
- (4) The sole shareholder of NHPEA is MSPEA III, and the controlling shareholder of MSPEA III is NH LP which holds 92.13% equity interest in MSPEA III. The general partner of NH LP is Morgan Stanley Private Equity Asia III, L.L.C. 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. 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. Accordingly, 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 Shares held by NHPEA by virtue of the SFO.
- (5) The calculation is based on the total number of [REDACTED] Shares in issue following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme).
- (6) All the interests stated above are long positions.

Save as disclosed above, the substantial Shareholders are not related to each other.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and its subsidiaries.

SHARE CAPITAL

SHARE CAPITAL

The following is a summary of the authorized and issued share capital of the Company as of the Latest Practicable Date and immediately following the completion of the [REDACTED]:

	Aggregate par value	Approximate percentage
	(US\$)	
<i>As of the Latest Practicable Date:</i>		
<i>Authorized share capital</i>		
50,000 Shares of US\$1.00 each	50,000	N/A
<i>Issued and fully paid</i>		
201 Shares of US\$1.00 each	201.00	100%
<i>Immediately after completion of the [REDACTED]:</i>		
<i>Authorized share capital</i>		
200,000,000,000 Shares of US\$0.000000025 each	50,000	N/A
<i>Issued and to be issued, fully paid or credited to be fully paid</i>		
[REDACTED] Shares in issue	201.00	[REDACTED]
[REDACTED] Shares to be [REDACTED] under the [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] Shares in total	[REDACTED]	100%

ASSUMPTIONS

The above table assumes the [REDACTED] becomes unconditional and the [REDACTED] of Shares pursuant to the [REDACTED] is made as described herein. It does not take into account of any Shares which may be [REDACTED] upon the exercise of the [REDACTED] or any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described below.

RANKINGS

The [REDACTED] will rank equally in all respects with all of the Shares now in issue or to be [REDACTED] as mentioned in this Document, and will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this Document.

SHARE CAPITAL

[REDACTED] SHARE OPTION SCHEME

The Company has adopted the [REDACTED] Share Option Scheme on [●], 2019. Please refer to "Appendix IV – Statutory and General Information – D. [REDACTED] Share Option Scheme" for details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in "Structure of the [REDACTED] – the [REDACTED]," our Directors have been granted an unconditional general mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to:

- (i) a rights issue;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association;
- (iii) the exercise of the options granted pursuant to the [REDACTED] Share Option Scheme; or
- (iv) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total number of the issued Shares of the Company immediately following the completion of the [REDACTED] (but excluding any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme or any Shares which may be [REDACTED] pursuant to the exercise of the [REDACTED]); and
- (ii) the total number of the Shares of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to "– General Mandate to Repurchase Shares" below.

This general mandate to issue Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when it was varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please refer to "Appendix IV – Statutory and General Information – A. Further Information about the Group – 3. Resolutions in Writing of the Shareholders Passed on [●], 2019."

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in "Structure of the [REDACTED] – The [REDACTED]," our Directors have been granted an unconditional general mandate to exercise all the powers of the Company to repurchase Shares with a total number of not more than 10% of the total number of the issued Shares of the Company immediately following the completion of the [REDACTED] (but excluding any Shares to be [REDACTED] upon the exercise of options granted under the [REDACTED] Share Option Scheme or any Shares which may be [REDACTED] pursuant to the exercise of the [REDACTED]).

This general mandate relates only to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Appendix IV – Statutory and General Information – A. Further Information about the Group – 4. Repurchases of Our Own Securities."

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when it was varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to "Appendix IV – Statutory and General Information – A. Further Information about the Group – 3. Resolutions in Writing of the Shareholders Passed on [●], 2019."

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Upon completion of the [REDACTED], the Company will have only one class of Shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of our Articles of Association, the Company may from time to time by Shareholders' ordinary resolution to (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may reduce its share capital by Shareholders' special resolution.

SHARE CAPITAL

Pursuant to the Cayman Companies Law and the terms of our Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class.

For more details of the above, please refer to "Appendix III – Summary of the Constitution of the Company and Cayman Companies Law – 2. Articles of Association."

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information as of and for the years ended December 31, 2016, 2017 and 2018 and three months ended in March 31, 2018 and 2019 included in "Appendix I – Accountants' Report" to this Document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this Document.

OVERVIEW

Feihe is the largest domestic brand infant milk formula company and the second largest overall among domestic and international brands in China, with a market share of 15.6% among domestic brands and 7.3% overall in terms of 2018 retail sales value, according to the F&S Report. Sales of our high-end infant milk formula products accounted for 42.6%, 64.5%, 64.1%, 63.4% and 65.8% of our total revenue for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, respectively. During the Track Record Period, we also produced regular infant milk formula products and other products, including adult milk powder, liquid milk products and goat milk infant formula and soybean powder. We expect to continue to concentrate our resources on high-end infant milk formula products and generate an increasing proportion of our revenue from sales of such products.

We sell our products primarily to a network of 1,123 distributors and 610 retailers with over 92,000 points of sale nationwide as of March 31, 2019. Revenue generated through sales to our distributors accounted for 77.6%, 76.7%, 67.5%, 69.7% and 69.4% of our total revenue for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, respectively. We sell our products to distributors, who generally sell our products to maternity specialty stores, supermarkets and hypermarkets. In addition, we sell to our retailers, which comprised maternity specialty store operators and supermarkets and hypermarket chains. Recognizing the growing importance of e-commerce in China, particularly among younger generations of consumers, we also sell our products online through our website and WeChat account as well as through e-commerce platforms such as Tmall and JD.com.

We believe that our reputation as a premium and high quality brand has generated significant demand for our high-end infant milk formula products and driven our revenue growth during the Track Record Period. For the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, our revenue was RMB3,724.4 million, RMB5,887.3 million, RMB10,391.9 million, RMB1,968.9 million and RMB2,756.0 million, respectively, and our profit for the year/period was RMB406.2 million, RMB1,160.2 million, RMB2,242.3 million, RMB621.1 million and RMB771.0 million, respectively.

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While focusing on our principal business of production and sales of infant milk formula products, we have been actively seeking opportunities to diversify our businesses. Considering the short lifecycle of members of infant milk formula products and prospect of nutritional supplement industry, we acquired the retail health care business of Vitamin World in 2018. See "History, Development and Reorganization — History and Development — Acquisition of the Retail Health Care Business of Vitamin World." We started recognizing revenue for the sales of nutritional supplement products since our acquisition of Vitamin World in 2018. As of March 31, 2019, we sold a majority of our nutritional supplement products in the United States. We also sell such products through e-commerce platforms, such as Tmall Global and JD.hk.

BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in the Document, the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group were under the common control of the controlling shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods or since the date when the respective subsidiaries were incorporated/established.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under common control of the controlling shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as of December 31, 2016, 2017 and 2018 and March 31, 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the following are key factors that affect our results of operations.

Demand for Our Products

Our financial performance and future success will depend on our ability to continue increasing sales of our products. In recent years, China's overall infant milk formula market has faced challenges with fluctuated growth rates in market size mainly due to factors such as declines in birth rates and an increase in cross-border purchases by Chinese consumers. However, high-end infant milk formula products have occupied an increasing share of the overall infant milk formula market in China, driven mainly by continued urbanization, rising disposable income of urban households, increasing focus on product quality and safety, increasing appreciation for nutritional content of infant milk formulas and China's liberalization of the one-child policy in 2015. Moreover, the market for high-end, particularly super-premium, infant milk formula products in China is expected to continue to grow significantly.

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According to the F&S Report, the market size for super-premium infant milk formula is estimated to grow from RMB41.3 billion in 2018 to RMB90.4 billion in 2023. In light of our focus on the high-end segment, and more specifically the super-premium segment, and the increased demand for both high-end products and super-premium products, we expect that we will benefit from the growth of such segments with our leading position and strong brand reputation.

Product Mix

Our revenue and profitability are substantially affected by our product mix. We primarily sell dairy products to our customers. A substantial amount of our revenue and profits generated from dairy products are derived from the sales of our infant milk formula products. We group our infant milk formula products into two main product categories, namely, our high-end infant milk formulas and regular infant milk formulas. In recent years, we have focused on developing products catered to the high-end infant milk formula market and solidifying our brand as a leading provider of high-end infant milk formula products. As a result of our efforts, revenue from our high-end infant milk formula products as a percentage of our total revenue increased from 42.6% in 2016 to 64.5% in 2017, and remained relatively stable at 64.1% in 2018, and increased from 63.4% for the three months ended March 31, 2018, to 65.8% for the three months ended March 31, 2019. The increase in sales of our high-end products, particularly our super-premium Astrobaby product series, which generally have higher gross profit margins, as well as the decrease in sales of our other lower-margin products as we streamline our product portfolio, has affected our margins. The gross profit margin of our high-end products was 68.9%, 74.1%, 76.5%, 78.7% and 69.1% for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, respectively, and the gross profit margin of our super-premium Astrobaby product series was 75.5%, 77.7%, 79.3%, 83.2% and 71.0% for the same periods. The gross profit margin of our regular infant milk formula products was 54.7%, 58.4%, 62.7%, 60.4% and 58.9% for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, respectively, which is lower than the gross profit margin of both our high-end products and super-premium products for the same periods. We expect to continue focusing on our high-end products and streamlining our product portfolio to discontinue product series with lower margins. As such, we believe our changing product mix will continue to have an impact on our revenue and profitability.

Effectiveness of Our Marketing Strategy and Relevant Expenses

Since 2015, we have positioned our brand as "More Suitable for Chinese Babies" and have established strong brand association with such message. In order to drive home our message, develop strong brand loyalty and secure recurring sales, we have implemented a number of online and offline marketing strategies, including creating user-oriented virtual communities on our WeChat accounts, holding face-to-face seminars and conducting results-driven advertising on traditional media. In 2018, we held over 300,000 face-to-face seminars, including over 5,500 Mother's Love seminars which had over 600,000 attendees in total.

We plan to focus on holding significantly more smaller-scale seminars (such as Mini Shows and Mother's Love seminars), which we believe are more effective and also less expensive to hold compared to larger-scale seminars (such as Carnival seminars). We believe that these face-to-face seminars have been effective in enhancing our brand recognition. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our offline events expenses, which primarily consisted of face-to-face seminars, amounted to RMB233.4 million, RMB441.0 million, RMB865.0 million, RMB38.3 million and RMB41.2 million, respectively. We expect our offline events

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expenses to increase based on the number and composition of our face-to-face seminars held, which have varying costs for event space rental, trainers and other miscellaneous expenses. We will continue to invest in advertising for online and traditional media advertising. As we continue to engage in innovative marketing efforts and consumer education, we expect to strengthen our value proposition and increase our sales.

Sales and Distribution Network

Our products are sold nationwide through our extensive sales and distribution network that covers most regions in China. During the Track Record Period, we primarily sold our products to (i) distributors, (ii) retailers and (iii) online e-commerce platforms and end consumers through e-commerce channels.

Our distributors sell to the maternity specialty stores, hypermarkets and supermarkets, which are not owned or operated by such distributors. Our retailers cover the maternity specialty stores, hypermarkets and supermarkets, which are self-owned or -operated by such retailers. As of December 31, 2016, 2017 and 2018 and March 31, 2019, the number in total of points of sale covered by our distributors and retailers amounted to over 58,000, 67,000, 90,000 and 92,000, respectively. This increase in total points of sale contributed to the increase in our revenue.

We sold our products directly to end consumers through our website, mobile application, WeChat and e-commerce platforms such as Tmall, JD.com and Suning.com. During the Track Record Period, we managed these sales channels directly so as to better control our costs and manage product delivery times relating to our online sales. Our e-commerce channels contributed an increasing portion of revenue. The revenue from our online sales amounted to RMB120.7 million, RMB387.2 million, RMB1,085.4 million, RMB143.4 million and RMB179.0 million for the years ended December 31, 2016, 2017 and 2018 and three months ended March 31, 2018 and 2019, accounting for 3.2%, 6.6%, 10.4%, 7.3% and 6.5% of our total revenue for the same periods, respectively. Although e-commerce sales only contributed a relatively small portion of our total revenue during the Track Record Period, in light of the increasing importance of e-commerce we believe our online sales channel has great growth potential as it addresses the purchasing habits of younger generations.

Cost of Raw Materials

The per unit costs of producing our infant milk formula are subject to the supply and price volatility of fresh milk and other raw materials, which are affected by the PRC and global markets. We use high quality, locally sourced fresh milk as the primary ingredient for our infant milk formula production instead of using milk powder. The cost of fresh milk we purchase is approximately one and half times of the cost of milk powder. During the Track Record Period, our fresh milk procurement price was RMB4,006.4 per tonne, RMB3,982.9 per tonne, RMB3,977.8 per tonne, RMB4,023.0 per tonne and RMB4,154.0 per tonne in 2016, 2017, 2018 and for the three months ended March 31, 2019. For the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, our cost of sales of fresh milk amounted to RMB569.9 million, RMB666.4 million, RMB888.1 million, RMB167.8 million and RMB266.7 million, respectively, accounting for 33.7%, 31.8%, 26.4%, 27.8% and 27.0% of our cost of sales, respectively. We mainly purchase our fresh milk from YST Group, as well as other local dairy farms. We entered into a framework agreement with YST Group on May 12, 2017 to secure long-term and stable supplies of high-quality fresh milk for our operations. This new framework agreement was approved by the independent shareholders of YST on July 17, 2017. For more information, see "Business — Suppliers and Raw Materials — Our Raw Materials — Fresh Milk — Our Historical

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Relationship with YST Group.” Purchases from YST Group amounted to RMB456.4 million, RMB531.2 million, RMB762.9 million, and RMB182.4 million for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2019, respectively, equivalent to 84.2%, 83.5%, 86.8% and 88.1% of our total fresh milk procurement costs. In addition, we procure a variety of other ingredients that affect our operating results, such as whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose, which may also have price fluctuations. We expect fluctuations in fresh milk and other raw material prices to continue to affect our gross profit, our profit margins and other aspects of our operating results.

Recent Acquisition and Disposal

During the Track Record Period, we conducted an acquisition in relation to Vitamin World, and a disposal in relation to Guanshan Dairy. See “History, Development and Reorganization — Major Acquisitions, Disposals and Deregistration.”

We acquired the retail health business of Vitamin World in January, 2018 to expand our business into the nutritional supplement industry. The following table sets forth the revenue, gross profit and net profit/loss of Vitamin World for the periods indicated:

	For the year ended December 31,		For the three months ended March 31,	
	2018		2019	
	<i>(In thousands of RMB, except percentages)</i>			
Revenue and percentage of our total revenue	640,525	6.2%	150,341	5.5%
Gross profit and percentage of our total gross profit	264,668	3.8%	81,291	4.6%
Net profit/(loss) and percentage of our total net profit	(186,066)	(8.3)%	(23,789)	(3.1)%

We invested in Guanshan Dairy in 2014 to develop our goat milk infant formula business. In 2015, Guanshan Dairy’s net loss of RMB100.8 million was primarily due to the RMB155.3 million in expenses in relation to the Guanshan Dairy Incident. In 2016, our aggregate net loss in relation to Guanshan Dairy was RMB100.1 million, which comprised (i) a RMB36.1 million net loss recognized by Guanshan Dairy before our disposal, primarily because its business declined following the Guanshan Dairy incident, and (ii) a RMB64.0 million loss at our Group level when we disposed of Guanshan Dairy in December 2016. The following table sets forth the revenue, gross profit and net profit/loss of Guanshan Dairy in 2016:

	For the year ended December 31,	
	2016	
	<i>(In thousands of RMB, except percentages)</i>	
Revenue and percentage of our total revenue	103,602	2.8%
Gross profit and percentage of our total gross profit	9,921	0.5%
Net profit/(loss) and percentage of our total net profit	(36,120)	(8.9)%

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We acquired intangible assets, including brand logos and distribution channels, and goodwill from Baby Mom HLJ in January 2015. As a result of declines in Guanshan Dairy's business in 2016 following the Guanshan Dairy incident, Guanshan Dairy utilized the distribution channels of Baby Mom QQH in order to enhance its business. Upon the disposal of Guanshan Dairy in December 2016, the distribution channels and other intangible assets of Baby Mom QQH were written down as an impairment of goodwill of RMB22.1 million and amortization of intangible assets of RMB13.9 million.

We intend to continue to seek acquisition and investment opportunities to expand our operations. However, businesses that we acquire as part of our growth strategies may not succeed and may have a material adverse effect on our business and profitability. See "Risk Factors — Risks Relating to Our Business — Our acquisition strategies may not succeed."

Government Grants

During the Track Record Period, we received government grants in the form of cash subsidies from local government authorities in Heilongjiang and Jilin provinces. These government grants have been provided in support of our business development generally, except for two agreements that stipulate the relevant grant shall be used for construction and acquisition purposes in relation to the production lines at the Kedong Plant and Jilin Plant. We recognized government grants of RMB280.8 million, RMB253.0 million, RMB411.9 million, RMB103.2 million and RMB113.2 million for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, respectively, which accounted for 47.2%, 15.3%, 12.9%, 12.1% and 10.4% of our profit before tax for the same periods. For more information, see " — Description of Key Components of Results of Operations — Other Income and Gains, Net." During the Track Record Period, we primarily received such government grants pursuant to agreements we entered into with local government authorities. Based on Notice 25, our PRC Legal Advisers have advised us that such agreements remain in effect are valid and binding, save for (i) one of our government grant agreements that was extended for a one-year period after the promulgation of Notice 25 in 2015, where the possibility that we cannot receive government grants in the one-year extension from 2019 to 2020 is remote, and (ii) one government grant agreement that was entered into after the promulgation of Notice 25, where the possibility that we cannot receive government grants pursuant to such agreement is remote. Our PRC Legal Advisers have further advised us that, (i) according to Notice 25, we would not be required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreements entered into before the promulgation of Notice 25, and (ii) the possibility that we were required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreement entered into after the promulgation of Notice 25 is remote. Our ability to continue to enjoy government grants is subject to changes in national or local policies that affect the validity of such agreements and the availability of similar preferential arrangements, and will be affected by any termination of, or amendment to, such agreements for any reason. Moreover, we may not be able to enter into new agreements with local government authorities that provide government grants to us with similar terms after the expiration of our agreements currently in effect. Considering the significant contribution of such government grants to our adjusted profit before tax during the Track Record Period, any significant decrease in or termination of such government grants in the future may have a material adverse effect on our financial condition and results of operations. See "Risk Factors — Risks Relating to Our Business — We received government grants during the Track Record Period, and any significant reduction or discontinuation of government grants offered to us may materially and adversely affect our financial condition and results of operations."

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial information in accordance with IFRS, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the consolidated financial information and the reported amounts of revenue and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We will continuously assess our assumptions and estimates going forward. We consider the following policies to be critical to an understanding of our consolidated financial information as their application places the most significant demands on our management's judgment.

Deferred Tax Liabilities

Deferred tax liabilities are recognized for withholding tax in respect of the unremitted earnings of certain of our subsidiaries established in China to the extent that the Directors are of the opinion that they would be probable for distribution in the foreseeable future. Significant management judgment is required to determine the amount of deferred tax liabilities that should be recognized. For more information, see Note 31 in "Appendix I — Accountants' Report."

Provision and Write-down of Inventories to Net Realizable Value

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

Provision for Income Taxes

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

Impairment of Non-financial Assets (Other than Goodwill)

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

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

Impairment of Goodwill

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For more information, see Note 16 in "Appendix I — Accountants' Report" to this Document.

For the purpose of impairment testing of goodwill, the recoverable amount of the cash-generating unit of which Feihe Zhenlai belongs has been determined according to the value in use calculation, using cash flow projections based on financial forecasts approved by management covering a five-year period.

Assumptions were used in the value in use calculation of the cash-generating unit of which the Feihe Zhenlai business belongs for December 31, 2016, December 31, 2017 and December 31, 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- **Budgeted revenue:** The basis used to determine the value assigned to the budgeted revenue is the average revenue achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.
- **Budgeted gross margins:** The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.
- **Discount rate:** The discount rate used is before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of the Feihe Zhenlai business cash-generating unit and discount rate is consistent with external information sources.

The Directors of the Company of the view that the estimated recoverable amount of Feihe Zhenlai cash-generating unit exceeded its carrying amount. A reasonably possible change in key assumptions will not cause the carrying amount of the cash-generating unit to exceed its recoverable amount.

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Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

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

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SUMMARY OF RESULTS OF OPERATIONS DURING THE TRACK RECORD PERIOD

Consolidated Statements of Profit or Loss and Adjusted Profit Before Tax

The following table sets forth selected consolidated statements of profit or loss for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>			<i>(unaudited)</i>	
Revenue	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004
Cost of sales	(1,690,421)	(2,096,800)	(3,372,827)	(604,522)	(988,923)
Gross profit	2,033,960	3,790,460	7,019,090	1,364,356	1,767,081
Other income and gains, net	359,235	402,785	555,835	163,227	154,816
Selling and distribution expenses	(1,369,520)	(2,139,107)	(3,661,314)	(570,107)	(664,527)
Administrative expenses	(230,858)	(360,540)	(580,289)	(92,761)	(147,326)
Other expenses	(171,097)	(21,128)	(86,076)	(3,481)	(8,180)
Finance costs	(26,773)	(21,409)	(58,675)	(11,835)	(14,548)
Profit before tax	594,947	1,651,061	3,188,571	849,399	1,087,316
Income tax expense	(188,795)	(490,835)	(946,317)	(228,278)	(316,348)
Profit for the year/period	<u>406,152</u>	<u>1,160,226</u>	<u>2,242,254</u>	<u>621,121</u>	<u>770,968</u>
Attributable to:					
Owner of the parent	416,988	1,160,226	2,242,254	621,121	770,968
Non-controlling interests ⁽¹⁾	(10,836)	-	-	-	-
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations ⁽²⁾	(42,330)	31,916	(46,191)	18,426	(693)
Total comprehensive income for the year/period	<u>363,822</u>	<u>1,192,142</u>	<u>2,196,063</u>	<u>639,547</u>	<u>770,275</u>

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- (1) Non-controlling interests refers to the 30% equity interest in Guanshan Dairy held by Shaanxi Shangde.
- (2) Exchange differences on translation of foreign operations primarily relate to our bank and other loans denominated in foreign currencies, including primarily U.S. dollars which were mainly used in the FCUS Privatization and litigation in the U.S. in relation to the FCUS Privatization, as well as Canadian dollars which were mainly used for our investment in the construction of the Kingston Plant.

DESCRIPTION OF KEY COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We generate revenue primarily from the sales of infant milk formula products. Our revenue was RMB3,724.4 million, RMB5,887.3 million, RMB10,391.9 million, RMB1,968.9 million and RMB2,756.0 million, respectively, for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019.

Our revenue represents the net invoiced amount of goods sold net of slotting fees, allowance for returns and trade discounts. Our slotting fees represents fee reimbursed by us to distributors for placing products on shelves. Our allowance for returns and trade discounts represents our estimated sales returns for the year based on current agreement terms with our customers, and promotional discounts we provided to our customers, net of any reversal of unused provisions from the previous year.

Revenue by Product Categories

We sell dairy products and nutritional supplement products. Our dairy products include infant milk formula products and other dairy products. We categorize our infant milk formula products into (i) high-end infant milk formula, including our super-premium Astrobaby, super-premium Organic Zhenzhi and premium product series, and (ii) regular infant milk formula, including our mid- to high-end Xingjie Youhu, Feifan and BabyRich product series, among others, and our other regular infant milk formulas. Other dairy products include adult milk powder, liquid milk products, goat milk infant formula, and soybean powder, among others. Our nutritional supplement products can be broadly classified by nature into various categories, including to Children's, Women's, Men's, Healthy Aging to Cardiovascular, Joint

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Health, Probiotics, Health & Beauty, Sports Nutrition and Herbal Remedies. The following table sets forth our revenue breakdown by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Infant milk formula products										
High-end infant milk formula product series										
Super-premium										
Astrobaby	711,464	19.1%	2,453,725	41.7%	5,108,200	49.2%	910,126	46.2%	1,205,954	43.8%
Super-premium Organic Zhenzhi ⁽¹⁾	–	–	49,616	0.8%	357,382	3.4%	48,450	2.5%	116,126	4.2%
Premium product series	874,552	23.5%	1,292,076	22.0%	1,192,054	11.5%	289,120	14.7%	490,207	17.8%
Sub-total for high-end infant milk formula product series	1,586,016	42.6%	3,795,417	64.5%	6,657,636	64.1%	1,247,696	63.4%	1,812,287	65.8%
Regular infant milk formula product series	1,594,912	42.8%	1,621,214	27.5%	2,541,562	24.4%	502,991	25.5%	661,437	24.0%
Sub-total	3,180,928	85.4%	5,416,631	92.0%	9,199,198	88.5%	1,750,687	88.9%	2,473,724	89.8%
Other dairy products⁽²⁾	543,453	14.6%	470,629	8.0%	550,383	5.3%	93,503	4.8%	124,055	4.5%
Nutritional supplement products⁽³⁾	–	–	–	–	642,336	6.2%	124,688	6.3%	158,225	5.7%
Total revenue	3,724,381	100.0%	5,887,260	100.0%	10,391,917	100.0%	1,968,878	100.0%	2,756,004	100.0%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

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

(3) We started recognizing revenue for nutritional supplement products after the acquisition of Vitamin World in mid-January 2018.

During the Track Record Period, the majority of our high-end infant milk formula product series, particularly our super-premium Astrobaby product series and super-premium Organic Zhenzhi product series, accounted for an increasing portion of our revenue in line with our strategy to focus on the high-end segment. Our regular infant milk formula product series accounted for a decreasing portion of our revenue as we streamlined our product portfolio to discontinue certain products with lower margins and focused our resources on high-end products. We also streamlined our other products during the Track Record Period.

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The following table sets forth the average selling price and sales volume by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(RMB</i> <i>/tonne)</i>	<i>(tonnes)</i>	<i>(RMB</i> <i>/tonne)</i>	<i>(tonnes)</i>	<i>(RMB</i> <i>/tonne)</i>	<i>(tonnes)</i>	<i>(RMB</i> <i>/tonne)</i>	<i>(tonnes)</i>	<i>(RMB</i> <i>/tonne)</i>	<i>(tonnes)</i>
Infant milk formula products										
High-end infant milk formula product series										
Super-premium										
Astrobaby	254,914	2,791	250,303	9,803	252,095	20,263	255,009	3,569	247,528	4,872
Super-premium Organic Zhenzhi ⁽¹⁾	–	–	235,147	211	257,109	1,390	257,713	188	255,222	455
Premium product series	150,112	5,826	151,421	8,533	144,194	8,267	151,293	1,911	174,824	2,804
Average selling price/sales volume of high-end infant milk formula product series	184,057	8,617	204,638	18,547	222,515	29,920	220,130	5,668	222,886	8,131
Average selling price/sales volume of regular infant milk formula product series	97,322	16,388	102,993	15,741	111,550	22,784	113,184	4,444	112,950	5,856
Other dairy products	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾
Nutritional supplement products	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾	N/M ⁽²⁾

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

(2) Average selling price and sales volume of other dairy products and nutritional supplement products are not meaningful due to the varying nature of such products.

During the Track Record Period, the sales volume of our high-end infant milk formula product series increased as we shifted our focus towards our high-end products.

The increase in sales volume of our Astrobaby products during the Track Record Period was mainly driven by a rise in demand for such products, which we believe resulted from our enhanced marketing efforts and the continued strengthening of our brand recognition and reputation of our Astrobaby products. The average selling prices for our super-premium Astrobaby product series fluctuated during the Track Record Period, primarily due to the promotional discount we offered for such products varied during the Track Record Period.

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In April 2017, we commenced sales of super-premium Organic Zhenzhi, a new organic product that we added to our high-end product portfolio for which we were able to command high average selling prices due to the use of organic ingredients in its production.

The average selling prices and the sales volume for our premium product series increased from 2016 to 2017, primarily because the rise in demand for our premium products during the period reduced the need for us to offer promotional discounts for such products. The average selling prices for our premium product series decreased from 2017 to 2018, primarily because we enhanced promotion efforts for such products to adjust to the market conditions. The sales volume for our premium product series decreased from 2017 to 2018, primarily due to a shortage in lactoferrin in the second half of 2018. The average selling prices for our premium product series increased from the three months ended March 31, 2018 to the three months ended March 31, 2019, primarily because we adjusted our promotion strategies attributable to the market conditions. The sales volume for our premium product series increased from the three months ended March 31, 2018 to the three months ended March 31, 2019, primarily driven by a rise in demand for such products.

The average selling price for our regular infant milk formula products generally increased from 2016 to 2018, as we continued to streamline our product portfolio to discontinue our lower-end products.

Revenue by Sales Channels

We sell our dairy products to (i) distributors; (ii) retailers, which include maternity specialty store operators and supermarkets and hypermarket chains; and (iii) e-commerce channels, including online sales we made directly to end consumers. We sell our nutritional supplement products directly to consumers. The table below sets forth our revenue breakdown by sales channels for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Dairy Products										
Sales to distributors	2,888,431	77.6%	4,513,417	76.7%	7,017,400	67.5%	1,372,117	69.7%	1,913,761	69.4%
Sales to retailers	715,230	19.2%	986,614	16.8%	1,646,733	15.9%	328,652	16.7%	505,048	18.3%
Online sales	120,720	3.2%	387,229	6.5%	1,085,448	10.4%	143,420	7.3%	178,970	6.5%
Nutritional Supplement Products										
Sales to consumers	-	-	-	-	642,336	6.2%	124,689	6.3%	158,225	5.8%
Total revenue	3,724,381	100.0%	5,887,260	100.0%	10,391,917	100.0%	1,968,878	100.0%	2,756,004	100.0%

During the Track Record Period, a significant majority of our revenue was generated through sales to distributors, who then sell our products to maternity specialty stores, supermarkets and hypermarkets. As we developed our online sales channels, our sales through this channel increased during the Track Record Period. For more information on our sales channels, see "Business — Sales and Distribution Channels."

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Cost of Sales

Our cost of sales represents the direct costs of production, which primarily consists of costs of raw materials, manufacturing overheads and labor costs. Costs of raw materials primarily consist of procurement costs for fresh milk, the principal raw material for our infant milk formula products, as well as packaging materials and other raw materials such as whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose. Our costs of raw materials have increased during the Track Record Period, primarily due to the higher sales volume of our products. Manufacturing overheads primarily consist of depreciation of property, plant and equipment. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our cost of sales was RMB1,690.4 million, RMB2,096.8 million, RMB3,372.8 million, RMB604.5 million and RMB988.9 million, respectively.

The table below sets forth a breakdown of the components of our cost of sales for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Dairy product raw materials										
Fresh milk	569,915	33.7%	666,389	31.8%	888,111	26.4%	167,767	27.8%	266,749	27.0%
Packaging materials	237,558	14.0%	319,791	15.2%	499,462	14.8%	106,203	17.6%	159,226	16.1%
Whey powder	111,576	6.6%	148,742	7.1%	166,141	4.9%	12,651	2.1%	59,797	6.0%
Mixed vegetable oils	57,728	3.4%	57,997	2.8%	163,280	4.8%	27,473	4.5%	29,663	3.0%
Non-fat milk powder	43,945	2.6%	75,519	3.6%	143,228	4.2%	21,737	3.6%	35,530	3.6%
Alpha-lactalbumin	27,902	1.7%	54,694	2.6%	92,764	2.8%	20,218	3.3%	22,622	2.3%
Other raw materials ⁽¹⁾	393,244	23.3%	502,871	24.0%	654,610	19.5%	130,030	21.5%	241,441	24.4%
Subtotal for dairy products	1,441,868	85.3%	1,826,003	87.1%	2,607,596	77.3%	486,079	80.4%	815,028	82.4%
Nutritional Supplement Products	-	-	-	-	411,699	12.2%	57,591	9.5%	74,759	7.6%
Manufacturing overheads	146,638	8.7%	146,528	7.0%	186,676	5.5%	28,953	4.8%	44,878	4.5%
Labor costs	56,005	3.3%	56,815	2.7%	57,368	1.7%	8,571	1.4%	25,618	2.6%
Others⁽²⁾	45,910	2.7%	67,454	3.2%	109,488	3.2%	23,328	3.9%	28,640	2.9%
Total cost of sales	1,690,421	100.0%	2,096,800	100.0%	3,372,827	100.0%	604,522	100.0%	988,923	100.0%

(1) Other raw materials mainly includes DHA powder, lactose, ARA powder, hydrolyzed whey protein, walnut oil and other raw materials used to manufacture our products.

(2) Others primarily represent miscellaneous tax expenses.

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The table below sets forth a breakdown of our cost of sales by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	(In thousands of RMB, except percentages)									
	(unaudited)									
Infant milk formula products										
High-end infant milk formula product series										
Super-premium										
Astrobaby	174,411	10.3%	546,919	26.1%	1,055,601	31.3%	153,240	25.3%	350,209	35.4%
Super-premium Organic										
Zhenzhi ⁽¹⁾	-	-	20,972	1.0%	127,360	3.8%	15,384	2.5%	39,640	4.0%
Premium product series	318,568	18.9%	413,301	19.7%	383,548	11.4%	96,581	16.0%	169,736	17.2%
Sub-total for high-end infant milk formula product series	492,979	29.2%	981,192	46.8%	1,566,509	46.5%	265,205	43.8%	559,585	56.6%
Regular infant milk formula product series	721,885	42.7%	674,119	32.1%	948,512	28.1%	199,111	32.9%	271,588	27.4%
Sub-total	1,214,864	71.9%	1,655,311	78.9%	2,515,021	74.6%	464,316	76.7%	831,173	84.0%
Other dairy products	475,557	28.1%	441,489	21.1%	446,107	13.2%	82,615	13.8%	82,991	8.4%
Nutritional supplement products	-	-	-	-	411,699	12.2%	57,591	9.5%	74,759	7.6%
Total cost of sales	1,690,421	100.0%	2,096,800	100.0%	3,372,827	100.0%	604,522	100.0%	988,923	100.0%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our gross profit was RMB2,034.0 million, RMB3,790.5 million, RMB7,019.1 million, RMB1,364.4 million and RMB1,767.1 million, respectively. Our gross profit margin was 54.6%, 64.4%, 67.5%, 69.3% and 64.1% for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, respectively.

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The following table sets forth our gross profit breakdown and gross profit margin by product category for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Infant milk formula products										
High-end infant milk formula product series										
Super-premium										
Astrobaby	537,053	75.5%	1,906,807	77.7%	4,052,599	79.3%	756,886	83.2%	855,745	71.0%
Super-premium Organic Zhenzhi ⁽¹⁾	–	–	28,645	57.7%	230,022	64.4%	33,066	68.2%	76,486	65.9%
Premium product series	555,984	63.6%	878,775	68.0%	808,506	67.8%	192,539	66.6%	320,471	65.4%
Sub-total for high-end infant milk formula product series	1,093,037	68.9%	2,814,227	74.1%	5,091,127	76.5%	982,491	78.7%	1,252,702	69.1%
Regular infant milk formula product series	873,027	54.7%	947,096	58.4%	1,593,051	62.7%	303,880	60.4%	389,849	58.9%
Sub-total	1,966,064	61.8%	3,761,323	69.4%	6,684,178	72.7%	1,286,371	73.5%	1,642,551	66.4%
Other dairy products	67,896	12.5%	29,137	6.2%	104,275	18.9%	10,888	11.6%	41,064	33.1%
Nutritional supplement products	–	–	–	–	230,637	35.9%	67,097	53.8%	83,466	52.8%
Total gross profit and gross profit margin	2,033,960	54.6%	3,790,460	64.4%	7,019,090	67.5%	1,364,356	69.3%	1,767,081	64.1%

(1) We launched our super-premium Organic Zhenzhi product series in April 2017.

For a period-on-period analysis of our gross profit and gross profit margin, see “— Results of Operations — Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2019 — Gross Profit and Gross Profit Margin,” “— Results of Operations — Year Ended December 31, 2018 Compared to Year Ended December 31, 2017 — Gross Profit and Gross Profit Margin” and “— Results of Operations — Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 — Gross Profit and Gross Profit Margin.”

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Other Income and Gains, Net

Other income and gains, net primarily consist of government grants, bank interest income and other interest income. For the years ended December 31, 2016, 2017 and 2018 and three months ended March 31, 2018 and 2019, our other income and gains, net were RMB359.2 million, RMB402.8 million, RMB555.8 million, RMB163.2 million and RMB154.8 million, respectively.

During the Track Record Period, we received government grants in the form of cash subsidies from local government authorities in Heilongjiang and Jilin provinces. These government grants have been provided in support of our business development generally, except for two agreements that stipulate the relevant grant shall be used for construction and acquisition purposes in relation to the production lines at the Kedong Plant and Jilin Plant. We recognized government grants of RMB280.8 million, RMB253.0 million, RMB411.9 million, RMB103.2 million and RMB113.2 million for the years ended December 31, 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, respectively, which accounted for 47.2%, 15.3%, 12.9%, 12.1% and 10.4% of our profit before tax for the same periods.

During the Track Record Period, we primarily recognized such government grants pursuant to agreements we entered into with local government authorities. As of the Latest Practicable Date, we had seven agreements in effect with local government authorities with respect to government grants, pursuant to which we recognized RMB212.0 million, RMB222.7 million, RMB398.4 million, RMB100.0 million and RMB97.4 million in government grants in 2016, 2017 and 2018 and in three months ended March 31, 2018 and 2019, respectively, accounting for 75.3%, 88.0%, 96.7%, 96.9% and 86.1% of the total government grants recognized during the same years or period. A description of the government grants and a summary of the major terms of the relevant agreements are set forth below:

- *Amount.* Our PRC operating subsidiaries shall receive cash subsidies generally ranging from 20% to 40% of VAT and enterprise income taxes paid and, in certain agreements, 100% of other local taxes paid;
- *Use of grants.* In two agreements, we are required to use the cash subsidies for construction and acquisition of property, plant and equipment in relation to the production lines at the Kedong Plant and Jilin Plant. The other five agreements do not impose any restrictions or conditions on the use of the cash subsidies we receive;
- *Term.* The term of the agreement in relation to our Jilin Plant is 10 years since the commencement of production at the plant. The terms of the other agreements range from five to 10 years; and
- *Expiration.* The agreement in relation to our Jilin Plant will expire in 10 years since the commencement of production at the plant. With respect to the other agreements currently in effect, four of the agreements will expire by the end of 2020, one will expire by the end of 2021, and one will expire by the end of 2022.

During the Track Record Period, we also recognized government grants pursuant to several agreements entered into between branch companies of Feihe HLJ, on the one hand, and local government authorities, on the other hand in support of our business development generally. Two of those agreements were terminated when the relevant branch companies of Feihe HLJ were deregistered in late 2016.

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We recognized RMB6.6 million in government grants pursuant to these terminated agreements in 2016 accounting for 2.3% of the total government grants received during the same year. During the Track Record Period, we have received all government grants that we recognized as other income and gains, net. These terminated agreements provided for cash subsidies of 40% of VAT and enterprise income tax paid, and had terms five years. These agreements did not impose any restrictions or conditions on the use of the cash subsidies we received. As of the Latest Practicable Date, to the best knowledge of the Directors after due and careful inquiry, no changes in key terms of such agreements prior to their respective expiry dates are expected.

Based on Notice 25, our PRC Legal Advisers have advised us that such agreements remain in effect are valid and binding, save for (i) one of our government grant agreements that was extended for a one-year period after the promulgation of Notice 25 in 2015, where the possibility that we cannot receive government grants in the one-year extension from 2019 to 2020 is remote, and (ii) one government grant agreement that was entered into after the promulgation of Notice 25, where the possibility that we cannot receive government grants pursuant to such agreement is remote. Our PRC Legal Advisers have further advised us that, (i) according to Notice 25, we would not be required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreements entered into before the promulgation of Notice 25, and (ii) the possibility that we were required by the competent authorities to pay back the cash subsidies that we have received pursuant to the agreement entered into after the promulgation of Notice 25 is remote. See "Regulatory Overview — Laws and Regulations Relating to the Taxation — Laws and Regulations Relating to Preferential Policies for Taxation and Other Aspects" for a summary of the relevant PRC laws and regulations. We are subject to certain risks in relation to such government grants and cannot guarantee that we will be able to continue to receive such government grants in the future. For more information, see "Risk Factors — Risks Relating to Our Business — We received government grants during the Track Record Period, and any significant reduction or discontinuation of government grants offered to us may materially and adversely affect our financial condition and results of operations."

Our bank interest income primarily consist of interest income generated from savings account and term deposits. In 2016, 2017 and 2018 and the three months ended March 31, 2018 and 2019, our bank interest income was RMB5.2 million, RMB27.8 million, RMB38.7 million, RMB9.1 million and RMB14.1 million, respectively.

Other interest income consists interest income we received from our investment in structured deposits, which represent wealth management products issued by banks. For more information on such wealth management products, see "— Selected Balance Sheet Items — Structured Deposits." Interest income from other receivables consists primarily of the interest income we generated from inter-company loans we provided to Independent Third Parties. Such inter-company loans have all been settled as of December 31, 2018. For more information on the inter-company loans, see "— Selected Balance Sheet Items — Prepayments, Deposits and Other Receivables."

Our reversal of impairment of other receivables and prepayments amounted to RMB50.9 million in 2017, comprising (i) reversal of impairment of RMB28.1 million which was recognized in 2014 in connection with receivables resulting from disposal of equipment in 2013, and (ii) reversal of impairment of RMB22.8 million which was recognized in 2015 in connection with prepayments for equipment in 2015.

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The following table sets forth the breakdown of our other income and gains, net for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Other income					
Bank interest income	5,151	27,790	38,698	9,136	14,073
Interest income from other receivables	22,466	8,406	86	–	–
Other interest income	31,013	34,756	51,521	13,518	16,985
Government grants related to					
– Assets	3,863	36,124	17,363	4,217	12,502
– Income	276,953	216,866	394,533	98,943	100,669
Dividend income from an available-for-sale investment	360	–	–	–	–
Reversal of impairment of other receivables and prepayments	–	50,895	–	–	–
Others ⁽¹⁾	16,031	6,248	12,566	35	614
Sub-total	<u>355,837</u>	<u>381,085</u>	<u>514,767</u>	<u>125,849</u>	<u>144,843</u>
Gains, net					
Fair value gains on structured deposits	3,398	21,539	7,741	3,374	3,747
Gain on disposal of an other intangible asset	–	161	–	–	–
Gain on bargain purchase	–	–	33,327	33,327	–
Gain on sale of raw materials and packaging material	–	–	–	677	6,226
Sub-total	<u>3,398</u>	<u>21,700</u>	<u>41,068</u>	<u>37,378</u>	<u>9,973</u>
Total other income and gains, net	<u><u>359,235</u></u>	<u><u>402,785</u></u>	<u><u>555,835</u></u>	<u><u>163,227</u></u>	<u><u>154,816</u></u>

(1) Others primarily represent penalty payments we received from distributors that sold our products outside of the stipulated geographic sales region or engaged in other unauthorized sales in breach of our distribution agreements and other miscellaneous items.

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Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of advertising expenses, promotional expenses, offline events expenses, logistics and storage and staff salary, bonus and welfare. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our selling and distribution expenses were RMB1,369.5 million, RMB2,139.1 million, RMB3,661.3 million, RMB570.1 million and RMB664.5 million, respectively.

Advertising expenses primarily relate to our advertisements online and in traditional media, such as television programs. Promotional expenses primarily represent expenses incurred to promote and market our products in supermarkets and hypermarkets. Offline events expenses primarily represent expenses incurred to hold our face-to-face seminars, including Mother's Love, Mini Shows and Carnival, and to attend industry trade exhibitions. Logistics and storage costs primarily represent the costs in connection with the transportation and storing of our products. Staff salary, bonus and welfare expenses are primarily those paid to our sales and marketing personnel. Promotional merchandise expenses primarily represent expenses for products branded with our logo or slogan to promote our brand.

The table below sets forth the components of our selling and distribution expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Advertising expenses	487,819	35.6%	833,188	39.0%	1,166,958	31.9%	143,386	25.2%	161,727	24.3%
Promotional expenses	311,300	22.7%	407,797	19.1%	607,938	16.6%	127,634	22.4%	176,768	26.6%
Offline events expenses	233,420	17.0%	440,965	20.6%	864,956	23.6%	38,266	6.7%	41,206	6.2%
Logistics and storage	89,908	6.6%	122,838	5.7%	221,714	6.1%	41,136	7.2%	76,945	11.6%
Staff salary, bonus and welfare	92,530	6.8%	127,611	6.0%	296,812	8.1%	56,092	9.8%	86,919	13.1%
Entertainment and travel expenses	62,822	4.6%	76,743	3.6%	109,287	3.0%	19,968	3.5%	21,051	3.2%
Promotional merchandise expenses	61,423	4.5%	27,577	1.3%	24,108	0.6%	69,724	12.2%	39,775	6.0%
Online platform selling expenses	17,752	1.3%	77,055	3.6%	207,909	5.7%	37,434	6.6%	23,327	3.5%
Depreciation of right-of-use assets	-	-	-	-	63,020	1.7%	13,005	2.3%	15,469	2.3%
Others	12,546	0.9%	25,333	1.1%	98,612	2.7%	23,462	4.1%	21,340	3.2%
Total selling and distribution expenses	1,369,520	100.0%	2,139,107	100.0%	3,661,314	100.0%	570,107	100.0%	664,527	100.0%

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Administrative Expenses

Our administrative expenses primarily consist of staff costs, office expenses, depreciation and amortization, entertainment and travelling expenses and professional and legal fees. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our administrative expenses were RMB230.9 million, RMB360.5 million, RMB580.3 million, RMB92.8 million and RMB147.3 million, respectively.

Staff costs represent the salary, bonus and welfare for management and administrative employees. Depreciation and amortization primarily represents the depreciation of property, plant and equipment and the amortization of intangible assets, including those of Baby Mom QQH.

Provision of doubtful debts is the amount of bad debt estimated based on our historical experience that we consider may arise from unpaid accounts receivables.

The table below sets forth the components of our administrative expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2016		2017		2018		2018		2019	
	<i>(In thousands of RMB, except percentages)</i>									
	<i>(unaudited)</i>									
Staff costs	72,672	31.5%	101,832	28.2%	177,232	30.5%	33,724	36.4%	48,399	32.9%
IPO expenses	-	-	39,333	10.9%	1,530	0.3%	-	-	1,335	0.9%
Entertainment and travelling expenses	21,208	9.2%	76,085	21.1%	39,422	6.8%	8,788	9.5%	7,701	5.2%
Professional and legal fees	15,907	6.9%	17,521	4.9%	80,574	13.9%	11,945	12.9%	17,097	11.6%
Office expenses	34,042	14.7%	34,370	9.5%	40,968	7.1%	14,037	15.1%	6,518	4.4%
Depreciation and amortization	33,359	14.5%	21,640	6.0%	32,670	5.6%	8,012	8.6%	8,330	5.7%
Share option expenses	8,441	3.7%	15,931	4.4%	6,408	1.1%	1,533	1.7%	548	0.4%
Research and development costs	13,810	6.0%	14,705	4.1%	108,889	18.8%	935	1.0%	29,622	20.1%
Other taxes	11,320	4.9%	12,298	3.4%	49,912	8.6%	3,330	3.6%	6,550	4.4%
Training expenses	4,721	2.0%	4,691	1.3%	7,376	1.3%	18	0.0%	100	0.1%
Bank charges	1,370	0.6%	3,446	1.0%	12,791	2.2%	189	0.2%	7,279	4.9%
Provision of doubtful debts	-	-	4,378	1.2%	1,819	0.3%	-	-	7,155	4.9%
Others	14,008	6.0%	14,310	4.0%	20,698	3.5%	10,250	11.0%	6,692	4.5%
Total administrative expenses	230,858	100.0%	360,540	100.0%	580,289	100.0%	92,761	100.0%	147,326	100.0%

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Other Expenses

For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our other expenses were RMB171.1 million, RMB21.1 million, RMB86.1 million, RMB3.5 million and RMB8.2 million, respectively.

The table below sets forth the components of our other expenses for the periods indicated:

	<u>For the year ended December 31,</u>			<u>For the three months</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>ended March 31,</u>	<u>2019</u>
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Loss on disposal of a subsidiary	63,989	–	–	–	–
Impairment of goodwill	22,112	–	–	–	–
Loss on disposal of property, plant and equipment	14,198	12,196	3,377	2,492	4,993
Write-down of inventories to net realizable value	12,915 ⁽¹⁾	–	–	–	–
Impairment of items of property, plant and equipment	10,046	–	–	–	–
Termination expense	29,500 ⁽²⁾	–	1,104	–	–
Loss on disposal of old packaging materials	8,993	8,109	13,521	589	487
Donation	6,915	804	63,902	400	2,700
Others	2,429	19	4,172	–	–
Total other expenses	<u>171,097</u>	<u>21,128</u>	<u>86,076</u>	<u>3,481</u>	<u>8,180</u>

(1) Write-down of inventories to net realizable value in 2016 primarily related to write-down of Guanshan Dairy inventories.

(2) Termination expense in 2016 primarily relate to an early termination penalty fee we paid to a third-party online distributor in connection with our termination of a three-year agreement.

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Finance Costs

Our finance costs primarily consist of interest expenses on bank loans and other loans. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our finance costs were RMB26.8 million, RMB21.4 million, RMB58.7 million RMB11.8 million and RMB14.5 million, respectively.

The table below sets forth the components of our finance costs for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Interest on:					
Bank loans	23,706	20,948	41,603	7,770	14,534
Other loans	3,067	2,087	29,839	4,589	7,451
Leased liabilities	—	—	9,135	1,766	1,866
Total interest expense on financial liabilities not at fair value through profit or loss	26,773	23,035	80,577	14,125	23,851
Less: Interest capitalized	—	(1,626)	(21,902)	(2,290)	(9,303)
Total finance costs	26,773	21,409	58,675	11,835	14,548

Income Tax Expense

Our income tax expenses primarily consist of income tax payable by our subsidiaries in the PRC. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our income tax expenses were RMB188.8 million, RMB490.8 million and RMB946.3 million and RMB316.3 million, respectively. During the Track Record Period, our PRC subsidiaries are subject to a uniform tax rate of 25%. Guanshan Dairy, a subsidiary of ours which was disposed of in December 2016, enjoyed a preferential enterprise income tax rate of 15% in accordance with the Western China Development Regulations.

After completing the restructuring steps in December 2015, Feihe Nutrition U.S. and Flying Crane U.S. (the “**U.S. Companies**”) held class “A” preferred shares (the “**Class A Shares**”) of Feihe Nutrition HK and Feihe HK (the “**HK Companies**”), respectively. Platinum Holding HLJ held the class “B” ordinary shares (the “**Class B Shares**”) of both HK Companies and controlled Feihe HLJ and Feihe Gannan (the “**PRC Operating Subsidiaries**”) through its voting power vested in the Class B Shares. For more information on the restructuring steps and the Class A Shares and Class B Shares, see “History, Development and Reorganization — Major Changes in Shareholding of DIF Holding Prior to the Reorganization — Corporate Chart Immediately Prior to the Reorganization.”

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In accordance with our tax treatment for the restructuring steps, any dividends paid to the U.S. Companies on Class A Shares would be subject to a U.S. federal income tax rate of 35% and qualify for a foreign tax credit for U.S. federal income tax purposes for the PRC enterprise income tax paid by the PRC Operating Subsidiaries. The current standard PRC enterprise income tax rate is 25%. Any dividends paid to Platinum Holding HLJ on Class B Shares would be subject to a PRC withholding tax at a tax rate of 10%.

In accordance with the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in the Cayman Islands and the British Virgin Islands. During the Track Record Period, no provision for Hong Kong profits tax has been made as we did not have any assessable profits in Hong Kong. In addition to applicable enterprise income tax rates, our effective income tax rates may also be affected by amounts relating to, among other things, expenses not deductible for tax, unrecognized losses carried forward and utilization of tax losses from previous periods. Our expenses not deductible for tax amounted to RMB9.5 million, RMB21.4 million, RMB24.0 million, RMB1.0 million and RMB5.3 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, respectively, and mainly consisted of (i) impairment losses that were not reported in EIT filings related to intangible assets and goodwill, (ii) donations, staff welfare expenses and entertainment expenses which are more than the allowed amount and/or without supporting invoices or documents, and (iii) termination expenses, a compensation of RMB29.5 million paid to a third-party online distributor in connection with our termination of a three-year agreement with such company as we shifted our online sales strategies with an aim to manage our online sales channels directly. Our tax losses not recognized amounted to RMB11.3 million, RMB27.7 million, RMB10.8 million, RMB3.8 million and RMB3.8 million for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, respectively, and primarily arose from expenses incurred by overseas entities of our Group that did not have any operations. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2018 and 2019, our effective income tax rate was 31.7%, 29.7%, 29.7%, 26.9% and 29.1%, respectively. As of the Latest Practicable Date and during the Track Record Period, we fulfilled all of our tax obligations and did not have any unresolved tax disputes.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2019

Revenue

Our revenue increased by 40.0% from RMB1,968.9 million in the three months ended March 31, 2018 to RMB2,756.0 million in the same period of 2019, primarily due to (i) an increase in revenue generated from the sales of our high-end infant milk formula products, and (ii) the expansion of our sales and distribution network.

Infant Milk Formula Products

High-end infant milk formula products. Revenue from our high-end infant milk formula products increased by 45.3% from RMB1,247.7 million in the three months ended March 31, 2018 to RMB1,812.3 million in the same period of 2019, reflecting an increase in the demand for high-end infant milk formula products. In particular, a 32.5% increase in revenue from our super-premium Astrobaby product series from RMB910.1 million in the three months ended March 31, 2018 to RMB1,206.0 million in the same

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period of 2019 was attributable to our effective marketing strategy in promoting our super-premium Astrobaby product series. The increase in revenue from our premium product series from RMB289.1 million in the three months ended March 31, 2018 to RMB490.2 million in the same period of 2019 was attributable to our effective marketing strategy in promoting such product series.

Regular infant milk formula products. Revenue from our regular infant milk formula products increased by 31.5% from RMB503.0 million in the three months ended March 31, 2018 to RMB661.4 million in the same period of 2019, primarily due to an increase in demand for our regular infant milk formula products attributable to our overall enhanced brand recognition resulting from our effective marketing strategy.

Other Dairy Products

Revenue from our other dairy products increased by 32.7% from RMB93.5 million in the three months ended March 31, 2018 to RMB124.1 million in the same period of 2019, primarily due to an increase in the sales of our Classic 1962 adult milk powder product.

Nutritional Supplement Products

Revenue from our nutritional supplement products increased by 26.9% from RMB124.7 million in the three months ended March 31, 2018 to RMB158.2 million in the same period of 2019, primarily because we started recognizing revenue for nutritional supplement products after the acquisition of Vitamin World in mid-January 2018, whereas for the three months ended March 31, 2019, we recognized revenue for such products for the entire three months.

Cost of Sales

Our cost of sales increased by 63.6% from RMB604.5 million in the three months ended March 31, 2018 to RMB988.9 million in the same period of 2019. The increase in our cost of sales was primarily due to an increase in the costs of raw materials such as fresh milk, packaging materials and others in 2019, such increase in was primarily attributable to the higher sales volume of our products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 29.5% from RMB1,364.4 million in the three months ended March 31, 2018 to RMB1,767.1 million in the same period of 2019, primarily due to an increase in our overall revenue, which is partially offset by an increase in our cost of sales.

Our gross profit margin decreased from 69.3% in the three months ended March 31, 2018 to 64.1% in the same period of 2019, primarily due to our super-premium Astrobaby product series, which had a relatively high gross profit margin among our products, accounted for a decreased portion of sales in the three months ended March 31, 2019.

Other Income and Gains, Net

Our other income and gains, net decreased by 5.2% from RMB163.2 million in the three months ended March 31, 2018 to RMB154.8 million in the same period of 2019, primarily due to the recognition of bargain purchase of RMB33.3 million in connection with the acquisition of Vitamin World in 2018, partially offset by an increase in government grants we recognized due to an increase in our income.

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Selling and Distribution Expenses

Our selling and distribution expenses increased by 16.6% from RMB570.1 million in the three months ended March 31, 2018 to RMB664.5 million in the same period of 2019, primarily due to (i) an increase of RMB49.1 million in promotional expenses, attributable to our increased effort in promoting our products through offline sales channels, (ii) an increase of RMB35.8 million in logistics and storage expenses, attributable to the increase in our sales volume, and (iii) an increase of RMB30.8 million in staff salary, bonus and welfare expenses, attributable to the increase in the number of our employees in relation to sales and distribution, and an increase in their salaries.

Administrative Expenses

Our administrative expenses increased by 58.8% from RMB92.8 million in the three months ended March 31, 2018 to RMB147.3 million in the same period of 2019, primarily due to (i) an increase of RMB28.7 million in our research and development costs resulting from our enhanced efforts in research and development in relation to infant milk formula and adult milk powder product series, and (ii) an increase of RMB14.7 million in our staff costs due to and increase in the number of our administrative employees and an increase in their salaries.

Other Expenses

Our other expenses increased by 135.0% from RMB3.5 million in the three months ended March 31, 2018 to RMB8.2 million in the same period of 2019, primarily due to (i) disposal of property, plant and equipment arising from the loss in disposal of obsolete production facilities of approximately RMB5.0 million in our Kedong Plant, and (ii) a donation of RMB2.7 million of medical equipment we made to public hospitals.

Finance Costs

Our finance costs increased by 22.9% from RMB11.8 million in the three months ended March 31, 2018 to RMB14.5 million in the same period of 2019, primarily due to an increase in interest on bank loans because we took more off-shore loans, partially offset by the interest capitalized in connection with the loans for Kingston Plant.

Income Tax Expense

Our income tax expense increased by 38.6% from RMB228.3 million in the three months ended March 31, 2018 to RMB316.3 million in the same period of 2019 as a result of an increase in our profit before tax in the three months ended March 31, 2019.

Our effective income tax rate increased from 26.9% in the three months ended March 31, 2018 to 29.1% in the same period of 2019, primarily due to (i) one off bargain purchase of RMB33.3 million in 2018 which was not subject to tax, and (ii) increase in effect of withholding tax on the distributable profits of the Company's PRC subsidiaries in the three months ended March 31, 2019.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 24.1% from RMB621.1 million in the three months ended March 31, 2018 to RMB771.0 million in the same period of 2019.

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Year Ended December 31, 2017 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 76.5% from RMB5,887.3 million in 2017 to RMB10,391.9 million in 2018, primarily due to (i) an increase in revenue generated from the sales of our high-end infant milk formula products and our regular infant milk formula products; and (ii) the expansion of our sales and distribution network.

Infant Milk Formula Products

High-end infant milk formula products. Revenue from our high-end infant milk formula products increased by 75.4% from RMB3,795.4 million in 2017 to RMB6,657.6 million in 2018, reflecting an increase in the demand of high-end infant milk formula products. In particular, an 108.2% increase in the revenue of our super-premium Astrobaby product series from RMB2,453.7 million in 2017 to RMB5,108.2 million in 2018 was attributable to our effective marketing strategy in promoting our super-premium Astrobaby product series. The increase in our revenue for high-end infant formula products was partially offset by a decrease in the revenue from our premium products series. The revenue for our premium product series decreased by 7.7% from RMB1,292.1 million in 2017 to RMB1,192.1 million in 2018, primarily due to a shortage in the supplies of lactoferrin in the second half of 2018.

Regular infant milk formula products. Revenue from our regular infant milk formula products increased by 56.8% from RMB1,621.2 million in 2017 to RMB2,541.6 million in 2018, primarily due to an increase in demand for our regular infant milk formula products attributable to our overall enhanced brand recognition resulting from our effective marketing strategy.

Other Dairy Products

Revenue from our other dairy products increased by 16.9% from RMB470.6 million in 2017 to RMB550.4 million in 2018, primarily due to an increase in the sales of our Classic 1962 adult milk powder product.

Nutritional Supplement Products

We commenced the sales of nutritional supplement products in January 2018 after our acquisition of Vitamin World. For the year ended December 31, 2018, our revenue from nutritional supplement products was RMB642.3 million, accounting for 6.2% of our total revenue during the year.

Cost of Sales

Our cost of sales increased by 60.9% from RMB2,096.8 million in 2017 to RMB3,372.8 million in 2018. The increase in our cost of sales was primarily due to an increase in the costs of raw materials such as fresh milk and packaging materials in 2018, such increase was primarily attributable to the higher sales volume of our products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 85.2% from RMB3,790.5 million in 2017 to RMB7,019.1 million in 2018, primarily due to an increase in our overall revenue, which is partially offset by an increase in our cost of sales.

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Our gross profit margin increased from 64.4% in 2017 to 67.5% in 2018, primarily due to the increase in the gross profit margins of our dairy products. The increase in the gross profit margins of our dairy products primarily reflected the significant increase in the percentage of revenue generated from our super-premium product series, which had significantly higher gross profit margins than other infant milk formula products.

Other Income and Gains, Net

Our other income and gains, net increased by 38.0% from RMB402.8 million in 2017 to RMB555.8 million in 2018, primarily due to (i) an increase of RMB158.9 million in government grants we recognized due to an increase in our income, (ii) an increase of RMB16.8 million in other interest income generated from the increased balance of our structured deposits, and (iii) the recognition of gain on bargain purchase of RMB33.3 million in connection with the acquisition of Vitamin World in 2018.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 71.2% from RMB2,139.1 million in 2017 to RMB3,661.3 million in 2018, primarily due to (i) an increase of RMB424.0 million in offline events expenses as the number of our face-to-face seminars increased during this period, and (ii) an increase of RMB333.8 million in advertising expenses incurred in relation to online and traditional media advertising.

Administrative Expenses

Our administrative expenses increased by 60.9% from RMB360.5 million in 2017 to RMB580.3 million in 2018, primarily due to (i) the consolidation of the administrative expenses such as staff costs, office expenses, and depreciation and amortization as a result of our acquisition of Vitamin World in 2018 of approximately RMB99.7 million, and (ii) an increase in our research and development costs of RMB94.2 million resulting from our enhanced efforts in research and development in relation to infant milk formula products and goat milk infant formula products.

Other Expenses

Our other expenses increased significantly from RMB21.1 million in 2017 to RMB86.1 million in 2018, primarily due to a donation of RMB63.9 million of medical equipment we made to public hospitals.

Finance Costs

Our finance costs increased by 174.3% from RMB21.4 million in 2017 to RMB58.7 million in 2018, primarily due to an increase of RMB48.4 million in interest on loans because we took more loans in 2018.

Income Tax Expense

Our income tax expense increased by 92.8% from RMB490.8 million in 2017 to RMB946.3 million in 2018 as a result of an increase in our profit before tax in 2018.

Our effective income tax rate remained stable at 29.7% in 2017 and 2018.

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Profit for the Year

As a result of the foregoing, our profit for the year increased by 93.3% from RMB1,160.2 million in 2017 to RMB2,242.3 million in 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Our revenue increased by 58.1% from RMB3,724.4 million in 2016 to RMB5,887.3 million in 2017, primarily due to (i) an increase of RMB2,209.4 million in our revenue generated from our high-end infant milk formula products and offset by a decrease of RMB72.8 million in revenue generated from our other dairy products, and (ii) the expansion of our sales and distribution network.

Infant Milk Formula Products

High-end infant milk formula products. Revenue from our high-end infant milk formula products increased by 139.3% from RMB1,586.0 million in 2016 to RMB3,795.4 million in 2017, primarily due to (i) a 244.9% increase in revenue generated from our super-premium Astrobaby product series from RMB711.5 million to RMB2,453.7 million, and (ii) a 47.7% increase in revenue generated from our premium product series from RMB874.6 million to RMB1,292.1 million. We believe that the high rate of growth of Astrobaby reflects the success of our marketing campaign message. In particular, we believe our highly interactive face-to-face seminars, was the key contributing factor to increases in sales volume as it allowed consumers to experience first-hand the high quality of our products. We believe our enhanced brand recognition as a result of these face-to-face seminars also contributed to the revenue growth of our premium product series.

Regular infant milk formula products. Revenue from our regular infant milk formula products remained relatively stable at RMB1,594.9 million and RMB1,621.2 million in 2016 and 2017, respectively.

Other Dairy Products

Revenue from our other dairy products decreased by 13.4% from RMB543.5 million in 2016 to RMB470.6 million in 2017, primarily due to a decrease in the revenue from our other dairy products as a result of the disposal of Guanshan in December 2016.

Cost of Sales

Our cost of sales increased by 24.0% from RMB1,690.4 million in 2016 to RMB2,096.8 million in 2017, primarily due to an increase in the costs of raw materials such as fresh milk, packaging materials and others in 2017, such increase in the costs of raw materials was primarily attributable to the higher sales volume of our products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 86.4% from RMB2,034.0 million in 2016 to RMB3,790.5 million in 2017, primarily due to an increase in our overall revenue, which is partially offset by an increase in our cost of sales.

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Our gross profit margin increased from 54.6% in 2016 to 64.4% in 2017, primarily due to the increase in the gross profit margins of our dairy products. The increase in the gross profit margins of our dairy products primarily reflected the increase in the percentage of revenue generated from super-premium product series, which had significantly higher gross profit margins than other infant milk formula products.

Other Income and Gains, Net

Our other income and gains, net increased by 12.1% from RMB359.2 million in 2016 to RMB402.8 million in 2017, primarily due to (i) an increase of RMB50.9 million in reversal of impairment of other receivables and prepayments, (ii) an increase of RMB32.3 million in government grants received by us related to assets, primarily because we received government grants in relation to the construction of Kedong Plant, and (iii) an increase in bank interest income as a result of our increased bank balance, partially offset by (i) a decrease of RMB14.1 million in the interest income from other receivables as we stopped providing entrusted loans to our customers and suppliers and the existing entrusted loans were gradually being settled, and (ii) a decrease of RMB60.1 million in government grants received by us related to income, primarily because of the various timing of government grants we recognized.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 56.2% from RMB1,369.5 million in 2016 to RMB2,139.1 million in 2017, primarily due to (i) an increase of RMB345.4 million in advertising expenses incurred in relation to online and traditional media advertising, (ii) an increase of RMB207.5 million in offline events expenses as the number of our face-to-face seminars increased during this period, and (iii) an increase of RMB96.5 million in promotional expenses, attributable to our increased effort in promoting our products through offline sales channels.

Administrative Expenses

Our administrative expenses increased by 56.2% from RMB230.9 million in 2016 to RMB360.5 million in 2017, primarily due to (i) an increase of RMB54.9 million in entertainment and travelling expenses, attributable to the celebration for our 55 years of history, (ii) IPO expense of RMB39.3 million recognized in 2017 and (iii) an increase of RMB29.2 million in staff costs.

Other Expenses

Our other expenses decreased by 87.7% from RMB171.1 million in 2016 to RMB21.1 million in 2017. Our other expenses of 2016 mainly consisted of certain one-off expenses, including (i) a termination expense of RMB29.5 million paid to a third-party online distributor in connection with our termination of a three-year agreement with such company as we shifted our online sales strategies with an aim to manage our online sales channels directly in order to better control our costs and manage product delivery times relating to our online sales, (ii) a loss on disposal of a subsidiary of RMB64.0 million in 2016 as a result of the disposal of Guanshan Dairy, and (iii) the impairment of goodwill of RMB22.1 million that we recorded in relation to Baby Mom QQH in 2016 as a result of the disposal of Guanshan Dairy.

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Finance Costs

Our finance costs decreased by 20.0% from RMB26.8 million in 2016 to RMB21.4 million in 2017, primarily due to a decrease of RMB2.8 million in interest on bank loans attributable to repayment of a US\$70 million loan.

Income Tax Expense

Our income tax expense increased by 160.0% from RMB188.8 million in 2016 to RMB490.8 million in 2017, which is in line with the increase in our profit before tax.

Our effective income tax rate decreased from 31.7% in 2016 to 29.7% in 2017, primarily due to the non-deductible expenses of RMB9.5 million included the impairment of goodwill for the year ended December 31, 2016.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 185.7% from RMB406.2 million in 2016 to RMB1,160.2 million in 2017.

SELECTED BALANCE SHEET ITEMS

Inventories

Our inventories consist of (i) raw materials, which were mainly raw materials such as whey powder, mixed vegetable oils, non-fat milk powder, alpha-lactalbumin and lactose, (ii) work in progress, which were products that have not been packaged, and (iii) finished goods. Fresh milk is delivered to us every day and processed within the same day, and therefore we do not have fresh milk in our inventories.

The following table shows a summary of our inventory balances as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	<i>(In thousands of RMB)</i>			
Raw materials	82,955	121,834	160,374	217,801
Work in progress	105,533	82,468	105,024	129,500
Finished goods	105,143	190,356	394,668	378,402
Total	293,631	394,658	660,066	725,703

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The following table sets forth our inventory turnover days during the periods indicated:

	For the year ended December 31,			For the three months ended March 31, 2019
	2016	2017	2018	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Inventory turnover days ⁽¹⁾	<u>71.9</u>	<u>59.9</u>	<u>57.1</u>	<u>63.9</u>

(1) Inventory turnover days for each period equals the average of the beginning and ending inventory for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Our inventories increased by 34.4% from RMB293.6 million as of December 31, 2016 to RMB394.7 million as of December 31, 2017, primarily because our inventories of raw materials and finished goods increased in line with our business growth.

Our inventories increased by 67.2% from RMB394.7 million as of December 31, 2017 to RMB660.1 million as of December 31, 2018, primarily because (i) our inventories of raw materials and finished goods increased in line with our business growth, and (ii) the increase in our inventories of RMB165.4 million resulting from our acquisition of Vitamin World in 2018.

Our inventories increased by 9.9% from RMB660.1 million as of December 31, 2018, to RMB725.7 million as of March 31, 2019, primarily because our inventories of raw materials, work in progress and finished goods increased in line with our business growth.

Our inventory turnover days decreased from 71.9 days in 2016 to 59.9 days in 2017 and further decreased to 57.1 days in 2018, primarily because of the optimization of our inventory and supply chain management, attributable to our investment in IT system. Our inventory turnover days increased from 57.1 days in 2018 to 63.9 days in the three months ended March 31, 2019, primarily due to the relatively low inventory turnover of Vitamin World.

As of May 31, 2019, RMB567.3 million, or 78.2% of our total inventories as of March 31, 2019, or RMB192.4 million, or 88.3% of the raw materials, RMB86.2 million, or 66.5% of the work in progress, and RMB288.7 million, or 76.3% of the finished goods as of March 31, 2019, were utilized or sold.

Trade and Bills Receivables

Trade and bills receivables mainly relate to the credit sales of our products. We typically require payment before delivery of our products. For certain major customers, we may sell our products on credit terms that are more than 90 days depending on a number of factors, such as their credit history, scale of operation and financial resources. We gather and assess the credit information of the potential customers when considering their quality and determining the credit terms for them.

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The following table sets forth our trade and bills receivables as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>March 31,</u>
	<i>(In thousands of RMB)</i>			<u>2019</u>
Trade and bills receivables	110,701	181,841	521,792	565,175
Impairment	(17,518)	(7,136)	(8,955)	(16,110)
Total	<u>93,183</u>	<u>174,705</u>	<u>512,837</u>	<u>549,065</u>

The following table sets forth an aging analysis of our trade and bills receivables, based on invoice date and net of provisions for impairment, as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>March 31,</u>
	<i>(In thousands of RMB)</i>			<u>2019</u>
Within one month	66,073	124,713	387,314	303,435
One to two months	10,925	30,838	54,921	9,257
Two to three months	12,648	15,964	42,615	12,115
Over three months	3,537	3,190	27,987	224,258
Total	<u>93,183</u>	<u>174,705</u>	<u>512,837</u>	<u>549,065</u>

The following table sets forth our trade and bills receivables turnover days during the periods indicated:

	<u>For the year ended December 31,</u>			<u>For the</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>three</u>
				<u>months</u>
				<u>ended</u>
				<u>March 31,</u>
				<u>2019</u>
Trade and bills receivables turnover days ⁽¹⁾	<u>6.5</u>	<u>8.3</u>	<u>12.1</u>	<u>17.6</u>

(1) Trade and bills receivables turnover days for each period equals the average of the beginning and ending balances of trade and bills receivables for that period divided by revenue for that period and multiplied by the number of days in that period.

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Our trade and bills receivables increased by 87.4% from RMB93.2 million as of December 31, 2016 to RMB174.7 million as of December 31, 2017, increased by 193.5% to RMB512.8 million as of December 31, 2018, and further increased by 7.1% to RMB549.1 million as of March 31, 2019, primarily due to the increased trade receivables from our e-commerce sales as we were growing such sales channel.

Our trade and bills receivables turnover days increased from 6.5 days in 2016 to 8.3 days in 2017, to 12.1 days in 2018 and further to 17.6 days in three months ended March 31, 2019, primarily due to the increase in trade receivables from our e-commerce sales that were granted relatively long credit terms, as we were growing such sales channel.

Our senior management regularly reviews the recoverability of our overdue balances and when appropriate, provide for impairment of these trade and bills receivables. Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless we are satisfied that the possibility of recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. We believe that our exposure to the risks of being unable to collect payments is small. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, we had provisions for impairment of trade and bills receivables of RMB17.5 million, RMB7.1 million, RMB9.0 million and RMB16.1 million, respectively.

As of May 31, 2019, RMB315.6 million, or 57.5%, of our trade and bills receivables as of March 31, 2019 were subsequently settled.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables include prepayments, deposits, other receivables and entrusted loans. Our prepayments primarily represent advance to suppliers of raw material and equipment. Our deposits primarily represent refundable deposits to suppliers and advertisers. Our other receivables primarily represent interest receivables for time deposits and pledged deposits, taxes recoverable, advances in relation to operational expenses.

Our entrusted loans represent certain loans we provided to our customers and suppliers through an agent commercial bank. According to the entrusted loan agreements, recipients of the entrusted loans are required to maintain a bank account with the agent commercial bank to repay the amounts due using the recipient's cash at bank, which will be transferred by the agent commercial bank to our designated bank account. Unlike inter-company loans, which were loans that were non-trade in nature, the entrusted loans we granted to customers and suppliers were of a trade nature. We provided the funds for the entrusted loans to an agent commercial bank, which then lent the funds to a borrower chosen by us, unlike inter-company loans, which we lent directly to the borrower without an intermediary agent commercial bank. Moreover, our inter-company loans and entrusted loans to customers and suppliers are classified as different items within "loans and receivables" in accordance with IFRSs. For more information on our entrusted loans, see "Business — Sales and Distribution Channels — Our Distributors — Our Relationship with Distributors" and "Business — Suppliers and Raw Materials — Our Suppliers." We have stopped providing entrusted loans to our customers and suppliers in May, 2017. In January 2018, all entrusted loans to our customers and suppliers have been settled.

Impairments were recognized for certain prepayments and other receivables including (i) impairment for receivables and prepayment for equipment recognised in previous years. See "Description of Key Components of Results of Operations — Other Income and Gains, Net." and (ii) the impairment in

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relation to payments made to a real estate developer to provide housing benefits to our employees, which was not recovered when the housing project was terminated. Our Directors are of the view that our impairment policy is appropriate and sufficient considering that we recognize full impairment for prepayments, deposits and other receivables that are more than one year past due, and the full impairment allows us to provision for the risk of not recovering any of such amounts.

The following table sets forth the components of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	<i>(In thousands of RMB)</i>			
Prepayments	343,925	199,583	404,728	596,954
Deposits	9,374	4,202	6,648	9,311
Other receivables ⁽¹⁾	344,874	57,560	166,993	255,845
Entrusted loans	55,750	6,000	–	–
Sub-total	753,923	267,345	531,369	865,110
Impairment ⁽²⁾	(70,463)	(14,172)	(14,172)	(14,172)
Total	683,460	253,173	567,197	850,938

(1) Other receivables primarily include interest receivables for time deposits and pledged deposits, taxes recoverable and advance in relation to operational expenses.

(2) Impairment of the prepayments to suppliers under other receivables primarily relate to those of which the Directors believe recoverability to be remote.

Our other receivables as of December 31, 2016 included inter-company loans directly to Independent Third Parties. We primarily provided inter-company loans to privately-held, reputable and sizeable companies with active operations in their respective industries, including husbanding, cattle feed and agriculture, real estate and tourism, metallurgy, and machinery manufacturing. Some of these companies are owned by individuals that are business contacts of our Directors, and such borrowers had approached our Company as they sought to supplement their working capital based on their short-term cash flow needs. Before making the decision to grant loans to these borrowers, we conducted due diligence investigations on the borrowers' business operations and scale, financial condition and cash flow position. The due diligence findings were reported to our senior management, including Mr. Leng Youbin, Mr. Liu Hua, Mr. Cai Fangliang and Mr. Liu Shenghui, our executive Directors, and the loans were granted subject to their approval. Our finance department was responsible for monitoring the borrowers' financial condition and the collection status of the principal and interest on the loans that were granted. To a lesser extent, we also provided inter-company loans to local government bodies and a government-owned company for their infrastructure projects. We primarily financed our inter-company loans using cash flows from operations. As of December 31, 2016, our other receivables in relation to inter-company loans amounted to RMB128.0 million, bearing interest rates of 7.0% per annum. All of our inter-company loans had been settled and repaid in full in 2017.

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We did not experience any defaults with respect to the inter-company loans that we granted during the Track Record Period and we did not make any provision with respect to such loans during the Track Record Period and as of the Latest Practicable Date. As of the Latest Practicable Date, we did not have any disputes in relation to these loans. We have ceased to provide inter-company loans since May 2017 and have not provided any inter-company loans since then. For more information on these inter-company loans, see "Business — Legal Proceedings and Non-compliances — Non-compliances — Non-compliant Inter-company Loans."

Our prepayments, deposits and other receivables decreased significantly from RMB683.5 million as of December 31, 2016 to RMB253.2 million as of December 31, 2017, primarily due to (i) a decrease of RMB144.3 million in prepayments attributable to the utilization of prepayment made in 2016 to an advertisement service provider, (ii) a decrease of RMB287.3 million in other receivables attributable to an inter-company loan of RMB125.0 million to a consulting company in 2016, and other receivables of RMB84.0 million due to us in relation to our disposal of Guanshan Dairy, and (iii) a decrease of RMB49.8 million in entrusted loans. Our prepayments, deposits and other receivables increased significantly from RMB253.2 million as of December 31, 2017 to RMB567.2 million as of December 31, 2018, primarily due to (i) an increase of RMB208.1 million in prepayments primarily attributable to and RMB26.9 million of prepayment in relation to the acquisition of Vitamin World, and an increase in our prepayments in relation to raw materials and production equipment, and (ii) an increase of RMB109.4 million in other receivables due to an increase in the interest receivables resulting from the increased balance of time and pledged deposits and taxes recoverable in relation to the construction of our Kingston Plant which was commenced in the fourth quarter of 2017. Our prepayments, deposits and other receivables increased by 50.0% from RMB567.2 million as of December 31, 2018 to RMB850.9 million as of March 31, 2019, primarily due to (i) an increase of RMB192.2 million in our prepayments in relation to raw materials and production equipment, and (ii) an increase of RMB88.9 million in other receivables due to an increase in advances in relation to operational expenses and an increase in taxes recoverable in relation to the construction of our Kingston Plant.

Trade and Bills Payables

Trade payables mainly represent the balances due to our suppliers of raw materials to which we are generally granted credit terms ranging from 30 to 90 days. YST Group, our largest supplier during the Track Record Period, grants us a credit period of one month.

The following table sets forth our trade and bills payables as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	March 31,
	<i>(In thousands of RMB)</i>			2019
Trade and bills payables	<u>359,957</u>	<u>514,146</u>	<u>833,383</u>	<u>879,220</u>

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The following table sets forth an aging analysis of our trade and bills payables, based on invoice date, as of the dates indicated:

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	<i>(In thousands of RMB)</i>			
Within three months	356,502	503,509	811,091	808,976
Three to six months	622	6,037	14,998	67,037
Over six months	2,833	4,600	7,294	3,207
Total	359,957	514,146	833,383	879,220

The following table sets forth our trade and bills payables turnover days during the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2016	2017	2018	2019
Trade and bills payables turnover days ⁽¹⁾	68.6	76.1	72.9	79.0

(1) Trade and bills payables turnover days for each period equals the average of the beginning and ending trade and bills payables for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Our trade and bills payables increased by 62.1% from RMB514.1 million as of December 31, 2017 to RMB833.4 million as of December 31, 2018 and further by 5.5% to RMB879.2 million as of March 31, 2019, primarily because our procurement of raw materials increased, which was in line with the overall growth of our business. Our trade and bills payables increased by 42.8% from RMB360.0 million as of December 31, 2016 to RMB514.1 million as of December 31, 2017, which was generally in line with the overall growth of our business.

Our trade and bills payables turnover days increased from 72.9 days in 2018 to 79.0 days for the three months ended March 31, 2019, primarily due to our increased purchases of raw material at the end of the first quarter of 2019. Our trade and bills payables turnover days decreased from 76.1 days in 2017 to 72.9 days in 2018, primarily due to quicker settlement to our suppliers in 2018. Our trade and bills payables turnover days increased from 68.6 days in 2016 to 76.1 days in 2017 due to the increased purchases of raw material at the end of 2017.

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As of May 31, 2019, RMB531.9 million, or 60.5%, of our trade and bills payables as of March 31, 2019 were subsequently settled.

Other Payables and Accruals

Our other payables and accruals mainly comprise (i) deferred income, which represents the portion of government grants we received for construction and acquisition of property, plant and equipment that has not been amortized, payables to constructions for purchases of property, plant and equipment, (ii) other payables, which are primarily employee benefits and salaries, other taxes payable and deposit from distributors, (iii) accruals, which are primarily accrued promotion and marketing expense, provision for sales return, and (iv) contract liabilities, which are primarily advance from customers. The following table sets forth our other payables and accruals as of the dates indicated:

	As of December 31,			As of March 31,
	2016	2017	2018	2019
	<i>(In thousands of RMB)</i>			
Deferred income	79,470	54,346	90,001	77,499
Other payables	357,012	334,573	827,791	637,970
Accruals	282,263	588,977	1,039,327	879,235
Contract liabilities	353,264	394,075	577,525	401,952
Sub-total	1,072,009	1,371,971	2,534,644	1,996,656
Non-current portion	(70,831)	(45,707)	(57,102)	(56,350)
Current portion	1,001,178	1,326,264	2,477,542	1,940,306

Our other payables and accruals decreased by 21.7% from RMB2,477.5 million as of December 31, 2018 to RMB1,940.3 million as of March 31, 2019 due to a RMB160.1 million decrease in accruals and a RMB175.6 million decrease in contract liabilities, which were primarily advance from customers.

Our other payables and accruals increased by 86.8% from RMB1,326.3 million as of December 31, 2017 to RMB2,477.5 million as of December 31, 2018 due to an RMB450.4 million increase in accruals and an RMB493.2 million increase in other payables, which was in line with our business expansion.

Our other payables and accruals increased by 32.5% from RMB1,001.2 million as of December 31, 2016 to RMB1,326.3 million as of December 31, 2017, primarily due to an increase of RMB306.7 million in our accruals, which was in line with our business expansion expenses increased.

Our Directors confirm that we had no material defaults in our trade and bills payables or other payables during the Track Record Period.

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Structured Deposits

Our structured deposits represent wealth management products issued by banks. Upon evaluation of various cash management alternatives such as demand deposits and time deposits, our management has in recent years determined that we can make better use of our cash by making appropriate investments in relatively low-risk wealth management products to enhance our income without interfering with our liquidity. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment.

As of December 31, 2016, 2017 and 2018 and March 31, 2019, the balance of our structured deposits was RMB443.4 million, RMB806.5 million, RMB1,183.7 million and RMB158.7 million, respectively. We also purchased certain wealth management products during the Track Record Period and subsequently disposed of them within the same financial year during which they were purchased. Therefore, those structured deposits were not reflected on our consolidated statements of financial position as of December 31, 2016, 2017 and 2018 and as of March 31, 2019. The maximum expected rates of return ranged from 1.9% to 5.5% per annum, 2.6% to 7.0% per annum, 2.0% to 4.7% per annum and 3.0% to 4.7% per annum for the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, respectively. Other than the wealth management products disclosed above, we did not invest in any other structured deposits during the Track Record Period and up to the Latest Practicable Date.

Low Level of Risk

The following table sets forth a breakdown of our structured deposits as of the dates indicated based on whether they were principal-protected:

	As of December 31,									As of March 31,		
	2016			2017			2018			2019		
	Cost	Carrying Amount	Accrued Interest	Cost	Carrying Amount	Accrued Interest	Cost	Carrying Amount	Accrued Interest	Cost	Carrying Amount	Accrued Interest
	<i>(In thousands of RMB)</i>											
Principal-protected	-	-	-	300,000	308,564	8,564	321,000	324,101	3,101	100,000	103,322	3,322
Non-principal-protected	440,000	443,398	3,398	485,000	497,975	12,975	855,000	859,640	4,640	55,000	55,425	425
Low	40,000	40,263	263	280,000	286,046	6,046	585,000	589,001	4,001	55,000	55,425	425
Medium	400,000	403,135	3,135	205,000	211,929	6,929	270,000	270,639	639	-	-	-
Total	440,000	443,398	3,398	785,000	806,539	21,539	1,176,000	1,183,741	7,741	155,000	158,747	3,747

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The difference between cost and carrying amount as of a balance sheet date represents the amount of accrued interest for our wealth management products.

Our policy for investing in wealth management products is to not have any holdings in high or relatively high risk products and to invest the majority of our portfolio in principal-protected or low to medium risk products. Banks may use their own risk rating systems to assign risk levels to the wealth management products they offer, and therefore, their risk ratings may not be directly comparable with each other. However, these risk ratings are generally divided into five categories: low, relatively low, medium, relatively high and high or equivalents thereof. As of the balance sheet dates, all of our wealth management products were principal-protected or had a low to medium risk level assigned to them by the relevant banks and as set forth in the purchase agreements for such products:

We purchase our wealth management products only from reputable banks in China. The following table sets forth the commercial banks from which we purchased structured deposits as of March 31, 2019:

Bank Name	As of March 31, 2019	
	Cost	Carrying Amount
	<i>(In thousands of RMB)</i>	
Harbin Bank Co., Ltd Keshan Branch	100,000	103,322
Bank of China Limited Qiqihar Branch	55,000	55,425
Total	155,000	158,747

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, with an overall low to medium level of risk assigned to them by the relevant banks and set forth in the purchase contracts. We received the expected return of principal and interest on these products and did not experience any losses during the Track Record Period and up to the Latest Practicable Date.

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Liquidity

To ensure our liquidity, we aim to maintain a portfolio with products that have a wide range of maturity dates and also aim to maintain a majority of our portfolio in redeemable on demand or highly liquid (i.e. redeemable within six months) wealth management products. The following table sets forth a breakdown of our structured deposits as of the dates indicated based on the term of the product:

	As of December 31,						As of March 31,	
	2016		2017		2018		2019	
	Cost	Carrying Amount	Cost	Carrying Amount	Cost	Carrying Amount	Cost	Carrying Amount
	<i>(In thousands of RMB)</i>							
Redeemable								
On demand	400,000	403,135	385,000	394,311	855,000	859,640	55,000	55,425
Within three months	40,000	40,263	200,000	206,362	221,000	221,938	-	-
Three to six months	-	-	100,000	103,663	-	-	100,000	103,322
Six months to one year	-	-	100,000	102,203	100,000	102,163	-	-
Total	440,000	443,398	785,000	806,539	1,176,000	1,183,741	155,000	158,747

As demonstrated in the table above, the significant majority of our wealth management products had short terms with a maturity period of less than six months as of the balance sheet dates.

Balanced Yield

We believe that relatively low-risk and liquid wealth management products enable us to achieve a higher yield than demand deposits and time deposits at commercial banks in China. The following table sets forth the interest income, and average yield of our structured deposits for the periods indicated:

	For the year ended December 31,			For the three months ended March 31, 2019
	2016	2017	2018	2019
		<i>(In thousands of RMB, except percentages)</i>		
Interest income from structured deposits	31,249	34,497	51,455	16,797
Average yield ⁽¹⁾	3.0%	3.76%	4.98%	4.33%

(1) Average yield is calculated based on our interest income from structured deposits for the respective periods divided by the average monthly balance of structured deposits for the respective periods, multiplied by 100%. Average monthly balance of structured deposits equals the sum of the structured deposits balance for each month during the respective periods, divided by the number of months in that period. The structured deposits balance for each month equals the average of the balance at the beginning of that month and at the end of that month.

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Management of Our Wealth Management Products

We maintain an internal policy which sets forth the selection criteria, investment strategy and internal control procedures with respect to risk management, record-keeping and reporting, approvals and monitoring in relation to our investments in wealth management products. These procedures primarily consist of the following:

- *Keeping abreast of investment trends and maintain liquidity through frequent turnover.* We purchase and redeem wealth management products frequently. As a result, the aggregate volume of our purchases and redemptions within any period has been relatively high. For the years ended December 31, 2016, 2017 and 2018 and for the three months ended March 31, 2019, our purchases of structured deposits totaled RMB4,860.0 million, RMB7,601.4 million, RMB1,155.0 million and nil, respectively, and our proceeds from redemption of structured deposits totaled RMB6,101.8 million, RMB7,489.6 million, RMB837.1 million and RMB1,021.0 million, respectively. We determine the amount and timing of our purchases and redemptions based on our overall cash management objectives instead of short-term gains. Our frequent purchase and redemption of structured deposits and short holding period allows us to keep updated on pricing trends, which in turn helps us in our investment decision on other similar wealth management products.
- *Close monitoring, periodic review and reporting system.* Although real-time price information of wealth management products is limited to the public in China, we believe that we are able to effectively monitor and manage our wealth management product portfolio because: (i) we obtain updated information from our frequent turnover of wealth management products to monitor their performance, (ii) there has not been any material deviation in actual return of the wealth management products we purchased from the products' expected return at the time of purchase during the Track Record Period, which may be attributable to our short holding period and the relatively low risk of the products we purchase, and (iii) customer relationship managers of the banks from which we purchase wealth management products provide us with updated information and recommendations on our wealth management products portfolio based on their analysis of the fluctuations and trends and our investment objectives. Our finance department is responsible for maintaining a ledger of our investments in wealth management products and preparing monthly reports on such products, which include information on the transaction volume, realized gains and unrealized gains, among other things. We assign the manager of our finance department to closely monitor the performance of such products and report any unusual activity in order for us to take immediate actions to prevent or minimize losses. We conduct annual internal audits on our ledgers, the results of which are reported to our management. We require all wealth management product purchases and redemptions to be made from a designated company account under our name. We do not allow any wealth management products to be purchased from personal accounts and do not allow any cash withdrawals from the designated company account. We keep close track of the maturity dates for our wealth management products to ensure that such products are redeemed without delay.

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- *Maintaining a multi-layered decision-making process.* Our finance department, under the supervision of Mr. Liu Hua, the Vice Chairman of the Board, our Executive Director and Chief Financial Officer, and Mr. Liu Shenghui, our Executive Director and Vice President of Finance, is responsible for managing our investment activities. Mr. Liu Hua and Mr. Liu Shenghui each has over 15 years of experience in corporate financial management. Mr. Liu Hua has been the chief financial officer of Feihe HLJ since 2000 and Mr. Liu Shenghui has been the vice president of finance of Feihe HLJ since 1996. Mr. Liu Hua holds an EMBA in finance from the Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Liu Shenghui has a bachelor's degree in economics and management from Northeast Agricultural University. Our finance department assesses our cash flow, operational needs and capital expenditure before making a proposal to invest in investment products. If our cash flow exceeds operational needs and appropriate short-term investment opportunities are available, our finance department will submit the investment proposal to our management for approval. According to our internal policies, a proposal to invest in investment products must be reviewed and approved by our Vice President of Finance, being Mr. Liu Shenghui, our Executive Director, and reported to our Chief Executive Officer. A proposal to invest in non-principal protected products or purchases of investment products with principal amounts over RMB100 million must be reviewed and approved by Mr. Leng Youbin, our Chief Executive Officer, Mr. Cai Fangliang, our President, Mr. Liu Hua, the Vice Chairman of the Board and Mr. Liu Shenghui, our Vice President of Finance. Our finance department shall select the wealth management product and enter into purchase agreements with the relevant banks only upon receiving the approval of our Vice President of Finance.

Taking into account the above and considering that we only purchase principal-protected or low to medium risk products, we believe that our management procedures and risk management mechanisms with respect to investments in wealth management products are adequate. We may continue to make investments in wealth management products after the [REDACTED]. Consistent with our internal control policy, we plan to only purchase principal-protected products and non-principal protected products that are assigned with low to medium risk levels by the relevant banks, such as those with treasury bonds, money market instruments or other low risk financial assets as underlying financial assets. Moreover, we will continue to assess our liquidity and cash flow needs to adjust the composition of our wealth management product portfolio.

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Property, Plant and Equipment

Our property, plant and equipment primarily consist of (i) plant and machinery, (ii) buildings, (iii) construction in progress, (iv) furniture, fixtures and equipment, (v) freehold land and (vi) motor vehicles.

The following table sets out the net book value of our property, plant and equipment as of the dates indicated:

	As of December 31,			As of March
	2016	2017	2018	31, 2019
	<i>(In thousand of RMB)</i>			
Cost	1,462,609	1,835,342	3,018,638	3,383,350
Accumulated Depreciation and impairment	(376,736)	(404,390)	(463,957)	(480,752)
Net book value	1,085,873	1,430,952	2,554,681	2,902,598

Our property, plant and equipment increased by 13.6% from RMB2,554.7 million as of December 31, 2018 to RMB2,902.6 million as of March 31, 2019, primarily due to the additions of construction in progress of RMB322.4 million due to the expansion and construction of our plants to enhance our production capacity.

Our property, plant and equipment increased by 78.5% from RMB1,431.0 million as of December 31, 2017 to RMB2,554.7 million as of December 31, 2018, primarily due to the additions of construction in progress of RMB1,059.7 million due to the expansion and construction of our plants.

Our property, plant and equipment increased by 31.8% from RMB1,085.9 million as of December 31, 2016 to RMB1,431.0 million as of December 31, 2017, primarily due to the additions of construction in progress of RMB279.2 million as a result of the construction of Kingston Plant in the fourth quarter of 2017.

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NET CURRENT ASSETS

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of March	As of
	2016	2017	2018	31, 2019	May 31, 2019
	<i>(In thousands of RMB)</i>				
	(Unaudited)				
Current assets					
Inventories	293,631	394,658	660,066	725,703	691,625
Trade and bills receivables	93,183	174,705	512,837	549,065	467,440
Prepayments, other receivables and other assets	683,460	253,173	567,197	850,938	1,052,693
Due from a director	299,626	1,659	80	3,580	3,580
Due from related companies	2,106	745	750	–	–
Structured deposits	443,398	806,539	1,183,741	158,747	1,359,994
Pledged deposits	50,000	–	663,000	663,000	663,000
Restricted cash	10,051	19,937	66,218	33,992	26,535
Cash and cash equivalents	1,138,769	2,771,204	3,640,836	4,634,331	4,254,846
Total current assets	3,014,224	4,422,620	7,294,725	7,619,356	8,519,713
Current liabilities					
Trade and bills payables	359,957	514,146	833,383	879,220	693,958
Other payables and accruals	1,001,178	1,326,264	2,477,542	1,940,306	1,844,121
Due to the immediate holding company	223	210	–	–	–
Due to the related companies	–	–	–	432	432
Interest-bearing bank and other borrowings	534,140	902,880	1,083,267	1,189,070	1,193,351
Leased liabilities	–	–	59,070	53,935	55,496
Tax payable	143,703	345,977	406,972	346,506	366,386
Total current liabilities	2,039,201	3,089,477	4,860,234	4,409,469	4,153,744
Net current assets	975,023	1,333,143	2,434,491	3,209,887	4,365,969

Note:

⁽¹⁾ See Note 27 of “Appendix I — Accountants’ Report” for a reconciliation of cash and cash equivalents.

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Our net current assets increased from RMB3,209.9 million as of March 31, 2019 to RMB4,366.0 million as of May 31, 2019, primarily due to an increase of RMB1,201.2 million in structured deposits to enhance the yield of our cash.

Our net current assets increased from RMB2,434.5 million as of December 31, 2018 to RMB3,209.9 million as of March 31, 2019, primarily due to (i) an RMB993.5 million increase in cash and cash equivalents, and (ii) an RMB537.2 million decrease in other payables and accruals; partially offset by an RMB1,025.0 million decrease in structured deposits.

Our net current assets increased from RMB1,333.1 million as of December 31, 2017 to RMB2,434.5 million as of December 31, 2018, primarily due to (i) pledged deposits of RMB663.0 million, which was used for providing guarantee for the Kingston Plant, (ii) an RMB869.6 million increase in cash and cash equivalents, (iii) a RMB314.0 million increase in our prepayments, deposits and other receivables due to a RMB208.1 million increase in prepayments, (iv) a RMB338.1 million increase in our trade and bills receivables, and (v) a RMB265.4 million increase in inventories; partially offset by (i) a RMB1,151.3 million increase in other payables and accruals, (ii) a RMB319.2 million increase in trade and bills payables.

Our net current assets increased from RMB975.0 million as of December 31, 2016 to RMB1,333.1 million as of December 31, 2017, primarily due to (i) a RMB1,632.4 million increase in cash and cash equivalents, and (ii) a RMB363.1 million increase in structured deposits to enhance the yield of our cash; partially offset by (i) a RMB430.3 million decrease in prepayments, deposits and other receivables, (ii) a RMB298.0 million decrease in amounts due from a director, (iii) a RMB368.7 million increase our interest-bearing bank and other borrowings, (iv) a RMB325.1 million decrease in other payables and accruals, (v) a RMB202.3 million increase in tax payable, and (v) a RMB154.2 million increase in trade and bills payables.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As part of our cash management policy, we monitor our 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, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs. Our principal uses of cash are for working capital purposes, which principally represent the purchase of raw materials, servicing debt and financing construction related to our expansion plans. We have been able to meet our cash needs principally by using cash on hand, cash flows from operations and interest-bearing bank and other borrowings. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, we had cash and cash equivalents of RMB1,138.8 million, RMB2,771.2 million, RMB3,640.8 million and RMB4,634.3 million, respectively.

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In addition, we also used cash to purchase wealth management products, provide inter-company loans to Independent Third Parties and provide entrusted loans to certain customers and suppliers. For more information on our wealth management products and inter-company loans, see “— Selected Balance Sheet Items — Structured Deposits” and “— Selected Balance Sheet Items — Prepayments, Deposits and Other Receivables,” respectively, and for more information on our entrusted loans, see “Business — Sales and Distribution Channels — Our Customers” and “Business — Suppliers and Raw Materials — Our Suppliers.” Considering that (i) our wealth management products had relatively low risk levels and relatively high liquidity as all of our wealth management products as of December 31, 2016, 2017 and 2018 had maturity terms within one year, (ii) there has not been any material deviation in actual returns of our wealth management products, inter-company loans and entrusted loans from the expected returns at the time of entering into such transactions during the Track Record Period, and (iii) we did not experience any losses from such transactions during the Track Record Period, our management considered that it would be commercially reasonable to engage in such activities with a view to optimize our cash management and generate higher yield than cash deposits. We did not finance such activities using bank and other borrowings during the Track Record Period.

Our interest-bearing bank and other borrowings which primarily consisted of foreign-currency denominated loans with carrying amounts equivalent to approximately RMB534.1 million, RMB816.9 million, RMB1,740.6 million and RMB2,049.9 million as of December 31, 2016, 2017 and 2018 and as of March 31, 2019, respectively, which were mainly used in the FCUS Privatization and litigation in the U.S. in relation to the FCUS Privatization, as well as for our Canada operations. As of December 31, 2017 and as of 31 March 2019, our bank and other loans also consisted of Renminbi denominated loans of RMB150.0 million.

Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of cash flows from operations, interest-bearing bank and other borrowings and net proceeds from the [REDACTED]. Other than the bank and other borrowings we may obtain, we do not expect to have any material external financing plan in the near future. As of May 31, 2019, the latest date for determining our indebtedness, we had RMB678.9 million overdraft facilities, of which RMB75.4 million were unutilized and unrestricted.

Taking into account the net proceeds of the [REDACTED], net cash from our operating activities and bank facilities available to us, our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this Document.

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Cash Flow

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2016	2017	2018	2018	2019
	<i>(In thousands of RMB)</i>				
	<i>(unaudited)</i>				
Net cash flows from operating activities	129,094	2,205,574	3,121,196	793,059	(126,324)
Net cash flows from/ (used in) investing activities	947,343	(1,680,076)	(3,272,449)	(1,025,590)	279,620
Net cash flows from/ (used in) financing activities	(395,455)	222,174	(509,032)	169,064	449,232
Net increase/(decrease) in cash and cash equivalents	680,982	747,672	(660,285)	(63,467)	602,528
Cash and cash equivalents at beginning of year/period	133,994	816,769	1,565,574	1,565,574	895,854
Effect of foreign exchange rate changes, net	1,793	1,133	(9,435)	820	(8,124)
Cash and cash equivalents at end of year⁽¹⁾	816,769	1,565,574	895,854	1,502,927	1,490,258

⁽¹⁾ See Note 27 of “Appendix I — Accountants’ Report” for a reconciliation of cash and cash equivalents.

Operating Activities

Our cash generated from operating activities primarily consists of profit before tax adjusted for non-cash items and all other items for which the cash effects are non-operating (such as depreciation of property, plant and equipment, impairment of receivables and intangible assets and finance costs), and the effects of changes in working capital, such as increase or decrease of inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payables, amounts due from directors and other payables and accruals. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade and bills receivables from customers and payments of trade and bills payables to suppliers during the ordinary course of business.

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Our net cash flows used in operating activities was RMB126.3 million in the three months ended March 31, 2019. This net cash inflow was primarily a result of profit before tax in the amount of RMB1,087.3 million, as adjusted for non-cash and non-operating items, negative changes in working capital and income taxes paid. Adjustment for non-cash and non-operating items primarily included interest income of RMB31.1 million, depreciation of RMB27.2 million and depreciation of right-of use assets of RMB16.3 million. Negative changes in working capital primarily consisted of a RMB528.0 million decrease in other payables and accruals, (ii) a RMB277.0 million increase in prepayments, deposits and other receivables, and (iii) a RMB69.7 million increase in inventories, partially offset by (i) a RMB47.7 million increase in trade and bills payables. Our income taxes paid in the three months ended March 31, 2019 was RMB377.3 million.

Our net cash flows from operating activities was RMB3,121.2 million in the year ended December 31, 2018. This net cash inflow was primarily a result of profit before tax in the amount of RMB3,188.6 million, as adjusted for non-cash and non-operating items, positive changes in working capital and income taxes paid. Adjustment for non-cash and non-operating items primarily included depreciation of RMB95.5 million, gain on bargain purchase of RMB33.3 million and interest income of RMB90.3 million. Positive changes in working capital primarily consisted of (i) a RMB1,093.6 million increase in other payables and accruals, and (ii) a RMB319.2 million increase in trade and bills payables; partially offset by (i) a RMB335.7 million increase in trade and bills receivables, (ii) a RMB329.4 million increase in prepayments, deposits and other receivables and (iii) a RMB90.1 million increase in inventories. Our income taxes paid in the year ended December 31, 2018 was RMB844.7 million.

Our net cash flows from operating activities was RMB2,205.6 million for the year ended December 31, 2017. The net cash inflow was primarily a result of profit before tax in the amount of RMB1,651.1 million, as adjusted for non-cash and non-operating items, positive changes in working capital and income taxes paid. Adjustment for non-cash and non-operating items primarily included depreciation of RMB94.8 million, interest income of RMB71.0 million and reversal of impairment of other receivables of RMB50.9 million. Positive changes in working capital primarily consisted of (i) a RMB477.8 million decrease in prepayments, deposits and other receivables, (ii) a RMB429.1 million increase in other payables and accruals, and (iii) a RMB298.0 million decrease in amounts due from a director; partially offset by (i) a RMB101.0 million increase in inventories, and (ii) a RMB85.9 million increase in trade and bills receivables. Our income taxes paid in the year ended December 31, 2017 was RMB613.6 million.

Our net cash flows from operating activities was RMB129.1 million for the year ended December 31, 2016. This net cash inflow was primarily a result of profit before tax in the amount of RMB594.9 million, as adjusted for non-cash and non-operating items, negative changes in working capital and income taxes paid. Adjustment for non-cash and non-operating items primarily included (i) depreciation of RMB81.0 million, (ii) loss on disposal of a subsidiary in relation to Guanshan Dairy of RMB64.0 million, and (iii) interest income of RMB58.6 million. Positive changes in working capital primarily consisted of (i) a RMB123.8 million increase in trade and bills payables, and (ii) a RMB51.9 million decrease in inventories; partially offset by (i) a RMB328.2 million increase in prepayments, deposits and other receivables, and (ii) a RMB277.3 million increase in amounts due from a director. Our income tax paid in the year ended December 31, 2016 was RMB269.0 million.

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Investing Activities

Our cash inflow from investing activities primarily consists of proceeds from redemption of structured deposits and withdrawal of time deposits with original maturity of more than three months when acquired. Our cash outflow from investing activities primarily consists of purchases of structured deposits, purchases of items of property, plant and equipment and prepaid land lease payments and placement of time deposits with original maturity of more than three months when acquired.

Our net cash flows from investing activities was RMB279.6 million for the year ended March 31, 2019. This net cash inflow was primarily due to (i) RMB3,356.7 million in withdrawal of time deposits with original maturity of more than three months when acquired, and (ii) RMB1,021.0 million in proceeds from redemption of structured deposits, and (iii) RMB32.2 million of withdrawal of restricted cash, partially offset by (i) RMB3,755.8 million in placement of time deposits with original maturity of more than three months when acquired, and (ii) RMB331.7 million in purchases of items of property, plant and equipment and right-of-use assets.

Our net cash flows used in investing activities was RMB3,272.4 million for the year ended December 31, 2018. This net cash outflow was primarily due to (i) RMB2,745.0 million placement of time deposits with original maturity of more than three months when acquired, (ii) RMB1,155.0 million in purchases of structured deposits, and (iii) RMB1,130.1 million in purchases of items of property, plant and equipment and right-of-use assets, partially offset by (i) RMB1,205.6 million in withdrawal of time deposits with original maturity of more than three months when acquired and (ii) RMB837.1 million in proceeds from redemption of structured deposits.

Our net cash flows used in investing activities was RMB1,680.1 million for the year ended December 31, 2017. This net cash outflow was primarily due to (i) RMB7,601.4 million in purchases of structured deposits, and (ii) RMB1,355.6 million in placements of time deposits with original maturity of more than three months when acquired, partially offset by (i) RMB7,489.6 million in proceeds from redemption of structured deposits and (ii) RMB322.0 million in withdrawal of time deposits with original maturity of more than three months when acquired.

Our net cash flows from investing activities was RMB947.3 million for the year ended December 31, 2016. This net cash inflow was primarily due to (i) RMB6,101.8 million in proceeds from redemption of structured deposits, and (ii) RMB267.3 million in withdrawal of time deposits with original maturity of more than three months when acquired, partially offset by (i) RMB4,860.0 million in purchases of structured deposits, (ii) RMB322.0 million in placement of time deposits with original maturity of more than three months when acquired, and (iii) a RMB140.0 million investment in Jilin Green Energy.

Financing Activities

Our cash inflow from financing activities primarily consists of new bank and other loans. Our cash outflow from financing activities primarily consists of cash used for repayment of bank and other loans and placement of pledged bank deposits.

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Our net cash flows from financing activities was RMB449.2 million for the three months ended March 31, 2019. This net cash inflow was due to (i) RMB600.0 million in release of pledged bank deposits, and (ii) RMB556.9 million new bank and other loans, partially offset by RMB611.7 million in placement of pledged bank deposits, and (ii) RMB77.1 million in repayment of in bank and other loans.

Our net cash flows used in financing activities was RMB509.0 million for the year ended December 31, 2018. This net cash outflow was due to (i) RMB1,200.0 million in placement of pledged bank deposits and (ii) RMB1,171.5 million in repayment of bank and other loans, partially offset by RMB1,923.0 million in new bank and other loans.

Our net cash flows from financing activities was RMB222.2 million for the year ended December 31, 2017. This net cash inflow was due primarily due to RMB938.2 million in new bank and other loans, partially offset by (i) RMB473.0 million in repayment of bank and other loans and (ii) RMB293.0 million placement of pledged bank deposits.

Our net cash flows used in financing activities was RMB395.5 million for the year ended December 31, 2016. This net cash outflow was primarily due to a RMB472.5 million repayment of bank and other loans and RMB223.0 million in placements of pledged bank deposits, partially offset by RMB300.0 million in releases of pledged bank deposits.

FINANCIAL INFORMATION

INDEBTEDNESS

We primarily borrow loans to supplement our working capital and expand our business. As of May 31, 2019, we had total borrowings of RMB2,642.7 million, of which RMB1,746.3 million were bank loans and RMB896.4 million were non-bank loans. The following table sets forth the effective interest rate, maturity date and amounts outstanding of our interest-bearing bank and other borrowings as of the dates indicated:

	As of December 31,			2018			As of March 31, 2019			As of May 31, 2019					
	2016	2017		Effective interest rate (%)		Maturity	RMB'000	Effective interest rate (%)		Maturity	RMB'000	Effective interest rate (%)		Maturity	RMB'000
Current															
Bank loans – secured ⁽¹⁾	N/A	N/A	2019	2.7%-3.5%	2.4%-3.7%	2019	297,392	703,590	2.4%-3.7%	2019	693,984	2.4%-3.7%	2019	709,512	
Bank loans – unsecured ⁽¹⁾	3.0%	484,875	2018	3.7%-4.4%	4.0%	2019	605,488	272,508	4.0%-4.4%	2019-2020	415,834	4.0%-4.4%	2019-2020	423,528	
Other loans – unsecured	4.0%	49,265	2017	N/A	6.0%	2019	-	107,169	6.0%	2019-2020	79,252	6%	2019-2020	60,311	
		534,140					902,880	1,083,267			1,189,070			1,193,351	
Non-current															
Bank loans – secured	N/A	-	N/A	N/A	3.5%-4.0%	2021	-	605,499	3.5%-4.0%	2021	603,510	3.5%-4.0%	2021	613,303	
Other loans – secured	N/A	-	2019	6.0%	6.0%	2020	64,039	51,803	CDOR+	2020	407,369	CDOR+	2020-2023	835,766	
		534,140					966,919	1,740,569	1.73%		2,199,949	1.73%		2,642,420	

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

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Bank Loans

Our unsecured bank loans mainly comprised of (i) foreign-currency denominated loans with carrying amounts of US\$70.0 million (equivalent to RMB484.9 million), US\$70.0 million (equivalent to RMB455.5 million), US\$39.6 million (equivalent to RMB272.5 million) and US\$39.6 million (equivalent to RMB265.8 million) as of December 31, 2016, 2017 and 2018 and as of March 31, 2019, respectively, and (ii) Renminbi denominated loans of nil, RMB150.0 million, nil and RMB150.0 million as of December 31, 2016, 2017 and 2018 and as of March 31, 2019. We obtained the Renminbi denominated loan primarily because we received certain cash subsidies from the local government by taking out such loans pursuant to policies supporting economic growth and capital investment. The loan agreement stipulated that such loans shall be used for our operating activities. Our secured bank loans represented (i) foreign-currency denominated loans with carrying amounts of C\$57.5 million (equivalent to RMB297.4 million), C\$191.3 million (equivalent to RMB965.0 million) and C\$191.3 million (equivalent to RMB961.8 million) as of December 31, 2017 and 2018 and as of March 31, 2019, respectively, (ii) foreign-currency denominated loans with carrying amounts of US\$50.0 million (equivalent to RMB344.1 million) and US\$50.0 million (equivalent to RMB335.6 million) as of December 31, 2018 and as of March 31, 2019, which were secured by pledged deposits.

Our bank loan agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. Such covenants primarily include requirements for us to obtain the lending bank's prior consent for certain transactions, such as disposal of material assets, merger or consolidation, and liquidation or winding-up. In addition, one of our bank loan agreements required us to meet certain financial ratio requirements. Our Directors confirm that we have complied with all the covenants of our bank loans and did not default in the repayment of such loans during the Track Record Period. In addition, there were no material covenants which limited our ability to undertake additional debt or equity financing during the Track Record Period.

Other Loans

Other than bank loans, we also had foreign-currency denominated loans from Independent Third parties in the amount of RMB49.3 million, RMB64.0 million, RMB159.0 million and RMB486.6 million as of December 31, 2016 and 2017 and 2018 and March 31, 2019, respectively. Such Independent Third parties are companies that provides financial services.

As of December 31, 2016, our other loans were unsecured, interest-bearing at 4% and repayable on December 31, 2017. As of December 31, 2017, our other loans were unsecured and repayable on December 31, 2019. As of December 31, 2018, we had a loan of US\$6,620,000 equivalent to RMB45,556,000 from a related company which was wholly owned by a Director of the Company. The loan was taken as short-term overseas working capital for the Company. The loan was fully settled in January 2019. See Note 30 of "Appendix I — Accountants' Report." Our remaining other loans as at December 31, 2018 were unsecured and repayable within 2019 to 2020. We obtained the loan from this company primarily due to its simplified loan application process as compared to bank loans and mainly used the loan to fulfil the capital needs of our overseas subsidiaries.

FINANCIAL INFORMATION

Save as disclosed in this section of the Document, since December 31, 2018, being the date of our latest audited financial statements, and up to the date of this Document, there has been no material change to our indebtedness. As of the Latest Practicable Date, except as otherwise disclosed in this Document, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Given our credit history and relationship with our principal lenders and our current credit status, we believe that we will not encounter any major difficulties in obtaining additional bank and other borrowings in the future.

As of March 31, 2019, except for certain of the Group's other loans amounting to RMB407.4 million which was secured by the Group's construction in progress in Canada with carrying amount of RMB1,225.6 million, and repayable on 31 December 2020, the remaining other loans were unsecured and repayable within 2019 to 2020.

CONTINGENT LIABILITIES

As of December 31, 2017 and 2018 and March 31, 2019, we had contingent liabilities of RMB90.0 million and RMB90.0 million and RMB90.0 million, respectively, primarily attributable to a guarantee given to a bank in connection with a facility granted to a third party constructor. We did not have any outstanding loan capital issued or agreed to be issued, debt securities, debentures, bank overdrafts, liabilities under acceptances or acceptance credits or hire purchase commitments as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness of any Independent Third Parties.

CAPITAL EXPENDITURES

Our principal capital expenditures during the Track Record Period primarily relate to purchases of property, plant and equipment, prepaid land lease payments. The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2016	2017	2018	March 31,
	<i>(In thousands of RMB)</i>			
Purchases of property, plant and equipment	58,679	359,187	1,130,123	331,709
Purchases of prepaid land lease payments	–	48,428	11,619	2,706
Total capital expenditure	58,679	407,615	1,141,742	334,415

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Our planned capital expenditures primarily relate to purchases of property, plant and equipment. Our estimated total capital expenditure for the years ending December 31, 2019 and 2020 is approximately RMB1,631.7 million and RMB435.9 million, respectively, which we plan to finance through the net proceeds from the [REDACTED], bank borrowings and cash from operations.

Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition, economic conditions in the PRC, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in the PRC and other factors.

CONTRACTUAL OBLIGATIONS

Capital Commitments

We had capital expenditure in respect of construction and purchases of items of property, plant and equipment as of December 31, 2016, 2017 and 2018. The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,			As of March 31,
	2016	2017	2018	2019
	<i>(In thousands of RMB)</i>			
Contracted but not provided for:				
Capital expenditure in respect of construction and purchases of items of property, plant and equipment	32,626	120,346	188,019	194,022

Operating Commitments

We had operating commitments in respect of research and development costs, which were contracted but not provided for, of RMB9.2 million, RMB4.3 million, nil and nil as of December 31, 2016, 2017 and 2018 and as of March 31, 2019, respectively. We have entered into a contract with the Beth Israel Deaconess Medical Center, an Independent Third Party, for a research collaborative project and are obligated to pay the Beth Israel Deaconess Medical Center an amount of US\$667,000 (equivalent to RMB4.1 million) per annum from 2016 to 2018.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

Transactions with Related Companies

In 2016, 2017 and 2018 and the three months ended in March 31, 2019, we derived RMB8.6 million, RMB16.1 million, RMB0.7 million and nil, respectively, from the sales of dairy and soybean products to Aiben HLJ and Qianqi SH. Aiben HLJ had ceased to be our related party since April 2017 due to changes in its shareholding. Qianqi SH ceased to be our related party since its deregistration in February 2019. It is the view of our Directors that such sales to related parties and each of the other related party transactions set out in Note 41 in “Appendix I — Accountants’ Report” to this Document were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. Except for the key management personnel compensation which will continue after completion of the [REDACTED], other related party transactions have been terminated before the [REDACTED].

Due from/to a Director and Related Companies, and Due to the Immediate Holding Company

The following table sets forth a breakdown of amounts due from directors and related companies as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>March 31,</u>
	<i>(In thousands of RMB)</i>			<u>2019</u>
Due from a director				
Mr. Leng You Bin	299,626	1,659	80	3,580
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Due from/(to) related companies				
Aiben HLJ	190	–	–	–
Qianqi SH	1,916	745	750	(432)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Due to the immediate holding companies				
	223	210	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

In addition to amounts due from a director, we also had a loan from a company which was wholly-owned by a Director of the Company. See “— Indebtedness — Other Loans.”

As of March 31, 2019, our balance of amounts due from a director amounted to RMB3.6 million and amounts due to related companies amounted to RMB0.4 million, respectively. The amounts due from and due to related companies will be settled before [REDACTED].

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the periods indicated:

	<u>As of December 31/ For the year ended,</u>			As of March 31/ For the three months ended March 31, 2019
	<u>2016</u>	<u>2017</u>	<u>2018</u>	
Gross profit margin ⁽¹⁾	54.6%	64.4%	67.5%	64.1%
Net profit margin ⁽²⁾	10.9%	19.7%	21.6%	28.0%
Return on average equity ⁽³⁾	18.6%	38.9%	47.8%	N/M
Return on average assets ⁽⁴⁾	8.7%	19.8%	23.8%	N/M
Current ratio ⁽⁵⁾	1.5	1.4	1.5	1.7
Quick ratio ⁽⁶⁾	1.3	1.3	1.4	1.6

(1) Equals gross profit for the year/period divided by revenue for that year/period and multiplied by 100%.

(2) Equals profit for the year/period divided by revenue for that year/period and multiplied by 100%.

(3) Equals profit for the year/period divided by average balance of total equity at the beginning and the end of that year/period and multiplied by 100%.

(4) Equals profit for the year/period divided by average balance of total assets at the beginning and the end of that year/period and multiplied by 100%.

(5) Equals current assets divided by current liabilities as of the same date.

(6) Equals current assets less inventories and divided by current liabilities as of the same date.

Return on Average Equity

Our return on average equity increased from 38.9% in 2017 to 47.8% in 2018 primarily as a result of an increase in our profit for the year.

Our return on average equity increased from 18.6% in 2016 to 38.9% in 2017 primarily as a result of an increase in our profit for the year.

Return on Average Assets

Our return on average assets increased from 19.8% in 2017 to 23.8% in 2018 because our profit for the year increased at a higher rate than our average total assets. Our profit for the year increased by RMB1,082.0 million from 2017 to 2018, while our average assets increased by RMB358.1 million from 2017 to 2018, which was primarily due to our increased cash and cash equivalents as well as increase in property, plant and equipment.

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Our return on average assets increased from 8.7% in 2016 to 19.8% in 2017 because our profit for the year increased at a higher rate than our average total assets. Our profit for the year increased by RMB754.1 million from 2016 to 2017, while our average assets increased by RMB1,197.2 million from 2016 to 2017, primarily due to our increased cash and cash equivalents.

Current Ratio

Our current ratio increased from 1.5 as of December 31, 2018 to 1.7 as of March 31, 2019, because our current assets increased, while our current liabilities decreased. Our current assets increased by RMB544.8 million primarily due to our increased cash and cash equivalent increased by RMB993.5 million and our current liabilities decreased by RMB711.0 million primarily due to our decreased other payables and accruals.

Our current ratio increased from 1.4 as of December 31, 2017 to 1.5 as of December 31, 2018, because our current assets increased at a higher rate than our current liabilities. Our current assets increased by RMB2,872.1 million, primarily due our increased cash and cash equivalents as well as increase in structured deposits. Our current liabilities increased by RMB1,770.8 million, primarily due to our increased other payables and accruals as well as increase in the current portion of interest-bearing bank and other borrowings.

Our current ratio decreased from 1.5 as of December 31, 2016 to 1.4 as of December 31, 2017, because our current liabilities increased at a slightly higher rate than our current assets. Our current assets increased by RMB1,408.4 million, primarily due to our increased cash and cash equivalents. Our current liabilities increased by RMB1,050.3 million, primarily due to our increased other payables and accruals as well as increase in the current portion of interest-bearing bank and other borrowings.

Quick Ratio

Our quick ratio increased from 1.4 as of December 31, 2018 to 1.6 as of March 31, 2019, because our current assets less inventories increased, while our current liabilities decreased. Our current assets less inventories increased by RMB259.0 million, primarily due to our increased cash and cash equivalents and prepayments, deposits and other receivables and our current liabilities decreased by RMB450.8 million, primarily due to our decreased other payables and accruals.

Our quick ratio increased from 1.3 as of December 31, 2017 to 1.4 as of December 31, 2018, because our current assets less inventories increased at a higher rate than current liabilities. Our current assets less inventories increased by RMB2,606.7 million, primarily due to our increased cash and cash equivalents as well as increase in structured deposits. Our current liabilities increased by RMB1,770.8 million, primarily due to our increased other payables and accruals as well as increase in the current portion of interest-bearing bank and other borrowings.

Our quick ratio remained relatively stable at 1.3 as of December 31, 2016 and as of December 31, 2017.

FINANCIAL INFORMATION

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period and as of the Latest Practicable Date, we did not have any financial guarantees or other commitments to guarantee the payment obligations of any third parties. As of the Latest Practicable Date, we have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our consolidated financial information. As of the Latest Practicable Date, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. As of the Latest Practicable Date, we did not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

FINANCIAL RISKS

We are exposed to a variety of financial risks, including interest rate risk, credit risk, foreign currency risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. For further details, including relevant sensitivity analysis, please see Note 45 in "Appendix I — Accountants' Report" to this Document.

Interest Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, it was estimated that with a general increase/decrease of 50 in basis points in interest rates of net floating borrowings denominated in Renminbi, with all other variables held constant, our profit before tax would have decreased/increased by approximately RMB9.0 million, RMB16.9 million, RMB30.2 million and RMB30.8 million, respectively. As of the same dates, it was estimated that with a general increase/decrease of 50 in basic points in interest rates of net floating borrowings denominated in U.S. dollars, with all other variables held constant, our profit before tax would have decreased/increased by approximately RMB0.03 million, RMB0.1 million, RMB1.4 million and RMB0.07 million, respectively. As of the same dates, it was estimated that with a general increase/decrease of 50 in basic points in interest rates of net floating borrowings denominated in Canadian dollars, with all other variables held constant, our profit before tax would have decreased/increased by approximately nil, RMB0.02 million, RMB0.2 million and RMB1.3 million.

Credit Risk

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

The credit risk of our other financial assets, which comprise cash and cash equivalents, restricted cash, pledged deposits, structured deposits, an available-for-sale financial asset, other receivables, and amounts due from directors, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

FINANCIAL INFORMATION

Foreign Currency Risk

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars, Hong Kong dollars and Canadian dollars during the Track Record Period; and (ii) our investment in the construction of the Kingston Plant, which is made in Canadian dollars. Moreover, we expect to receive the net proceeds from the [REDACTED] in Hong Kong dollars. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, with a reasonably possible increase/decrease of 5% in the exchange rate of the Hong Kong dollar, with all other variables held constant, our profit before tax would have decreased/increased by RMB2.8 million, RMB2.5 million, RMB2.6 million and RMB2.5 million, respectively. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, with a reasonably possible increase/decrease of 5% in the exchange rate of the U.S. dollar, with all other variables held constant, our profit before tax would have decreased/increased by RMB25.4 million, RMB24.6 million, RMB1.9 million and RMB18.8 million, respectively. As of December 31, 2016, 2017 and 2018 and as of March 31, 2019, with a reasonably possible increase/decrease of 5% in the exchange rate of the Canadian dollar, with all other variables held constant, our profit before tax would have decreased/increased by nil, RMB15.0 million, RMB74.4 million and RMB61.2 million.

We currently do 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.

Liquidity Risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. Our policy is to regularly monitor the current and expected liquidity requirements, to ensure that we maintain sufficient reserves of cash and available banking facilities to meet our liquidity requirements in the short and longer term.

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The following table sets forth maturity profile of our financial liabilities as of December 31, 2016, 2017 and 2018, based on the contractual undiscounted payments:

	On demand or less than one year	One to five years	Total
	<i>(In thousands of RMB)</i>		
As of December 31, 2016			
Trade and bills payables	359,957	–	359,957
Financial liabilities included in other payables and accruals	506,771	–	506,771
Due to the immediate holding company	223	–	223
Interest-bearing bank and other borrowings	534,140	–	534,140
	<u>1,401,091</u>	<u>–</u>	<u>1,401,091</u>
As of December 31, 2017			
Trade and bills payables	514,146	–	514,146
Financial liabilities included in other payables and accruals	758,333	–	758,333
Due to the immediate holding company	210	–	210
Interest-bearing bank and other borrowings	902,880	64,039	966,919
	<u>2,175,569</u>	<u>64,039</u>	<u>2,239,608</u>
As of December 31, 2018			
Trade and bills payables	833,383	–	833,383
Financial liabilities included in other payables and accruals	1,636,273	–	1,636,273
Leased liabilities	59,070	134,801	193,871
Interest-bearing bank and other borrowings	1,083,267	657,302	1,740,569
	<u>3,611,993</u>	<u>792,103</u>	<u>4,404,096</u>
As of March 31, 2019			
Trade and bills payables	879,220	–	879,220
Financial liabilities included in other payables and accruals	1,251,920	–	1,251,920
Leased liabilities	53,935	122,989	176,924
Due to related companies	432	–	432
Interest-bearing bank and other borrowings	1,189,070	1,010,879	2,199,949
	<u>3,374,145</u>	<u>1,133,868</u>	<u>4,508,445</u>

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Sensitivity Analysis

We are exposed to raw materials price risks primarily in relation to fluctuations in the price of fresh milk. The following sensitivity analysis illustrates the impact of hypothetical changes in the price of raw materials, including fresh milk and other raw materials, that is commensurate with historical fluctuations on our net profit during the Track Record Period:

	For the three months ended March 31, 2019					
% change in raw material price	15%	5%	1%	-1%	-5%	-15%
Corresponding change in net profit (RMB'000)	(91,691)	(30,564)	(6,113)	6,113	30,564	91,691
% change in net profit	-12%	-4%	-1%	1%	4%	12%
	For the year ended December 31, 2018					
% change in raw material price	15%	5%	1%	-1%	-5%	-15%
Corresponding change in net profit (RMB'000)	(293,355)	(97,785)	(19,557)	19,557	97,785	293,355
% change in net profit	-13%	-4%	-1%	1%	4%	13%
	For the year ended December 31, 2017					
% change in raw material price	15%	5%	1%	-1%	-5%	-15%
Corresponding change in net profit (RMB'000)	(205,425)	(68,475)	(13,695)	13,695	68,475	205,425
% change in net profit	-18%	-6%	-1%	1%	6%	18%
	For the year ended December 31, 2016					
% change in raw material price	15%	5%	1%	-1%	-5%	-15%
Corresponding change in net profit (RMB'000)	(172,673)	(57,558)	(11,512)	11,512	57,558	172,673
% change in net profit	-43%	-14%	-3%	3%	14%	43%

Capital Management

The primary objective of our capital management is to ensure that we maintain a strong credit profile and healthy capital ratios in order to support our business and maximize shareholder's value.

We manage our capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to the shareholder, return capital to the shareholder or issue new shares. We are not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Track Record Period.

We monitor capital using gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances, time deposits and pledged deposits. Total capital is calculated as equity holders' funds (i.e., total equity attributable to equity holder of the Company), as

FINANCIAL INFORMATION

shown in the consolidated statements of financial position. The gearing ratios as of December 31, 2016, 2017 and 2018 were as follows:

	As of December 31,			As of
	2016	2017	2018	March 31, 2019
	<i>(In thousands of RMB, except for ratio)</i>			
Interest-bearing bank and other borrowings	534,140	966,919	1,740,569	2,199,949
Less:				
Cash and bank balances	(796,320)	(1,585,511)	(962,072)	(1,524,250)
Time deposits	(352,500)	(1,355,630)	(2,894,982)	(3,294,073)
Pledged deposits	(223,000)	(466,000)	(1,666,000)	(1,677,715)
Net debt	(837,680)	(2,440,222)	(3,782,485)	(4,296,089)
Total equity attributable to owner of the Company	2,376,940	3,585,013	5,787,484	6,558,307
Gearing ratio	(0.35)	(0.68)	(0.65)	(0.66)

PROPERTY VALUATION

As of March 31, 2019, we did not have any single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by section 5.01A of the Listing Rules to include in this Document any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Document is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

DIVIDENDS

We did not pay or declare any dividend during the Track Record Period. On [●], 2019, the Company declared a special dividend of HK\$3 billion out of its historical retained profit to its shareholders. We intend to distribute to our Shareholders no less than 30% of our net profit for each financial year going forward after [REDACTED], subject to our future investment plans. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our shareholders at a general meeting must approve any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

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

DISTRIBUTABLE RESERVES

As of March 31, 2019, our Group had retained profit of RMB5,503.7 million under IFRS, as reserves available for distribution to our equity shareholders.

[REDACTED] EXPENSES

The [REDACTED] commission, SFC transaction levies and Hong Kong Stock Exchange trading fees shall be shared by us and the [REDACTED] on a pro rata basis, and we shall be solely responsible for other [REDACTED] expenses. [REDACTED] expenses to be borne by us are estimated to be approximately RMB[REDACTED] (including [REDACTED] commission). [REDACTED] expenses to be borne by the [REDACTED] are estimated to be approximately RMB[REDACTED], assuming that the [REDACTED] is not exercised. As of March 31, 2019, approximately RMB[REDACTED] has been charged to our consolidated statements of profit or loss as administrative expenses, and approximately RMB[REDACTED] was capitalized as deferred expenses, which is expected to be charged against equity upon successful [REDACTED] under the relevant accounting standards. We expect to incur additional [REDACTED] expenses of approximately RMB[REDACTED] after March 31, 2019, of which RMB[REDACTED] is expected to be recognized as administrative expenses and RMB[REDACTED] is expected to be recognized as a deduction in equity. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] expenses to have a material adverse impact on our results of operation for the year ending December 31, 2018.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to owner of the Company as if the [REDACTED] had taken place on March 31, 2019. This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and,

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because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as at March 31, 2019 or any future dates:

	Consolidated net tangible assets attributable to owner of the Company as of March 31, 2019	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets attributable to owner of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	Unaudited pro forma adjusted consolidated net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on the [REDACTED] of HK\$[REDACTED] per Share	6,510,289	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share	6,510,289	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The consolidated net tangible assets attributable to the owner of the Company as at March 31, 2019 is arrived at after deducting goodwill of RMB47,976,000 and other intangible assets of RMB42,000 from the audited consolidated net assets of RMB6,558,307,000 attributable to the owner of the Company as of March, 31 2019, as extracted from "Appendix I – Accountants' Report."
- (2) The estimated net proceeds from the [REDACTED] are based on [REDACTED] at the [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per Share, after deduction of the [REDACTED] commissions and fees and other related expenses payable by the Company, without taking account of any Shares that may be [REDACTED] upon the exercise of the [REDACTED]. The estimated net proceeds from the [REDACTED] are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.8552. No representation is made that HK\$ amount has been, could have been or may be converted to RMB amount, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments described in note (2) above and on the basis that [REDACTED] Shares are in issue, assuming that the share split on [REDACTED], pursuant to which each ordinary share was subdivided into [REDACTED] ordinary shares and [REDACTED] had been completed on March 31, 2019 and an [REDACTED] of HK\$[REDACTED] per Share, being the [REDACTED] range and [REDACTED] of HK\$[REDACTED] per Share, being the [REDACTED] of the [REDACTED] range, excluding Shares which may be [REDACTED] upon the exercise of the [REDACTED].
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8552.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to March 31, 2019.

NO MATERIAL ADVERSE CHANGE

We confirm that there has been no material adverse change in our financial or trading position since March 31, 2019, being the date of the latest audited consolidated financial position of our Group as set out in "Appendix I — Accountants' Report" to this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND [REDACTED]

FUTURE PLANS AND PROSPECTS

See "Business — Business Strategy" for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED] commissions, fees and estimated expenses payable by us in connection with the [REDACTED], without taking into account any Shares to be [REDACTED] upon exercise of the options granted under the [REDACTED] Share Option Scheme and assuming an [REDACTED] of HK\$[REDACTED] [REDACTED], being the mid-point of the indicative [REDACTED] range stated in this Document.

If the [REDACTED] is set at HK\$[REDACTED], being the high end of the indicative [REDACTED] range, the net proceeds from the [REDACTED] will increase to approximately HK\$[REDACTED] without taking into account any Shares to be [REDACTED] upon exercise of the options granted under the [REDACTED] Share Option Scheme.

If the [REDACTED] is set at HK\$[REDACTED], being the low end of the indicative [REDACTED] range, the net proceeds from the [REDACTED] will decrease to approximately HK\$[REDACTED] without taking into account any Shares to be [REDACTED] upon exercise of the options granted under the [REDACTED] Share Option Scheme.

We currently intend to apply these net proceeds for the following purposes:

- [REDACTED]
- [REDACTED]

FUTURE PLANS AND [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The above allocation of the net proceeds from the [REDACTED] will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the indicative [REDACTED] range stated in this Document. In the event that the [REDACTED] is exercised in full, we intend to apply the additional net proceeds to the above purposes in the proportions stated above.

To the extent that the net proceeds from the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

[We will not receive any of the proceeds from the [REDACTED]. Assuming an [REDACTED] of HK\$[REDACTED] (being the mid-point of the indicative [REDACTED] range), the [REDACTED] will receive approximately HK\$[REDACTED] after deducting the [REDACTED] fees payable by the [REDACTED].]

FUTURE PLANS AND [REDACTED]

If the [REDACTED] is exercised in full, the net proceeds that the [REDACTED] Grantors will receive will be approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$ [REDACTED] (being the mid-point of the indicative [REDACTED] range). The [REDACTED] Grantors may be required to sell up to an aggregate of [REDACTED] additional existing shares.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the [REDACTED].

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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APPENDIX I

ACCOUNTANTS' REPORT

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
China Feihe Limited
[REDACTED]

Dear Sirs,

We report on the historical financial information of China Feihe Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-121, which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018, and the three months ended 31 March 2019 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2016, 2017 and 2018 and 31 March 2019, and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-121 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the [REDACTED]) in connection with the initial [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that

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ACCOUNTANTS' REPORT

gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2016, 2017 and 2018 and 31 March 2019 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the three months ended 31 March 2018 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our 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 HKICPA. A review 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. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

APPENDIX I

ACCOUNTANTS' REPORT

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Certified Public Accountants
Hong Kong

APPENDIX I

ACCOUNTANTS' REPORT

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Profit or Loss

	Notes	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
REVENUE	5	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004
Cost of sales		(1,690,421)	(2,096,800)	(3,372,827)	(604,522)	(988,923)
Gross profit		2,033,960	3,790,460	7,019,090	1,364,356	1,767,081
Other income and gains, net	5	359,235	402,785	555,835	163,227	154,816
Selling and distribution expenses		(1,369,520)	(2,139,107)	(3,661,314)	(570,107)	(664,527)
Administrative expenses		(230,858)	(360,540)	(580,289)	(92,761)	(147,326)
Other expenses	7	(171,097)	(21,128)	(86,076)	(3,481)	(8,180)
Finance costs	8	(26,773)	(21,409)	(58,675)	(11,835)	(14,548)
PROFIT BEFORE TAX	6	594,947	1,651,061	3,188,571	849,399	1,087,316
Income tax expense	11	(188,795)	(490,835)	(946,317)	(228,278)	(316,348)
PROFIT FOR THE YEAR/PERIOD		<u>406,152</u>	<u>1,160,226</u>	<u>2,242,254</u>	<u>621,121</u>	<u>770,968</u>
Attributable to:						
Owner of the parent		416,988	1,160,226	2,242,254	621,121	770,968
Non-controlling interests		(10,836)	–	–	–	–
		<u>406,152</u>	<u>1,160,226</u>	<u>2,242,254</u>	<u>621,121</u>	<u>770,968</u>
Earnings per share attributable to ordinary equity holder of the parent:						
Basic and diluted (expressed in RMB'000 per share)	13	<u>2,075</u>	<u>5,772</u>	<u>11,155</u>	<u>3,090</u>	<u>3,836</u>

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Comprehensive Income

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR/PERIOD	406,152	1,160,226	2,242,254	621,121	770,968
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	(42,330)	31,916	(46,191)	18,426	(693)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>363,822</u>	<u>1,192,142</u>	<u>2,196,063</u>	<u>639,547</u>	<u>770,275</u>
ATTRIBUTABLE TO:					
Owner of the parent	374,658	1,192,142	2,196,063	639,547	770,275
Non-controlling interests	(10,836)	–	–	–	–
	<u>363,822</u>	<u>1,192,142</u>	<u>2,196,063</u>	<u>639,547</u>	<u>770,275</u>

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Financial Position

	Notes	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
NON-CURRENT ASSETS					
Property, plant and equipment	14	1,085,873	1,430,952	2,554,681	2,902,598
Right-of-use assets	15	72,949	118,873	306,446	288,152
Goodwill	16	47,976	47,976	47,976	47,976
Intangible assets	17	10,116	–	43	42
Investment in an associate	19	142,530	142,530	142,530	142,530
Available-for-sale investment	20	1,800	1,800	–	–
Financial asset at fair value through other comprehensive income	20	–	–	1,800	1,800
Deposits for purchases of items of property, plant and equipment	21	52,362	93,202	147,894	138,348
Deferred tax assets	31	94,117	139,605	208,340	243,794
Long-term bank deposits	27	–	150,000	150,000	150,000
Pledged deposits	27	173,000	466,000	1,003,000	1,014,715
Total non-current assets		1,680,723	2,590,938	4,562,710	4,929,955
CURRENT ASSETS					
Inventories	22	293,631	394,658	660,066	725,703
Trade and bills receivables	23	93,183	174,705	512,837	549,065
Prepayments, deposits and other receivables	24	683,460	253,173	567,197	850,938
Due from a director	25	299,626	1,659	80	3,580
Due from related companies	25	2,106	745	750	–
Structured deposits	26	443,398	806,539	1,183,741	158,747
Pledged deposits	27	50,000	–	663,000	663,000
Restricted cash	27	10,051	19,937	66,218	33,992
Cash and cash equivalents	27	1,138,769	2,771,204	3,640,836	4,634,331
Total current assets		3,014,224	4,422,620	7,294,725	7,619,356

APPENDIX I

ACCOUNTANTS' REPORT

	Notes	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
CURRENT LIABILITIES					
Trade and bills payables	28	359,957	514,146	833,383	879,220
Other payables and accruals	29	1,001,178	1,326,264	2,477,542	1,940,306
Due to the immediate holding company	25	223	210	–	–
Due to related companies	25	–	–	–	432
Interest-bearing bank and other borrowings	30	534,140	902,880	1,083,267	1,189,070
Lease liabilities		–	–	59,070	53,935
Tax payable		143,703	345,977	406,972	346,506
		<u>2,039,201</u>	<u>3,089,477</u>	<u>4,860,234</u>	<u>4,409,469</u>
Total current liabilities					
		<u>975,023</u>	<u>1,333,143</u>	<u>2,434,491</u>	<u>3,209,887</u>
NET CURRENT ASSETS					
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>2,655,746</u>	<u>3,924,081</u>	<u>6,997,201</u>	<u>8,139,842</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	30	–	64,039	657,302	1,010,879
Other payables	29	70,831	45,707	57,102	56,350
Deferred tax liabilities	31	207,975	229,322	360,512	391,317
Lease liabilities		–	–	134,801	122,989
		<u>278,806</u>	<u>339,068</u>	<u>1,209,717</u>	<u>1,581,535</u>
Total non-current liabilities					
		<u>2,376,940</u>	<u>3,585,013</u>	<u>5,787,484</u>	<u>6,558,307</u>
Net assets					
EQUITY					
Equity attributable to owner of the parent					
Share capital	32	1	1	1	1
Reserves	34	2,376,939	3,585,012	5,787,483	6,558,306
		<u>2,376,940</u>	<u>3,585,013</u>	<u>5,787,484</u>	<u>6,558,307</u>
Non-controlling interests		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total equity		<u>2,376,940</u>	<u>3,585,013</u>	<u>5,787,484</u>	<u>6,558,307</u>

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Changes in Equity

Notes	Attributable to owner of the parent									
	Share capital	Share premium account	Capital contribution reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Other reserves	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 32)		(note 34)	(note 34)			(note 34)			
At 1 January 2016	1	631,966	47,043	196,240	11,334	1,232,394	(125,137)	1,993,841	(9,740)	1,984,101
Profit for the year	-	-	-	-	-	416,988	-	416,988	(10,836)	406,152
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	(42,330)	-	-	(42,330)	-	(42,330)
Total comprehensive income for the year	-	-	-	-	(42,330)	416,988	-	374,658	(10,836)	363,822
Disposal of a subsidiary	37	-	-	-	-	-	-	-	20,576	20,576
Equity-settled share option arrangements	33	-	-	8,441	-	-	-	8,441	-	8,441
Transfer from retained profits	-	-	-	29,941	-	(29,941)	-	-	-	-
At 31 December 2016	1	631,966*	55,484*	226,181*	(30,996)*	1,619,441*	(125,137)*	2,376,940	-	2,376,940
At 1 January 2017	1	631,966*	55,484*	226,181*	(30,996)*	1,619,441*	(125,137)*	2,376,940	-	2,376,940
Profit for the year	-	-	-	-	-	1,160,226	-	1,160,226	-	1,160,226
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	31,916	-	-	31,916	-	31,916
Total comprehensive income for the year	-	-	-	-	31,916	1,160,226	-	1,192,142	-	1,192,142
Equity-settled share option arrangements	33	-	-	15,931	-	-	-	15,931	-	15,931
Transfer from retained profits	-	-	-	79,362	-	(79,362)	-	-	-	-
At 31 December 2017	1	631,966*	71,415*	305,543*	920*	2,700,305*	(125,137)*	3,585,013	-	3,585,013

APPENDIX I

ACCOUNTANTS' REPORT

		Attributable to owner of the parent							Non-controlling interests	
Notes	Share capital	Share premium account	Capital contribution reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Other reserves	Total	Total equity	
	RMB'000 (note 32)	RMB'000	RMB'000 (note 34)	RMB'000 (note 34)	RMB'000	RMB'000	RMB'000 (note 34)	RMB'000	RMB'000	
At 1 January 2018	1	631,966*	71,415*	305,543*	920*	2,700,305*	(125,137)*	3,585,013	-	3,585,013
Profit for the year	-	-	-	-	-	2,242,254	-	2,242,254	-	2,242,254
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	(46,191)	-	-	(46,191)	-	(46,191)
Total comprehensive income for the year	-	-	-	-	(46,191)	2,242,254	-	2,196,063	-	2,196,063
Equity-settled share option arrangements	33	-	6,408	-	-	-	-	6,408	-	6,408
Transfer from retained profits	-	-	-	209,841	-	(209,841)	-	-	-	-
At 31 December 2018	1	631,966*	77,823*	515,384*	(45,271)*	4,732,718*	(125,137)*	5,787,484	-	5,787,484
(Unaudited)										
At 1 January 2018	1	631,966	71,415	305,543	920	2,700,305	(125,137)	3,585,013	-	3,585,013
Profit for the period	-	-	-	-	-	621,121	-	621,121	-	621,121
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	18,426	-	-	18,426	-	18,426
Total comprehensive income for the period	-	-	-	-	18,426	621,121	-	639,547	-	639,547
Equity-settled share option arrangements	33	-	1,602	-	-	-	-	1,602	-	1,602
At 31 March 2018 (unaudited)	1	631,966*	73,017*	305,543*	19,346*	3,321,426*	(125,137)*	4,226,162	-	4,226,162

APPENDIX I

ACCOUNTANTS' REPORT

		Attributable to owner of the parent								
Notes	Share capital	Share premium account	Capital contribution reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Other reserves	Total	Non-controlling interests	Total equity
	RMB'000 (note 32)	RMB'000	RMB'000 (note 34)	RMB'000 (note 34)	RMB'000	RMB'000	RMB'000 (note 34)	RMB'000	RMB'000	RMB'000
At 1 January 2019	1	631,966*	77,823*	515,384*	(45,271)*	4,732,718*	(125,137)*	5,787,484	-	5,787,484
Profit for the period	-	-	-	-	-	770,968	-	770,968	-	770,968
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	(693)	-	-	(693)	-	(693)
Total comprehensive income for the period	-	-	-	-	(693)	770,968	-	770,275	-	770,275
Equity-settled share option arrangements	33	-	548	-	-	-	-	548	-	548
At 31 March 2019	1	631,966*	78,371*	515,384*	(45,964)*	5,503,686*	(125,137)*	6,558,307	-	6,558,307

* These reserve accounts comprise the consolidated reserves of RMB2,376,939,000, RMB3,585,012,000, RMB5,787,483,000 and RMB6,558,306,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively.

APPENDIX I

ACCOUNTANTS' REPORT

Consolidated Statements of Cash Flows

	Notes	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Profit before tax		594,947	1,651,061	3,188,571	849,399	1,087,316
Adjustments for:						
Finance costs	8	26,773	21,409	58,675	11,835	14,548
Interest income	5	(58,630)	(70,952)	(90,305)	(22,654)	(31,058)
Dividend income from an available-for-sale investment	5	(360)	–	–	–	–
Depreciation	6	81,008	94,845	95,464	33,866	27,152
Depreciation of right-of-use assets	6	2,914	2,504	66,432	13,877	16,341
Gain on bargain purchase	5	–	–	(33,327)	(33,327)	–
Amortisation of intangible assets	6	15,053	843	1	1	1
Loss on disposal of a subsidiary	6	63,989	–	–	–	–
Gain on disposal of an intangible asset	6	–	(161)	–	–	–
Loss on disposal of items of property, plant and equipment, net	6	14,198	12,196	3,377	2,492	4,993
Impairment of goodwill	6	22,112	–	–	–	–
Impairment of items of property, plant and equipment	6	10,046	–	–	–	–
Fair value gains on structured deposits	5	(3,398)	(21,539)	(7,741)	(3,374)	(3,747)
Write-down of inventories to net realisable value	6	12,915	–	20,657	–	–
Impairment of trade receivables, net	6	459	4,378	1,819	–	7,155
Reversal of impairment of other receivables	6	–	(50,895)	–	–	–
Amortisation of deferred income	5	(3,863)	(36,124)	(17,363)	(4,217)	(12,502)
Equity-settled share option expense	33	8,441	15,931	6,408	1,602	548
		786,604	1,623,496	3,292,668	849,500	1,110,747

APPENDIX I

ACCOUNTANTS' REPORT

<i>Notes</i>	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Decrease/(increase) in inventories	51,910	(101,027)	(90,060)	(91,278)	(69,710)
Increase in trade and bills receivables	(23,424)	(85,902)	(335,665)	(87,253)	(66,358)
Decrease/(increase) in prepayments, deposits and other receivables	(328,230)	477,784	(329,379)	(12,376)	(277,021)
Decrease/(increase) in an amount due from a director	(277,295)	297,967	1,579	1,579	(3,500)
Decrease in amounts due from related companies	6,557	1,361	5	5	750
Increase in trade and bills payables	123,791	154,188	319,237	80,115	47,660
Increase/(decrease) in other payables and accruals	18,982	429,149	1,093,615	295,791	(527,982)
Decrease in an amount due to the immediate holding company	–	–	(210)	(210)	–
Cash generated from operations	<u>358,895</u>	<u>2,797,016</u>	<u>3,951,790</u>	<u>1,035,873</u>	<u>214,586</u>
Interest received	60,887	45,854	57,067	7,498	50,406
Interest paid	(21,674)	(23,742)	(42,924)	(14,880)	(14,021)
Income taxes paid	<u>(269,014)</u>	<u>(613,554)</u>	<u>(844,737)</u>	<u>(235,432)</u>	<u>(377,295)</u>
Net cash flows from/(used in) operating activities	<u>129,094</u>	<u>2,205,574</u>	<u>3,121,196</u>	<u>793,059</u>	<u>(126,324)</u>

APPENDIX I

ACCOUNTANTS' REPORT

	<i>Notes</i>	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
						<i>(Unaudited)</i>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment and right-of-use assets		(58,679)	(408,604)	(1,130,123)	(386,272)	(331,709)
Purchase of other intangible asset		-	-	(44)	(44)	-
Proceeds from disposal of an intangible asset		-	9,434	-	-	-
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		2,681	2,259	46,718	129	13,838
Purchases of structured deposits		(4,860,000)	(7,601,380)	(1,155,000)	-	-
Proceeds from redemption of structured deposits		6,101,805	7,489,557	837,060	206,362	1,021,000
Placement of restricted cash		(9,257)	(18,557)	(50,612)	(25,312)	-
Withdrawal of restricted cash		10,231	8,671	4,331	3,274	32,226
Acquisition of businesses	35	-	-	(175,892)	(175,892)	-
Disposal of a subsidiary, net of cash and bank balances disposed of	37	(17,226)	-	-	-	-
Investment in an associate		(140,000)	-	-	-	-
Advance to an associate		-	-	-	-	-
Repayment from an associate		801	-	-	-	-
Receipt of government grants		26,163	11,000	53,018	-	-
Dividend received from an available-for-sale investment		360	-	-	-	-
Deposits paid for purchases of items of property, plant and equipment		(54,836)	(138,826)	(162,553)	(43,267)	(56,644)
Placement of time deposits with original maturity of more than three months when acquired		(322,000)	(1,355,630)	(2,744,982)	(1,033,201)	(3,755,788)
Withdrawal of time deposits with original maturity of more than three months when acquired		267,300	322,000	1,205,630	428,633	3,356,697
Net cash flows from/(used in) investing activities		947,343	(1,680,076)	(3,272,449)	(1,025,590)	279,620

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ACCOUNTANTS' REPORT

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank and other loans	–	938,222	1,923,025	442,837	556,885
Repayment of bank and other loans	(472,455)	(473,048)	(1,171,471)	(258,257)	(77,125)
Placement of pledged bank deposits	(223,000)	(293,000)	(1,200,000)	–	(611,715)
Release of pledged bank deposits	300,000	50,000	–	–	600,000
Repayment of lease liabilities	–	–	(60,586)	(15,516)	(18,813)
Net cash flows from/(used in) financing activities	(395,455)	222,174	(509,032)	169,064	449,232
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	133,994	816,769	1,565,574	1,565,574	895,854
Effect of foreign exchange rate changes, net	1,793	1,133	(9,435)	820	(8,124)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>816,769</u>	<u>1,565,574</u>	<u>895,854</u>	<u>1,502,927</u>	<u>1,490,258</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents	27	<u>816,769</u>	<u>1,565,574</u>	<u>895,854</u>	<u>1,490,258</u>

APPENDIX I

ACCOUNTANTS' REPORT

Statements of Financial Position

	Notes	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
NON-CURRENT ASSETS					
Investments in subsidiaries	18	1,018,005	956,306	1,011,350	986,584
CURRENT ASSETS					
Prepayments	24	–	6,941	7,341	7,606
Due from subsidiaries	18	438,229	398,598	923,580	970,603
Cash and cash equivalents	27	37	459	3,782	49,667
Total current assets		438,266	405,998	934,703	1,027,876
CURRENT LIABILITIES					
Other payables and accruals	29	12,217	27,837	42,841	48,511
Due to the immediate holding company	25	223	210	222	217
Due to subsidiaries	18	354,379	404,218	1,075,974	1,261,290
Interest-bearing bank and other borrowings	30	484,875	455,488	377,298	292,044
Total current liabilities		851,694	887,753	1,496,335	1,602,062
NET CURRENT LIABILITIES		(413,428)	(481,755)	(561,632)	(574,186)
Total assets less current liabilities		604,577	474,551	449,718	412,398
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	30	–	2,603	–	–
Net assets		604,577	471,948	449,718	412,398
EQUITY					
Share capital		1	1	1	1
Reserves	34	604,576	471,947	449,717	412,397
Total equity		604,577	471,948	449,718	412,398

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II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

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

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

On 25 November 2015, pursuant to a resolution passed by the directors of the Company, the name of the Company was changed from Platinum Infant Formula Holding Limited to China Feihe Limited.

On 26 October 2012, the Company was incorporated with authorised share capital of the United States dollars ("US\$") 50,000 divided into 50,000 ordinary shares of US\$1 each.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Flying Crane International, Inc. (Formerly known as Feihe International, Inc.) ¹	USA 31 December 1985	US\$1	–	100	Investment holding
Feihe International, Inc. ¹	United States ("USA") 23 December 2014	US\$10	100	–	Inactive
Feihe China Nutrition (Hong Kong) Limited ⁶	Hong Kong 23 December 2014	Hong Kong dollars ("HK\$") 373,650,001	–	100	Investment holding and provision of management services
Feihe China Nutrition Company ¹	USA 15 January 2002	US\$1.1	–	100	Inactive

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Name	Place and date of incorporation/ registration and place of operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Feihe International (HK) Limited ⁶	Hong Kong 22 April 2014	HK\$244,150,001	–	100	Investment holding and provision of management services
Heilongjiang Platinum Holding Limited ¹	British Virgin Islands 28 May 2015	US\$1	–	100	Inactive
Heilongjiang Platinum International Limited ¹	British Virgin Islands 30 November 2015	US\$1	–	100	Inactive
Vitamin World International Company Limited ¹	Cayman Islands 6 March 2018	US\$1	–	100	Investment holding
Vitamin World USA ¹	USA 13 December 2017	US\$28,000,000	–	100	Sale of vitamin products
Vitamin World (China) Limited ¹	Hong Kong 23 March 2018	Hong Kong dollars ("HK\$") 0.01	–	100	Investment holding
Vitamin World (Hong Kong) ¹ Limited	Hong Kong 23 March 2018	Hong Kong dollars ("HK\$") 0.01	–	100	Inactive
Canada Kingston Dairy Company ¹	Canada 31 October 2016	Canadian dollars ("CAD") 1	–	100	Inactive
Canada Royal Milk ULC ¹	Canada 31 October 2016	CAD1	–	100	Inactive
Heilongjiang Feihe Dairy Products Co., Ltd (黑龍江飛鶴乳業有限公司) ^{^ # 2}	The PRC/ Mainland China 21 August 1996	US\$45,000,000	–	100	Manufacture and sale of milk powder
Beijing Flying Crane Biotech Co., Ltd (北京飛鶴生物科技股份有限公司) ^{# 1}	The PRC/ Mainland China 8 June 2004	RMB10,000,000	–	100	Sale of milk powder
Feihe (Gannan) Dairy Products Co., Ltd (飛鶴(甘南)乳品有限公司) ^{^ # 3}	The PRC/ Mainland China 22 March 2006	US\$25,000,000	–	100	Manufacture of milk powder

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Name	Place and date of incorporation/ registration and place of operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Feihe (Longjiang) Dairy Products Co., Ltd (飛鶴(龍江)乳品有限公司) ^{# 3}	The PRC/ Mainland China 27 September 2013	RMB210,000,000	–	100	Manufacture of milk powder
Jilin Feihe Alfbeta Dairy Co., Ltd (飛鶴(鎮賚)乳品有限公司) (formerly known as 吉林飛鶴艾倍特乳業有限公司) ^{# 4}	The PRC/ Mainland China 4 November 2013	RMB87,000,000	–	100	Manufacture of milk powder
Meiweishi (Beijing) Health Management Co., Ltd. (美維仕(北京)健康管理有限公司) ^{# 1}	The PRC/ Mainland China 4 August 2018	RMB5,000,000	–	100	Inactive
Heilongjiang Platinum Commerce Co. Ltd (黑龍江白金商貿有限公司) ^{^ # 1}	The PRC/ Mainland China 13 May 2015	RMB1,800,000	100	–	Investment holding
Heilongjiang ShangHeGu Nutraceutical Food Co., Limited (黑龍江尚禾穀營養食品有限公司) ^{# 2}	The PRC/ Mainland China 18 August 2015	RMB30,000,000	–	100	Manufacture of soybean and sale of food products and soya beverages
Feihe (Tailai) Dairy Products Co., Ltd (飛鶴(泰來)乳品有限公司) ^{# 1}	The PRC/ Mainland China 25 July 2016	RMB500,000,000	–	100	Sale of milk powder
Heilongjiang Feihe Electronic Commerce Co., Ltd (黑龍江飛鶴電子商務有限公司) ^{# 1}	The PRC/ Mainland China 9 May 2016	RMB10,000,000	–	100	Sale of milk powder

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Name	Place and date of incorporation/ registration and place of operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Feihe (Jilin) Dairy Products Co., Ltd (飛鶴(吉林)乳品有限公司) ^{# 5}	The PRC/ Mainland China 5 June 2017	RMB200,000,000	-	100	Sale of milk powder

Notes:

[^] Registered as wholly-foreign-owned enterprises under PRC Law.

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

¹ No audited financial statements have been prepared for these entities as they were either newly incorporated or incorporated in jurisdictions which do not have any statutory audit requirements.

² The statutory financial statements for the years ended 31 December 2016, 2017 and 2018 prepared under PRC GAAP were audited by 黑龍江安聯會計師事務所有限公司, certified public accountants registered in the PRC.

³ The statutory financial statements for the years ended 31 December 2016, 2017 and 2018 prepared under PRC GAAP were audited by 黑龍江中齊會計師事務所有限公司, certified public accountants registered in the PRC.

⁴ The statutory financial statements for the year ended 31 December 2016, 2017 and 2018 prepared under PRC GAAP were audited by 吉林全興會計師事務所有限公司, certified public accountants registered in the PRC.

⁵ The statutory financial statements for the year ended 31 December 2017 and 2018 prepared under PRC GAAP were audited by 吉林全興會計師事務所有限公司, certified public accountants registered in the PRC.

⁶ The statutory financial statements of Feihe China Nutrition (Hong Kong) Limited and Feihe International (HK) Limited for the years ended 31 December 2016 and 2017 were audited by Ernst & Young, Hong Kong.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in the Document, the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group were under the common control of the controlling shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods or since the date when the respective subsidiaries were incorporated/established.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under common control of the controlling shareholder, where this is a shorter period. The consolidated statements

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of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 March 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"). Except for IFRS 9 *Financial Instruments*, all IFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018 and has not restated comparative information. Therefore, the comparative information for the corresponding periods in 2017 and 2016 which were reported under IAS 39.

Classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss ("FVPL"), available for sale ("AFS"), held-to-maturity and loans and receivables) have been replaced by:

Financial assets at amortised cost (debt instruments)

- Financial assets at fair value through other comprehensive income ("OCI") with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

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The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated as FVPL. Such movement are presented in other comprehensive income with no subsequent reclassification to profit or loss.

Details of the Group's classification of its financial assets and liabilities are disclosed in note 2.4 to the Historical Financial Information.

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Note	IAS 39 measurement		Re- classification	ECL	IFRS 9 measurement	
		Category	Amount			Amount	Category
		RMBS'000	RMBS'000			RMBS'000	RMBS'000
Financial assets							
Financial asset at fair value through other comprehensive income	(i)	N/A	-	1,800	-	1,800	FVOCI ¹ (equity)
Available-for-sale investment	(i)	AFS ²	1,800	(1,800)	-	-	N/A
Long-term bank deposits		L&R ³	150,000	-	-	150,000	AC
Trade and bills receivables		L&R	174,705	-	-	174,705	AC ⁴
Financial assets included in prepayments, deposits and other receivables		L&R	53,590	-	-	53,590	AC
Due from a director		L&R	1,659	-	-	1,659	AC
Due from related companies		L&R	745	-	-	745	AC
Structured deposits		FVPL ⁵	806,539	-	-	806,539	FVPL
Pledged deposits and restricted cash		L&R	485,937	-	-	485,937	AC
Cash and cash equivalents		L&R	2,771,204	-	-	2,771,204	AC
			<u>4,446,179</u>	<u>-</u>	<u>-</u>	<u>4,446,179</u>	
Financial liabilities							
Trade and bills payables		AC	514,146	-	-	514,146	AC
Financial liabilities included in other payables and accruals		AC	758,333	-	-	758,333	AC
Due to the immediate holding company		AC	210	-	-	210	AC
Interest-bearing bank and other borrowings		AC	966,919	-	-	966,919	AC
			<u>2,239,608</u>	<u>-</u>	<u>-</u>	<u>2,239,608</u>	

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- ¹ FVOCI: Financial assets at fair value through other comprehensive income
- ² AFS: Available-for-sale investments
- ³ L&R: Loans and receivables
- ⁴ AC: Financial assets or financial liabilities at amortised cost
- ⁵ FVPL: Financial assets at fair value through profit or loss

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale investments as financial assets at fair value through other comprehensive income.

Impairment

IFRS 9 requires an impairment on debt instruments not held at fair value through profit or loss to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime ECLs for trade receivables at each reporting date. No material opening impairment allowances under IAS 39 have been made to the ECL allowances under IFRS 9.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate ("EIR").

Details of the Group's impairment method are disclosed in note 2.4 to the Historical Financial Information.

There was no change to the Group's retained profits as at 1 January 2018 as the changes to the impairment calculation and measurement of financial instruments had minimal impact to the financial information.

The Historical Financial Information has been prepared under the historical cost convention, except for available-for-sale investment/financial asset at fair value through other comprehensive income and structured deposits which have been measured at fair value.

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Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Historical Financial Information.

Amendments to IFRS 3	<i>Definition of a Business</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹

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

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

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making assessment of what the impact of these new and revised IFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact to the Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not measured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

Investment in an associate

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

The Group's investment in an associate is stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting,

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

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;

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- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

Trademark

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

Research and development costs

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

Customer relationship

Purchased customer relationship is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 4.5 years to 5.3 years.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years to 15.5 years.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of

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lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at

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amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

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Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an

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impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement

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

Loans and borrowings

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

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

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Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Inventories

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

Cash and cash equivalents

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

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

Restricted cash

Restricted cash represents guaranteed deposits pledged to the banks for issuance of trade facilities, such as security deposits for borrowings and guaranteed deposits for issuance of letter of credit. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

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Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the

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amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of goods

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

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

Rights of return

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

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

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Refund liabilities

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002, if any, is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option valuation model, further details of which are given in note 33 to the Historical Financial Information.

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

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

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

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

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

Other employee benefits

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

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

Borrowing costs

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

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Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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Judgement

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

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding tax in respect of the unremitted earnings of certain subsidiaries of the Group established in Mainland China to the extent that the directors are of the opinion that they would be probable for distribution in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax liabilities that should be recognised. Further details are contained in note 31 to the Historical Financial Information.

Estimation uncertainty

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

Provision and write-down of inventories to net realisable value

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

Provision for income taxes

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

Impairment of non-financial assets (other than goodwill)

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

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

Impairment of goodwill

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

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

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

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Geographical information

(a) Revenue from external customers

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Mainland China	3,724,381	5,887,260	9,751,392	1,844,190	2,605,663
United States of America	–	–	640,525	124,688	150,341
	<u>3,724,381</u>	<u>5,887,260</u>	<u>10,391,917</u>	<u>1,968,878</u>	<u>2,756,004</u>

Substantially all of the Group's revenues from external customers during each of the Relevant Periods were attributed to the PRC based on the locations of the customers.

(b) Non-current assets

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,411,806	1,605,807	1,994,447	2,073,527
United States of America	–	–	226,947	205,880
Canada	–	227,726	978,176	1,240,239
	<u>1,411,806</u>	<u>1,833,533</u>	<u>3,199,570</u>	<u>3,519,646</u>

Majority of the Group's non-current asset as at the end of each of the Relevant Periods were located in the PRC based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

There was no single external customer of the Group that individually accounted for 10% or more of the Group's total revenue during the Relevant Periods.

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5. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of revenue is as follows:

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
<i>Revenue from contracts with customers</i>					
Sales of goods	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004

Revenue from contracts with customers

(i) Disaggregated revenue information

Segments	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Type of goods					
Sales of goods	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004
Geographical markets					
Mainland China	3,724,381	5,887,260	9,751,392	1,844,190	2,605,663
United States of America	–	–	640,525	124,688	150,341
Total revenue from contracts with customers	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004
Timing of revenue recognition					
Goods transferred at a point in time	3,724,381	5,887,260	10,391,917	1,968,878	2,756,004

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

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

Sales of goods	<u>267,648</u>	<u>353,264</u>	<u>394,075</u>	<u>265,934</u>	<u>274,937</u>
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(ii) Performance obligations

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

Sale of dairy products

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

Sale of nutritional supplements

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

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

	Notes	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Other income						
Bank interest income		5,151	27,790	38,698	9,136	14,073
Interest income from other receivables		22,466	8,406	86	–	–
Other interest income		31,013	34,756	51,521	13,518	16,985
Government grants related to						
– Assets	29(i)	3,863	36,124	17,363	4,217	12,502
– Income	(i)	276,953	216,866	394,533	98,943	100,669
Dividend income from an available-for-sale investment		360	–	–	–	–
Reversal of impairment of other receivables		–	50,895	–	–	–
Others		16,031	6,248	12,566	35	614
		<u>355,837</u>	<u>381,085</u>	<u>514,767</u>	<u>125,849</u>	<u>144,843</u>
Gains, net						
Fair value gains on structured deposits		3,398	21,539	7,741	3,374	3,747
Gain on disposal of an other intangible asset		–	161	–	–	–
Gain on bargain purchase	35	–	–	33,327	33,327	–
Gain on sale of raw materials and packaging materials		–	–	–	677	6,226
		<u>3,398</u>	<u>21,700</u>	<u>41,068</u>	<u>37,378</u>	<u>9,973</u>
Total other income and gains, net		<u>359,235</u>	<u>402,785</u>	<u>555,835</u>	<u>163,227</u>	<u>154,816</u>

Note:

- (i) The Group's entities that operate production facilities in Heilongjiang Province in Mainland China received unconditional cash subsidies from the local government authorities as incentives to support the Group's business development and the local economy.

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6. PROFIT BEFORE TAX

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

	Notes	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Cost of inventories sold*		1,690,421	2,096,800	3,372,827	604,522	988,923
Depreciation of property, plant and equipment	14	81,008	94,845	95,464	33,866	27,152
Depreciation of right-of-use assets	15	2,914	2,504	66,432	13,877	16,341
Rent expense – short term leases	15	572	4,702	7,103	1,722	1,604
Interest expense on lease liabilities	8	–	–	9,135	1,766	1,866
Amortisation of other intangible assets	17	15,053	843	1	1	1
Research and development costs		13,810	14,705	108,889	935	29,622
Impairment of goodwill	16	22,112	–	–	–	–
Auditors' remuneration		2,700	7,223	1,800	–	450
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):						
Wages and salaries		177,956	219,970	310,899	76,030	125,992
Pension scheme contributions (defined contribution schemes)		43,843	52,720	61,366	17,281	30,910
Equity-settled share option expense		997	616	225	78	–
		<u>222,796</u>	<u>273,306</u>	<u>372,490</u>	<u>93,389</u>	<u>156,902</u>
Write-down of inventories to net realisable value		12,915	–	20,657	–	–
Impairment of trade receivables, net	23	459	4,378	1,819	–	7,155
Reversal of impairment of other receivables	24	–	(50,895)	–	–	–
Loss on disposal of items of property, plant and equipment, net		14,198	12,196	3,377	2,492	4,993
Gain on disposal of other intangible assets		–	(161)	–	–	–
Loss on disposal of a subsidiary	37	63,989	–	–	–	–
Impairment of items of property, plant and equipment	14	10,046	–	–	–	–

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7. OTHER EXPENSES

An analysis of other expenses is as follows:

	<i>Notes</i>	Years ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>	
Loss on disposal of a subsidiary	37	63,989	-	-	-	-
Impairment of goodwill	16	22,112	-	-	-	-
Loss on disposal of property, plant and equipment		14,198	12,196	3,377	2,492	4,993
Write-down of inventories to net realisable value		12,915	-	-	-	-
Impairment of items of property, plant and equipment	14	10,046	-	-	-	-
Termination expense	(i)	29,500	-	1,104	-	-
Loss on disposal of old packaging materials		8,993	8,109	13,521	589	487
Donations		6,915	804	63,902	400	2,700
Others		2,429	19	4,172	-	-
		171,097	21,128	86,076	3,481	8,180

Notes:

- (i) Included compensation of RMB29,500,000 related to the Group's termination of an agreement with a third-party online distributor which assisted the Group to maintain online platforms and coordinated online sales since 2014. The Group decided to terminate the agreement starting from January 2016 and paid a compensation of RMB29,500,000 to that distributor during the year ended 31 December 2016.

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8. FINANCE COSTS

An analysis of finance costs is as follows:

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Interest on:					
Bank loans	23,706	20,948	41,603	7,770	14,534
Other loans	3,067	2,087	29,839	4,589	7,451
Leased liabilities	–	–	9,135	1,766	1,866
Total interest expense on financial liabilities not at fair value through profit or loss	26,773	23,035	80,577	14,125	23,851
Less: Interest capitalised	–	(1,626)	(21,902)	(2,290)	(9,303)
	<u>26,773</u>	<u>21,409</u>	<u>58,675</u>	<u>11,835</u>	<u>14,548</u>

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration of each of the Company's directors is set out below:

	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Equity-settled share option expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2016					
Mr. Leng Youbin	–	4,736	106	2,481	7,323
Mr. Liu Hua	–	1,993	–	2,481	4,474
Mr. Liu Shenghui	–	1,174	106	2,481	3,761
Mr. Cai Fangliang	–	2,078	79	–	2,157
Ms. Judy Fong-Yee Tu	–	996	–	–	996
	<u>–</u>	<u>10,977</u>	<u>291</u>	<u>7,443</u>	<u>18,711</u>

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	Fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Equity- settled share option expenses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2017					
Mr. Leng Youbin	–	5,082	114	4,679	9,875
Mr. Liu Hua	–	2,027	–	5,175	7,202
Mr. Liu Shenghui	–	725	114	4,751	5,590
Mr. Cai Fangliang	–	2,378	83	592	3,053
Ms. Judy Fong-Yee Tu	–	1,014	–	118	1,132
	–	11,226	311	15,315	26,852
Year ended 31 December 2018					
Mr. Leng Youbin	–	6,878	125	2,061	9,064
Mr. Liu Hua	–	1,982	–	2,061	4,043
Mr. Liu Shenghui	–	888	125	2,061	3,074
Mr. Cai Fangliang	–	6,878	92	–	6,970
Ms. Judy Fong-Yee Tu	–	991	–	–	991
	–	17,617	342	6,183	24,142
Period ended 31 March 2018 (unaudited)					
Mr. Leng Youbin	–	1,720	30	508	2,258
Mr. Liu Hua	–	503	–	508	1,011
Mr. Liu Shenghui	–	222	30	508	760
Mr. Cai Fangliang	–	1,719	21	–	1,740
Ms. Judy Fong-Yee Tu	–	251	–	–	251
	–	4,415	81	1,524	6,020
Period ended 31 March 2019					
Mr. Leng Youbin	–	1,507	33	183	1,723
Mr. Liu Hua	–	518	–	183	701
Mr. Liu Shenghui	–	160	33	182	375
Mr. Cai Fangliang	–	1,507	23	–	1,530
Ms. Judy Fong-Yee Tu	–	259	–	–	259
	–	3,951	89	548	4,588

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Certain directors were granted share options, in respect of their services to the Group, under the share option scheme of DIF, further details of which are set out in note 33 to the Historical Financial Information. The fair value of such options, which has been recognised in the statements of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the Historical Financial Information for the Relevant Periods is included in the above directors' and chief executive's remuneration disclosures.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

	Number of employees				
	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Directors and chief executive	5	5	5	5	5
Non-directors	–	–	–	–	–
	5	5	5	5	5

Details of directors' remuneration are set out in note 9 above.

11. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the Relevant Periods, except for one former subsidiary of the Company which was entitled to the preferential tax rate of 15% as it operated in the western region of Mainland China and engaged in the industries which was entitled to preferential tax treatment pursuant to the applicable tax laws and regulations.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

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

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current – PRC					
Charge for the year/period	177,228	509,928	905,732	227,635	316,829
Deferred (<i>note 31</i>)	11,567	(19,093)	40,585	643	(481)
Total tax charge for the year	<u>188,795</u>	<u>490,835</u>	<u>946,317</u>	<u>228,278</u>	<u>316,348</u>

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

	Years ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>594,947</u>		<u>1,651,061</u>		<u>3,188,571</u>		<u>849,399</u>		<u>1,087,316</u>	
Tax at the statutory tax rate	148,737	25.0	412,765	25.0	797,143	25.0	212,350	25.0	271,829	25.0
Income not subject to tax	–	–	–	–	(8,331)	(0.3)	(8,331)	(1.0)	–	–
Expenses not deductible for tax	9,548	1.6	21,416	1.3	24,041	0.8	1,019	0.1	5,280	0.5
Tax losses not recognised	11,309	1.9	27,730	1.7	10,785	0.3	3,790	0.4	3,831	0.4
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	<u>19,201</u>	<u>3.2</u>	<u>28,924</u>	<u>1.8</u>	<u>122,679</u>	<u>3.8</u>	<u>19,450</u>	<u>2.3</u>	<u>35,408</u>	<u>3.3</u>
Tax charge at the Group's effective rate	<u>188,795</u>	<u>31.7</u>	<u>490,835</u>	<u>29.7</u>	<u>946,317</u>	<u>29.7</u>	<u>228,278</u>	<u>26.9</u>	<u>316,348</u>	<u>29.1</u>

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12. DIVIDEND

No dividend has been paid or declared by the Company during the Relevant Periods.

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

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

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods.

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Earnings:					
Profit for the year/period attributable to owner of the parent	416,988	1,160,226	2,242,254	621,121	770,968
Number of shares:					
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	201	201	201	201	201

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14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016							
At 1 January 2016:							
Cost	12,904	604,003	142,535	670,052	64,908	13,880	1,508,282
Accumulated depreciation and impairment	–	(83,398)	–	(181,104)	(30,234)	(6,632)	(301,368)
Net carrying amount	<u>12,904</u>	<u>520,605</u>	<u>142,535</u>	<u>488,948</u>	<u>34,674</u>	<u>7,248</u>	<u>1,206,914</u>
At 1 January 2016, net of accumulated depreciation and impairment							
	12,904	520,605	142,535	488,948	34,674	7,248	1,206,914
Additions	2,763	8,077	26,971	8,095	10,938	1,835	58,679
Transfer from deposits for purchases of items of property, plant and equipment (<i>note 21</i>)	–	13,384	25,924	12,772	2,400	–	54,480
Impairment	–	–	(10,046)	–	–	–	(10,046)
Disposals	–	(5,809)	–	(10,914)	(156)	–	(16,879)
Disposal of a subsidiary (<i>note 37</i>)	–	(99,717)	–	(25,901)	(1,774)	(184)	(127,576)
Transfers	–	60,410	(83,431)	21,092	1,929	–	–
Depreciation provided during the year	–	(22,673)	–	(43,310)	(13,489)	(1,536)	(81,008)
Exchange realignment	977	109	223	–	–	–	1,309
At 31 December 2016, net of accumulated depreciation and impairment	<u>16,644</u>	<u>474,386</u>	<u>102,176</u>	<u>450,782</u>	<u>34,522</u>	<u>7,363</u>	<u>1,085,873</u>
At 31 December 2016:							
Cost	16,644	576,501	102,176	674,099	77,655	15,534	1,462,609
Accumulated depreciation and impairment	–	(102,115)	–	(223,317)	(43,133)	(8,171)	(376,736)
Net carrying amount	<u>16,644</u>	<u>474,386</u>	<u>102,176</u>	<u>450,782</u>	<u>34,522</u>	<u>7,363</u>	<u>1,085,873</u>

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	Freehold land	Buildings	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost	16,644	576,501	102,176	674,099	77,655	15,534	1,462,609
Accumulated depreciation and impairment	—	(102,115)	—	(223,317)	(43,133)	(8,171)	(376,736)
Net carrying amount	<u>16,644</u>	<u>474,386</u>	<u>102,176</u>	<u>450,782</u>	<u>34,522</u>	<u>7,363</u>	<u>1,085,873</u>
At 1 January 2017, net of accumulated depreciation and impairment							
	16,644	474,386	102,176	450,782	34,522	7,363	1,085,873
Additions	13,280	15,887	279,220	28,371	22,065	364	359,187
Transfer from deposits for purchases of items of property, plant and equipment (<i>note 21</i>)	—	—	86,633	11,130	—	—	97,763
Disposals	—	(2,409)	(39)	(8,540)	(3,385)	(82)	(14,455)
Transfers	—	9,450	(35,406)	25,879	—	77	—
Depreciation provided during the year	—	(30,179)	—	(49,086)	(13,836)	(1,744)	(94,845)
Exchange realignment	(1,110)	(48)	(1,413)	—	—	—	(2,571)
At 31 December 2017, net of accumulated depreciation and impairment	<u>28,814</u>	<u>467,087</u>	<u>431,171</u>	<u>458,536</u>	<u>39,366</u>	<u>5,978</u>	<u>1,430,952</u>
At 31 December 2017:							
Cost	28,814	573,597	431,171	697,398	88,547	15,815	1,835,342
Accumulated depreciation and impairment	—	(106,510)	—	(238,862)	(49,181)	(9,837)	(404,390)
Net carrying amount	<u>28,814</u>	<u>467,087</u>	<u>431,171</u>	<u>458,536</u>	<u>39,366</u>	<u>5,978</u>	<u>1,430,952</u>

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	Freehold land	Buildings	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018							
At 31 December 2017 and 1 January 2018:							
Cost	28,814	573,597	431,171	697,398	88,547	15,815	1,835,342
Accumulated depreciation and impairment	–	(106,510)	–	(238,862)	(49,181)	(9,837)	(404,390)
Net carrying amount	<u>28,814</u>	<u>467,087</u>	<u>431,171</u>	<u>458,536</u>	<u>39,366</u>	<u>5,978</u>	<u>1,430,952</u>
At 1 January 2018, net of accumulated depreciation and impairment	28,814	467,087	431,171	458,536	39,366	5,978	1,430,952
Additions	–	15,055	1,059,685	19,387	34,030	1,966	1,130,123
Transfer from deposits for purchases of items of property, plant and equipment (<i>note 21</i>)	–	–	88,871	18,208	–	–	107,079
Acquisition of a business (<i>note 35</i>)	–	16,172	–	–	24,314	–	40,486
Disposals	–	(6,428)	(16,499)	(25,430)	(967)	(770)	(50,094)
Transfers	–	62,545	(205,667)	141,139	365	1,618	–
Depreciation provided during the year	–	(20,474)	–	(45,936)	(27,585)	(1,469)	(95,464)
Exchange realignment	578	1,394	(12,450)	1	2,079	(3)	(8,401)
At 31 December 2018, net of accumulated depreciation and impairment	<u>29,392</u>	<u>535,351</u>	<u>1,345,111</u>	<u>565,905</u>	<u>71,602</u>	<u>7,320</u>	<u>2,554,681</u>
At 31 December 2018:							
Cost	29,392	661,741	1,345,111	820,920	143,840	17,634	3,018,638
Accumulated depreciation and impairment	–	(126,390)	–	(255,015)	(72,238)	(10,314)	(463,957)
Net carrying amount	<u>29,392</u>	<u>535,351</u>	<u>1,345,111</u>	<u>565,905</u>	<u>71,602</u>	<u>7,320</u>	<u>2,554,681</u>

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	Freehold land	Buildings	Construction in progress	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 March 2019							
At 31 December 2018 and 1 January 2019:							
Cost	29,392	661,741	1,345,111	820,920	143,840	17,634	3,018,638
Accumulated depreciation and impairment	–	(126,390)	–	(255,015)	(72,238)	(10,314)	(463,957)
Net carrying amount	<u>29,392</u>	<u>535,351</u>	<u>1,345,111</u>	<u>565,905</u>	<u>71,602</u>	<u>7,320</u>	<u>2,554,681</u>
At 1 January 2019, net of accumulated depreciation and impairment	29,392	535,351	1,345,111	565,905	71,602	7,320	2,554,681
Additions	–	2,041	322,384	5,614	1,650	20	331,709
Transfer from deposits for purchases of items of property, plant and equipment (<i>note 21</i>)	–	–	64,016	–	2,056	–	66,072
Disposals	–	(3,476)	(8,507)	(6,674)	(31)	(143)	(18,831)
Transfers	–	–	(10,821)	10,821	–	–	–
Depreciation provided during the period	–	(5,834)	–	(13,309)	(7,721)	(288)	(27,152)
Exchange realignment	(447)	(201)	(2,699)	–	(531)	(3)	(3,881)
At 31 March 2019, net of accumulated depreciation and impairment	<u>28,945</u>	<u>527,881</u>	<u>1,709,484</u>	<u>562,357</u>	<u>67,025</u>	<u>6,906</u>	<u>2,902,598</u>
At 31 March 2019:							
Cost	28,945	657,869	1,709,484	823,156	146,540	17,356	3,383,350
Accumulated depreciation and impairment	–	(129,988)	–	(260,799)	(79,515)	(10,450)	(480,752)
Net carrying amount	<u>28,945</u>	<u>527,881</u>	<u>1,709,484</u>	<u>562,357</u>	<u>67,025</u>	<u>6,906</u>	<u>2,902,598</u>

During the year ended 31 December 2016, an impairment of RMB10,046,000 was made in relation to the Group's plan to build a production facility in the United States, which was terminated after strategic consideration.

As at 31 December 2016, the Group has not yet obtained the relevant building certificates for buildings with costs of RMB60,919,000.

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15. RIGHT-OF-USE ASSETS

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	98,801	74,884	121,797	309,430
Additions during the year	–	49,417	11,619	2,706
Disposal of a subsidiary (note 37)	(21,003)	–	–	–
Acquisition of business (note 35)	–	–	223,703	–
Exchange realignment	–	–	18,743	(4,659)
Depreciation during the year	(2,914)	(2,504)	(66,432)	(16,341)
Carrying amount at the end of year	74,884	121,797	309,430	291,136
Current portion	(1,935)	(2,924)	(2,984)	(2,984)
Non-current portion	<u>72,949</u>	<u>118,873</u>	<u>306,446</u>	<u>288,152</u>

The consolidated statements of comprehensive income and the consolidated statements of cash flows contain the following amounts relating to leases:

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of right-of-use assets	2,914	2,504	66,432	13,877	16,341
Interest expenses	–	–	9,135	1,766	1,866
Expenses relating to short-term leases	572	4,702	7,103	1,722	1,604
The cash outflow for leases as financing activities	–	–	(60,586)	(15,516)	(18,813)

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16. GOODWILL

	<i>RMB'000</i>
Cost at 1 January 2016, net of impairment	70,088
Impairment during the year (<i>note 6</i>)	<u>(22,112)</u>
At 31 December 2016	<u><u>47,976</u></u>
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018, 1 January 2019 and 31 March 2019:	
Cost	70,088
Accumulated impairment	<u>(22,112)</u>
Net carrying amount	<u><u>47,976</u></u>

Impairment testing of goodwill

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

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

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>31 March</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2019</i>
				<i>RMB'000</i>
Carrying amount of goodwill – Alfbeta Business	<u>47,976</u>	<u>47,976</u>	<u>47,976</u>	<u>47,976</u>

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Alfbeta Business

For the purpose of impairment testing of goodwill, the recoverable amount of the cash-generating unit has been determined according to the value in use calculation, using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rates applied to the cash flow projections at 31 December 2016, 31 December 2017 and 31 December 2018 were 16.0%, 16.0% and 16.0%, respectively, and cash flows beyond the five-year period were extrapolated using a growth rate of 3.0%, which was the same as the long term average growth rate of the dairy industry.

Assumptions were used in the value in use calculation of Alfbeta Business cash-generating unit for 31 December 2016, 31 December 2017 and 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

In the opinion of the Company's directors, even if no growth was projected for the Alfbeta Business, it would not cause the carrying amount of the cash-generating unit of Alfbeta Business to exceed its recoverable amount.

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17. INTANGIBLE ASSETS

	<u>Trademark</u>	<u>Customer relationship</u>	<u>Patents</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation and impairment	4,500	9,429	11,240	25,169
Amortisation during the year	<u>(4,500)</u>	<u>(9,429)</u>	<u>(1,124)</u>	<u>(15,053)</u>
At 31 December 2016	<u>–</u>	<u>–</u>	<u>10,116</u>	<u>10,116</u>
At 31 December 2016:				
Cost	29,000	33,000	12,150	74,150
Accumulated amortisation and impairment	<u>(29,000)</u>	<u>(33,000)</u>	<u>(2,034)</u>	<u>(64,034)</u>
Net carrying amount	<u>–</u>	<u>–</u>	<u>10,116</u>	<u>10,116</u>
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation and impairment	–	–	10,116	10,116
Amortisation during the year	–	–	(843)	(843)
Disposal	<u>–</u>	<u>–</u>	<u>(9,273)</u>	<u>(9,273)</u>
At 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2017:				
Cost	–	–	–	–
Accumulated amortisation	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net carrying amount	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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	<u>Trademark</u>	<u>Customer relationship</u>	<u>Patents</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2018				
Cost at 1 January 2018, net of accumulated amortisation and impairment	–	–	–	–
Additions	44	–	–	44
Amortisation during the year	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>
At 31 December 2018	<u>43</u>	<u>–</u>	<u>–</u>	<u>43</u>
At 31 December 2018:				
Cost	44	–	–	44
Accumulated amortisation	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>
Net carrying amount	<u>43</u>	<u>–</u>	<u>–</u>	<u>43</u>
31 March 2019				
Cost at 1 January 2019, net of accumulated amortisation and impairment	43	–	–	43
Amortisation during the period	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>
At 31 March 2019	<u>42</u>	<u>–</u>	<u>–</u>	<u>42</u>
At 31 March 2019:				
Cost	44	–	–	44
Accumulated amortisation	<u>(2)</u>	<u>–</u>	<u>–</u>	<u>(2)</u>
Net carrying amount	<u>42</u>	<u>–</u>	<u>–</u>	<u>42</u>

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18. INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Unlisted shares, at cost	1,018,005	956,306	1,011,350	986,584

Details of the subsidiaries are disclosed in note 1.

The balances with subsidiaries included in the Company's current assets or current liabilities are unsecured, interest-free and repayable on demand.

19. INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Unlisted shares, at cost	140,000	140,000	140,000	140,000
Loans to an associate	2,530	2,530	2,530	2,530
	142,530	142,530	142,530	142,530

The loans to an associate are unsecured, interest-free and not repayable in 12 months.

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

Particulars of the associate are as follows:

Company name	Particulars of issued shares held	Place of incorporated/ established and business	Percentage of ownership interest attributable to the Group	Principal activity
Jilin Green Energy Ecological Livestock Co. Ltd. *# (吉林綠能生態牧業有限公司)	RMB350,000,000	The PRC/ Mainland China	40%	Inactive

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

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

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

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

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	35,473	38,469	29,716	25,212
Non-current assets	104,658	114,198	144,323	144,548
Current liabilities	(131)	(12,667)	(34,039)	(29,760)
Non-current liabilities	—	—	—	—
Net assets	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	40%	40%	40%	40%
Carrying amount of the investment [#]	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>
Revenue	—	—	—	—
Loss for the year/period	—	—	—	—
Other comprehensive loss	—	—	—	—
Total comprehensive loss	—	—	—	—
Dividend received	—	—	—	—
Share of the associate's total comprehensive loss for the year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

[#] As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 March 2019, other investors of the associate had not injected their agreed proportion of capital.

Since the associate was in its start-up phase of operation and only incurred capital expenditure, the directors of the Company consider no indication of impairment of the Group's investment in an associate was noted as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 March 2019.

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20. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Equity investment designated at fair value through other comprehensive income				
Unlisted equity investment, at fair value	–	–	1,800	1,800
Available-for-sale investment				
Unlisted equity investments, at cost	1,800	1,800	–	–

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

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

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount at 1 January	50,149	52,362	93,202	147,894
Additions	54,836	138,826	162,553	56,644
Transfer to property, plant and equipment (<i>note 14</i>)	(54,480)	(97,763)	(107,079)	(66,072)
Exchange realignment	1,857	(223)	(782)	(118)
Carrying amount at the end of year/period	52,362	93,202	147,894	138,348

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22. INVENTORIES

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Raw materials	82,955	121,834	160,374	217,801
Work in progress	105,533	82,468	105,024	129,500
Finished goods	105,143	190,356	394,668	378,402
	<u>293,631</u>	<u>394,658</u>	<u>660,066</u>	<u>725,703</u>

23. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Trade and bills receivables	110,701	181,841	521,792	565,175
Impairment	(17,518)	(7,136)	(8,955)	(16,110)
	<u>93,183</u>	<u>174,705</u>	<u>512,837</u>	<u>549,065</u>

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

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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:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
Within 1 month	66,073	124,713	387,315	303,435
1 to 2 months	10,925	30,838	54,921	9,257
2 to 3 months	12,648	15,964	42,614	12,115
Over 3 months	3,537	3,190	27,987	224,258
	<u>93,183</u>	<u>174,705</u>	<u>512,837</u>	<u>549,065</u>

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

	<i>Note</i>	As at 31 December			31 March
		2016	2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year		17,059	17,518	7,136	8,955
Impairment losses recognised, net	6	459	4,378	1,819	7,155
Amount written off as uncollectible		–	(14,760)	–	–
At end of year/period		<u>17,518</u>	<u>7,136</u>	<u>8,955</u>	<u>16,110</u>

Impairment under IFRS 9 for the year ended 31 December 2018 and period ended 31 March 2019

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

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

As at 31 December 2018

	Current	Past due			Total
		Less than 1 month	1 to 3 months	Over 3 months	
Expected credit loss rate	0.7%	1.6%	6.6%	7.7%	1.7%
Gross carrying amount (RMB\$'000)	390,050	55,804	45,630	30,308	521,792
Expected credit losses (RMB\$'000)	2,735	883	3,016	2,321	8,955

As at 31 March 2019

	Current	Past due			Total
		Less than 1 month	1 to 3 months	Over 3 months	
Expected credit loss rate	0.7%	1.8%	5.4%	5.6%	2.9%
Gross carrying amount (RMB\$'000)	305,485	9,425	12,813	237,452	565,175
Expected credit losses (RMB\$'000)	2,050	168	698	13,194	16,110

Impairment under IAS 39 for the year ended 31 December 2016 and 2017

Included in the above provisions for impairment of trade and bills receivables, which were measured based on incurred credit losses under IAS 39, as at 31 December 2016 and 2017 were provisions for individually impaired trade receivables of RMB17,518,000 and RMB7,136,000 with a carrying amount before provision of RMB17,518,000 and RMB7,136,000, respectively.

The individually impaired trade receivables as at 31 December 2016 and 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

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The ageing analysis of the trade receivables as at 31 December 2016 and 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	As at 31 December	
	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	89,646	171,515
Less than 3 month past due	3,248	1,422
Over 3 months past due	289	1,768
	<u>93,183</u>	<u>174,705</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	<i>Notes</i>	As at 31 December			As at
		2016	2017	2018	31 March
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments		343,925	199,583	407,728	599,954
Deposits		9,374	4,202	6,648	9,311
Other receivables	(i)	344,874	57,560	166,993	255,845
Entrusted loans	(ii)	55,750	6,000	–	–
		<u>753,923</u>	<u>267,345</u>	<u>581,369</u>	<u>865,110</u>
Impairment	(iii)	<u>(70,463)</u>	<u>(14,172)</u>	<u>(14,172)</u>	<u>(14,172)</u>
		<u>683,460</u>	<u>253,173</u>	<u>567,197</u>	<u>850,938</u>

Notes:

- (i) Certain other receivables of RMB53,000,000 and RMB128,000,000 as at 31 December 2016 bear interest rates of 4.8%–7.0% per annum and 7.0% per annum, respectively.

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- (ii) As at 31 December 2016 and 31 December 2017, entrusted loans represented the Group's loans to certain distributors via a bank which were unsecured with a fixed annual interest rate at 7% and 7%, respectively. As at 31 December 2016 and 31 December 2017, these entrusted loans were neither past due nor impaired.
- (iii) Impairments were recognised for certain prepayments and other receivables as at 31 December 2016 and 2017, with carrying amounts of RMB70,463,000 and RMB14,172,000, respectively. Since 1 January 2018, the Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9 and considered the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate.

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

	Note	As at 31 December			As at
		2016	2017	2018	31 March
		RMB'000	RMB'000	RMB'000	2019
At 1 January		70,463	70,463	14,172	14,172
Reversal of impairment	6	–	(50,895)	–	–
Amount written off as uncollectible		–	(5,396)	–	–
		<u>70,463</u>	<u>14,172</u>	<u>14,172</u>	<u>14,172</u>

Except for certain other receivables with carrying amounts of RMB70,463,000, RMB14,172,000, RMB14,172,000 and RMB14,172,000, respectively, as at 31 December 2016, 2017, 2018 and 31 March 2019 of which full impairment has been made, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Company

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Prepayments	–	6,941	7,341	7,606
	<u>–</u>	<u>6,941</u>	<u>7,341</u>	<u>7,606</u>

25. DUE FROM A DIRECTOR, RELATED COMPANIES, AND THE IMMEDIATE HOLDING COMPANY

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

The amount due to the immediate holding company is unsecured, non-trade nature, interest-free and repayable on demand.

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The amounts due from/to related companies are unsecured, trade nature, interest-free and repayable on demand.

Below is additional information of amounts due from director and related companies as at 31 December 2016, 2017, 2018 and 31 March 2019.

Group

31 December 2016

	31 December 2016	Maximum amount outstanding during the year	1 January 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a director			
Mr. Leng You Bin	299,626	299,626	22,331
Due from related companies			
黑龍江愛本營養食品有限公司	190	2,101	131
千畦(上海)電子商務有限公司	1,916	9,494	8,532
Total	2,106	11,595	8,663

31 December 2017

	31 December 2017	Maximum amount outstanding during the year	1 January 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a director			
Mr. Leng You Bin	1,659	299,626	299,626
Due from related companies			
黑龍江愛本營養食品有限公司	–	190	190
千畦(上海)電子商務有限公司	745	1,916	1,916
Total	745	2,106	2,106

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31 December 2018

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

31 March 2019

	31 March 2019	Maximum amount outstanding during the year	1 January 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from a director			
Mr. Leng You Bin	3,580	3,580	80
Due (to)/from a related company			
千畦(上海)電子商務有限公司	(432)	–	750

The above related companies are controlled by either Mr. Leng You Bin or Mr. Cai Fang Liang, directors of the Company.

26. STRUCTURED DEPOSITS

Structured deposits as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 March 2019 were stated at fair value and represented four, eight, eight and two wealth management products issued by banks, respectively. The maximum expected rates of return ranging from 1.9% to 5.5% per annum, from 2.6% to 7.0% per annum, from 2.0% to 4.7% per annum and from 3.0% to 4.7% per annum during the years ended 31 December 2016, 31 December 2017, 31 December 2018 and period ended 31 March 2019, respectively. The Group designated these structured deposits as investments at fair value through profit or loss upon initial recognition. The Group uses the structured deposits primarily to enhance the return on investment.

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27. CASH AND CASH EQUIVALENTS, RESTRICTED CASH, TIME DEPOSITS AND PLEDGED DEPOSITS

Group

	<i>Notes</i>	As at 31 December			As at
		2016	2017	2018	31 March
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>	
Cash and bank balances		796,320	1,585,511	962,072	1,524,250
Time deposits		352,500	1,355,630	2,894,982	3,294,073
Pledged deposits		223,000	466,000	1,666,000	1,677,715
		<u>1,371,820</u>	<u>3,407,141</u>	<u>5,523,054</u>	<u>6,496,038</u>
Less:					
Restricted cash		(10,051)	(19,937)	(66,218)	(33,992)
A pledged deposit for a bank facility with maturity date within one year	30(a)	(50,000)	(–)	(663,000)	(663,000)
A pledged deposit for a bank facility with maturity date after one year	30(a)	(173,000)	(466,000)	(1,003,000)	(1,014,715)
Long-term bank deposits		<u>–</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>
Cash and cash equivalents as stated in the consolidated statements of financial position		1,138,769	2,771,204	3,640,836	4,634,331
Less:					
Non-pledged time deposits with original maturity of more than three months when acquired		<u>(322,000)</u>	<u>(1,205,630)</u>	<u>(2,744,982)</u>	<u>(3,144,073)</u>
Cash and cash equivalents as stated in the consolidated statements of cash flows		<u>816,769</u>	<u>1,565,574</u>	<u>895,854</u>	<u>1,490,258</u>

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Company

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Cash and bank balances	37	459	3,782	49,667

The cash and bank balances of the Group denominated in RMB amounted to RMB1,136,506,000, RMB3,378,624,000, RMB5,131,233,000 and RMB6,274,789,000 as at 31 December 2016, 2017, 2018 and 31 March 2019, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

28. TRADE AND BILLS PAYABLES

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Trade and bills payables	359,957	514,146	833,383	879,220

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

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Within three months	356,502	503,509	811,091	808,976
Three to six months	622	6,037	14,998	67,037
Over six months	2,833	4,600	7,294	3,207
	359,957	514,146	833,383	879,220

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

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29. OTHER PAYABLES AND ACCRUALS

Group

	<i>Notes</i>	As at 31 December			As at
		2016	2017	2018	31 March
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>	
Deferred income	(i)	79,470	54,346	90,001	77,499
Other payables		357,012	334,573	827,791	637,970
Accruals		282,263	588,977	1,039,327	879,235
Contract liabilities	(ii)	353,264	394,075	577,525	401,952
		1,072,009	1,371,971	2,534,644	1,996,656
Non-current portion		(70,831)	(45,707)	(57,102)	(56,350)
Current portion		1,001,178	1,326,264	2,477,542	1,940,306

Notes:

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

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
At the beginning of the year/period	57,170	79,470	54,346	90,001
Received during the year/period	26,163	11,000	53,018	–
Amortisation during the year/period	(3,863)	(36,124)	(17,363)	(12,502)
At the end of the year/period	79,470	54,346	90,001	77,499

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(ii) Details of contract liabilities are as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
<i>Short-term advances from customers</i>				
Sale of goods	353,264	394,075	577,525	401,952

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

Company

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
Other payables	3	3	12,028	16,114
Accruals	12,214	27,834	30,813	32,397
	12,217	27,837	42,841	48,511

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

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	31 December 2016		31 December 2017		31 December 2018		31 March 2019		
	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	Effective interest rate (%)	Maturity	
		RMB'000		RMB'000		RMB'000		RMB'000	
Current									
Bank loans – unsecured	3.0%	2018	484,875	2018	455,488	2019	272,508	2019	265,834
Other loans – unsecured (note (i))	N/A	N/A	–	N/A	–	2019	104,790	2019	26,210
			484,875		455,488		377,298		292,044
Non-current									
Other loans – unsecured	N/A	N/A	–	2019	2,603	N/A	–	N/A	–
			–		2,603		–		–
			484,875		458,091		377,298		292,044

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Note:

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

Group

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	484,875	902,880	976,098	1,109,818
In the second year	–	–	–	603,510
In the third year	–	–	605,499	–
	<u>484,875</u>	<u>902,880</u>	<u>1,581,597</u>	<u>1,713,328</u>
Other borrowings repayable:				
Within one year	49,265	–	107,169	79,252
In the second year	–	64,039	51,803	407,369
	<u>49,265</u>	<u>64,039</u>	<u>158,972</u>	<u>486,621</u>
	<u>534,140</u>	<u>966,919</u>	<u>1,740,569</u>	<u>2,199,949</u>

Company

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	484,875	455,488	272,508	265,834
Other borrowings repayable:				
Within one year	–	–	104,790	26,210
In the second year	–	2,603	–	–
	<u>484,875</u>	<u>458,091</u>	<u>377,298</u>	<u>292,044</u>

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- (a) A director of the Company had provided a personal guarantee for certain of the Group's bank loans of up to US\$70,000,000 (equivalent to RMB455,488,000) as at 31 December 2017.

As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Group's overdraft facilities amounting to Canadian dollars ("CAD") 38,000,000 (equivalent to RMB197,106,000), CAD80,000,000 (equivalent to RMB413,763,000), CAD225,000,000 (equivalent to RMB1,135,305,000) and CAD225,000,000 (equivalent to RMB1,131,581,000), respectively, of which CAD25,000,000 (equivalent to RMB133,370,000), CAD57,500,000 (equivalent to RMB297,392,000), CAD191,250,000 (equivalent to RMB965,014,000) and CAD191,250,000 (equivalent to RMB961,844,000) had been utilised as at 31 December 2016, 2017, 2018 and 31 March 2019, respectively, were secured by pledged deposits of RMB223,000,000, RMB466,000,000, RMB1,266,000,000, and RMB1,277,715,000, respectively.

As at 31 December 2018 and 31 March 2019, the Group's unsecured overdraft facilities amounting to US\$70,000,000 (equivalent to RMB481,706,000) and US\$70,000,000 (equivalent to RMB469,909,000), respectively, of which US\$39,600,000 (equivalent to RMB272,508,000) and US\$39,600,000 (equivalent to RMB265,834,000) had been utilised as at 31 December 2018 and 31 March 2019, respectively.

As at 31 December 2018 and 31 March 2019, a bank loan of the Group of US\$50,000,000 (equivalent to RMB344,075,000) and US\$50,000,000 (equivalent to RMB335,650,000), respectively, was secured by a pledged deposit of RMB400,000,000.

- (b) Included in the bank borrowings as at 31 December 2016, 2017 and 2018 and 31 March 2019 were borrowings with carrying amounts of RMB484,875,000 (equivalent to US\$70,000,000), RMB455,488,000 (equivalent to US\$70,000,000), RMB616,583,000 (equivalent to US\$89,600,000), and RMB601,484,000 (equivalent to US\$89,600,000) which were denominated in US\$, respectively. Also, included in the bank borrowings as at 31 December 2017 and 2018 and 31 March 2019 were borrowings with carrying amounts of RMB297,392,000 (equivalent to CAD57,500,000), RMB965,014,000 (equivalent to CAD191,250,000), and RMB961,844,000 (equivalent to CAD191,250,000) which were denominated in CAD, respectively. All other bank borrowings were denominated in RMB.
- (c) As at 31 December 2016, the Group's other loans were unsecured and repayable on 31 December 2017. As at 31 December 2017, the Group's other loans were unsecured and repayable on 31 December 2019. As at 31 December 2018, included in the other loans balance was a loan from a related company of US\$6,620,000 (equivalent to RMB45,556,000), for which a director of the Company is also a shareholder of that related company. The remaining other loans as at 31 December 2018 were unsecured and repayable within 2019 to 2020. As at 31 March 2019, except for other loan amounting to RMB407,369,000, which was secured by the Group's construction in progress with carrying amount of RMB1,225,630,000, and repayable on 31 December 2020, all the other loans were unsecured and repayable within 2019 to 2020.

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31. DEFERRED TAX

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

Deferred tax liabilities

	Fair value adjustment arising from acquisition of subsidiaries	Unrecognised tax benefits and surcharge	Withholding taxes	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	6,292	78,115	102,940	187,347
Deferred tax charged/(credited) to the statements of profit or loss during the year (<i>note 11</i>)	(3,763)	–	19,201	15,438
Exchange realignment	–	5,190	–	5,190
At 31 December 2016 and 1 January 2017	2,529	83,305	122,141	207,975
Deferred tax charged/(credited) to the statements of profit or loss during the year (<i>note 11</i>)	(2,529)	–	28,924	26,395
Exchange realignment	–	(5,048)	–	(5,048)
At 31 December 2017 and 1 January 2018	–	78,257	151,065	229,322
Acquisition of a subsidiary (<i>note 35</i>)	16,390	–	–	16,390
Deferred tax charged/(credited) to the statements of profit or loss during the year (<i>note 11</i>)	(13,359)	–	122,679	109,320
Exchange realignment	975	4,505	–	5,480
At 31 December 2018 and 1 January 2019	4,006	82,762	273,744	360,512
Deferred tax charged/(credited) to the statements of profit or loss during the period (<i>note 11</i>)	(435)	–	35,408	34,973
Exchange realignment	(69)	(4,099)	–	(4,168)
At 31 March 2019	<u>3,502</u>	<u>78,663</u>	<u>309,152</u>	<u>391,317</u>

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Deferred tax assets

	Accruals	Deferred income	Unrealised profits on inventories	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	70,108	12,132	8,006	90,246
Deferred tax credited/(charged) to the statements of profit or loss during the year (<i>note 11</i>)	<u>(3,147)</u>	<u>5,575</u>	<u>1,443</u>	<u>3,871</u>
At 31 December 2016 and 1 January 2017	66,961	17,707	9,449	94,117
Deferred tax credited/(charged) to the statements of profit or loss during the year (<i>note 11</i>)	<u>40,412</u>	<u>(6,282)</u>	<u>11,358</u>	<u>45,488</u>
At 31 December 2017 and 1 January 2018	107,373	11,425	20,807	139,605
Deferred tax credited to the statements of profit or loss during the year (<i>note 11</i>)	<u>36,084</u>	<u>8,915</u>	<u>23,736</u>	<u>68,735</u>
At 31 December 2018 and 1 January 2019	143,457	20,340	44,543	208,340
Deferred tax credited/(charged) to the statements of profit or loss during the year/period (<i>note 11</i>)	<u>34,312</u>	<u>(4,844)</u>	<u>5,986</u>	<u>35,454</u>
At 31 March 2019	<u><u>177,769</u></u>	<u><u>15,496</u></u>	<u><u>50,529</u></u>	<u><u>243,794</u></u>

At 31 December 2018, the Group had no tax losses arising in Mainland China that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

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At the end of each of the Relevant Periods, the directors of the Company, based on the Group's operation and expansion plan, estimated that part of the retained earnings of the PRC subsidiaries would be retained in Mainland China for use in future operations and investments. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB118,545,000, RMB233,589,000, RMB352,114,000 and RMB360,553,000 at 31 December 2016, 2017 and 2018 and 31 March 2019, respectively.

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

32. SHARE CAPITAL

	31 December 2016	31 December 2017	31 December 2018	31 March 2019	31 December 2016	31 December 2017	31 December 2018	31 March 2019
	<i>Number of shares</i>				<i>RMB'000</i>			
Issued and paid-up								
Balance at the beginning of the year/period	201	201	201	201	1	1	1	1
Issue of ordinary shares of the Company of US\$1 each	-	-	-	-	-	-	-	-
Balance at the end of the year/period	201	201	201	201	1	1	1	1

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

Share options

Details of the share option schemes and the share options issued are included in note 33 to the Historical Financial Information.

33. SHARE OPTION SCHEMES

Share option schemes of the immediate holding company

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

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

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

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

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

	Weighted average exercise price per share	Number of options
	<u>US\$</u>	
At 31 December 2016, 2017, 2018 and 31 March 2019	7.4	<u>1,008,000</u>

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The exercise prices and exercise periods of the share options outstanding as at 31 December 2016, 2017, 2018 and 31 March 2019 are as follows:

31 December 2016	Exercise price	
Number of options	per share	Exercise period
	<i>US\$</i>	
302,400	7.4	31-12-16 to 17-12-20
302,400	7.4	31-12-17 to 17-12-20
403,200	7.4	31-12-18 to 17-12-20
1,008,000		

31 December 2017	Exercise price	
Number of options	per share	Exercise period
	<i>US\$</i>	
302,400	7.4	31-12-16 to 17-12-20
302,400	7.4	31-12-17 to 17-12-20
403,200	7.4	31-12-18 to 17-12-20
1,008,000		

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

31 March 2019	Exercise price	
Number of options	per share	Exercise period
	<i>US\$</i>	
302,400	7.4	31-12-16 to 17-12-20
302,400	7.4	31-12-17 to 17-12-20
403,200	7.4	31-12-18 to 17-12-20
1,008,000		

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

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

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

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

DIF operates another share option scheme (the "**Second Share Option Scheme**"), which was adopted and approved by the shareholders of DIF on 1 January 2017. Eligible persons of the Second Share Option Scheme include, inter alia, any eligible employee (including director, officer and/or employee) of DIF and its subsidiaries. The purpose of the Second Share Option Scheme is to attract and retain the best available personnel for positions of substantial responsibility and to provide additional incentive to the directors and employees of the Group for promoting the success of the business of the Group. 1,300,268 share options were granted on 1 January 2017 under the Second Share Option Scheme to eligible persons to subscribe for a total of 1,300,268 new shares of DIF of US\$0.001 each, vesting over a period of four years from the grant date, of which 498,378 share options be vested on 31 March 2017, 240,567 share options be vested on 31 December 2018, 240,567 share options be vested on 31 December 2019, and 320,756 share options be vested on 31 December 2020, respectively. These share options are exercisable at US\$48.0 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse.

Share options do not confer rights of obtaining dividends or voting rights of shareholders' meetings.

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

	Weighted average exercise price per share	Number of options
	<i>US\$</i>	
At 1 January 2018, 31 December 2018 and 31 March 2019	48.0	1,300,268

The exercise prices and exercise periods of the share options outstanding under the Second Share Option Scheme as at 31 December 2017 and 2018 and 31 March 2019 are as follows:

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

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

The fair value of equity-settled share options granted under the Second Share Option Scheme was estimated as at the date of grant. The following table lists the inputs to the model used:

Dividend yield (%)	0%
Historical volatility (%)	41%
Risk-free interest rate (%)	2.0%

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

The Group recognised total share option expenses of RMB8,441,000, RMB15,931,000, RMB6,408,000, RMB1,602,000 and RMB548,000, respectively, for the years ended 31 December 2016 and 2017 and 2018, and for the periods ended 31 March 2018 and 31 March 2019, respectively.

34. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Capital contribution reserve

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

Reserve funds

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

Other reserves

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

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	Share premium account	Capital contribution reserve	Exchange fluctuation reserve	Accumulated losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	631,966	47,043	30,615	(131,329)	578,295
Loss for the year	-	-	-	(20,088)	(20,088)
Equity-settled share-based payment arrangement	-	8,441	-	-	8,441
Exchange differences on translation of foreign operations	-	-	37,928	-	37,928
At 31 December 2016 and 1 January 2017	631,966	55,484	68,543	(151,417)	604,576
Loss for the year	-	-	-	(104,165)	(104,165)
Equity-settled share-based payment arrangement	-	15,931	-	-	15,931
Exchange differences on translation of foreign operations	-	-	(44,395)	-	(44,395)
At 31 December 2017 and 1 January 2018	631,966	71,415	24,148	(255,582)	471,947
Loss for the year	-	-	-	(77,084)	(77,084)
Equity-settled share-based payment arrangement	-	6,408	-	-	6,408
Exchange differences on translation of foreign operations	-	-	48,446	-	48,446
At 31 December 2018 and 1 January 2019	631,966	77,823	72,594	(332,666)	449,717
Loss for the period	-	-	-	(26,865)	(26,865)
Equity-settled share-based payment arrangement	-	548	-	-	548
Exchange differences on translation of foreign operations	-	-	(11,003)	-	(11,003)
At 31 March 2019	<u>631,966</u>	<u>78,371</u>	<u>61,591</u>	<u>(359,531)</u>	<u>412,397</u>

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35. ACQUISITION OF BUSINESS

Vitamin World USA Business

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

The fair values of the identifiable assets and liabilities of Vitamin World USA Business as at the date of acquisition were as follows:

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

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The Group incurred transaction costs of approximately RMB7,250,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statements of profit or loss.

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

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

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

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

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36. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Major non-cash transactions

- (a) During the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the Group acquired certain items of property, plant and equipment of which the considerations were partially settled by deposits previously paid with aggregate carrying amounts of RMB54,480,000, RMB97,763,000, RMB107,079,000 and RMB66,072,000, respectively.
- (b) During the year ended 31 December 2016, the Group disposed of its entire interest in the Shaanxi Business at a consideration of RMB84,000,000 and the consideration was settled through an other receivable.

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

	Pledged deposits	Interest- bearing bank and other borrowings
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	(300,000)	967,782
Financing cash flows	77,000	(472,455)
Foreign exchange movement	–	38,813
At 31 December 2016	(223,000)	534,140
Financing cash flows	(243,000)	465,174
Foreign exchange movement	–	(32,395)
At 31 December 2017	(466,000)	966,919
Financing cash flows	(1,200,000)	751,554
Foreign exchange movement	–	22,096
At 31 December 2018	(1,666,000)	1,740,569
Financing cash flows	(11,715)	479,760
Foreign exchange movement	–	(20,380)
At 31 March 2019	(1,677,715)	2,199,949

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37. DISPOSAL OF A SUBSIDIARY

In December 2016, the Group entered into an equity transfer agreement to sell the 70% equity interests in Shaanxi Business to an independent third party for a consideration of RMB84,000,000, resulting in a loss on disposal of a subsidiary of RMB63,989,000.

	<i>Notes</i>	27 December 2016
		<u>RMB'000</u>
Net assets disposed of:		
Property, plant and equipment	<i>14</i>	127,576
Prepaid land lease payments	<i>15</i>	21,003
Inventories		13,643
Trade receivables		1,936
Prepayments, deposits and other receivables		8,773
Structured deposits		15,095
Cash and cash equivalents		17,226
Trade and bills payables		(39,212)
Other payables and accruals		(5,316)
Amounts to fellow subsidiaries		(33,311)
Non-controlling interests		<u>20,576</u>
		147,989
Loss on disposal of a subsidiary	<i>6</i>	<u>(63,989)</u>
		<u>84,000</u>
Satisfied by:		
An other receivable		<u>84,000</u>

The net outflow of cash and cash equivalents in respect of the disposal of a subsidiary for the year ended 31 December 2016 was RMB17,226,000.

38. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group had contingent liabilities not provided for in the Historical Financial Information as follows:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
A guarantee given to a bank in connection with a facility granted to a third party constructor	<u>–</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>

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39. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings secured by certain assets of the Group are included in note 30 to the Historical Financial Information.

40. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at
	2016	2017	2018	31 March
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>
Contracted, but not provided for:				
Construction and purchases of items of property, plant and equipment	32,626	120,346	188,019	194,022

The Group had the following commitments in respect of the research and development costs at the end of each of the Relevant Periods:

	<i>Note</i>	As at 31 December			As at
		2016	2017	2018	31 March
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2019
				<i>RMB'000</i>	
Contracted, but not provided for	(i)	9,240	4,340	–	–

Note:

- (i) On 14 September 2014, the Group entered into a contract with Beth Israel Deaconess Medical Centre ("BIDMC"), an independent third party, for a research collaborative project. The Group was required to pay an amount to BIDMC of US\$667,000 (equivalent to RMB4,140,000) per annum from 2016 to 2018.

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41. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following significant transactions with related parties during the Relevant Periods:

(a) Transactions with related companies

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of dairy products (i)	8,571	16,055	715	171	-
Interest expense to a related company	-	-	22	-	154

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

(b) Outstanding balances with related parties

Except for the balances due from related companies included in the Group's current assets which are unsecured, interest-free and repayable on demand, and a loan due from a related company with interest of 6% per annum and repayable in 2019, the balances with the immediate holding company and directors included in the Group's current assets/current liabilities are unsecured, interest-free and repayable in 2019. Further details of these balances are included in notes 25 and 30(c) to the Historical Financial Information.

(c) Compensation of key management personnel of the Group

	Years ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short term employee benefits	10,977	11,226	17,617	4,415	3,951
Post-employment benefits	291	311	342	81	89
Equity-settled share option scheme	7,443	15,315	6,183	1,524	548
Total compensation paid/payable to key management personnel	18,711	26,852	24,142	6,020	4,588

Further details of directors' and the chief executive's emoluments are included in note 9 to the Historical Financial Information.

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42. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2016

Group

Financial assets

	Financial assets at fair value through profit or loss- designated as such upon initial recognition	Loans and receivables	Available- for-sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investment	–	–	1,800	1,800
Non-current pledged deposits	–	173,000	–	173,000
Trade and bills receivables	–	93,183	–	93,183
Financial assets included in prepayments, deposits and other receivables	–	339,535	–	339,535
Due from a director	–	299,626	–	299,626
Due from related companies	–	2,106	–	2,106
Structured deposits	443,398	–	–	443,398
Pledged deposits	–	50,000	–	50,000
Restricted cash	–	10,051	–	10,051
Cash and cash equivalents	–	1,138,769	–	1,138,769
	<u>443,398</u>	<u>2,106,270</u>	<u>1,800</u>	<u>2,551,468</u>

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Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade and bills payables	359,957
Financial liabilities included in other payables and accruals	506,771
Due to the immediate holding company	223
Interest-bearing bank and other borrowings	534,140
	<hr/>
	1,401,091
	<hr/> <hr/>

31 December 2016

Company

Financial assets

	Loans and receivables
	<i>RMB'000</i>
Due from subsidiaries	438,229
Cash and cash equivalents	37
	<hr/>
	438,266
	<hr/> <hr/>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	5,379
Due to the immediate holding company	223
Due to subsidiaries	354,379
Interest-bearing bank and other borrowings	484,875
	<hr/>
	844,856
	<hr/> <hr/>

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31 December 2017

Group

Financial assets

	Financial assets at fair value through profit or loss- designated as such upon initial recognition	Loans and receivables	Available- for-sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investment	–	–	1,800	1,800
Long-term bank deposits	–	150,000	–	150,000
Trade and bills receivables	–	174,705	–	174,705
Non-current pledged deposits	–	466,000	–	466,000
Financial assets included in prepayments, deposits and other receivables	–	53,590	–	53,590
Due from a director	–	1,659	–	1,659
Due from related companies	–	745	–	745
Structured deposits	806,539	–	–	806,539
Restricted cash	–	19,937	–	19,937
Cash and cash equivalents	–	2,771,204	–	2,771,204
	<u>806,539</u>	<u>3,637,840</u>	<u>1,800</u>	<u>4,446,179</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade and bills payables	514,146
Financial liabilities included in other payables and accruals	758,333
Due to the immediate holding company	210
Interest-bearing bank and other borrowings	966,919
	<u>2,239,608</u>

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31 December 2017

Company

Financial assets

	Loans and receivables
	<i>RMB'000</i>
Due from subsidiaries	398,598
Cash and cash equivalents	459
	<hr/>
	399,057
	<hr/> <hr/>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	21,413
Due to the immediate holding company	210
Due to subsidiaries	404,218
Interest-bearing and other borrowings	458,091
	<hr/>
	883,932
	<hr/> <hr/>

APPENDIX I

ACCOUNTANTS' REPORT

31 December 2018

Group

Financial assets

	Financial assets at fair value through profit or loss-designated as such upon initial recognition	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income – equity investments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Long-term bank deposits	–	150,000	–	150,000
Non-current pledged deposits	–	1,003,000	–	1,003,000
Trade and bills receivables	–	512,837	–	512,837
Financial assets included in prepayments, deposits and other receivables	–	159,469	–	159,469
Due from a director	–	80	–	80
Due from related companies	–	750	–	750
Structured deposits	1,183,741	–	–	1,183,741
Pledged deposits	–	663,000	–	663,000
Restricted cash	–	66,218	–	66,218
Cash and cash equivalents	–	3,640,836	–	3,640,836
	<u>1,183,741</u>	<u>6,196,190</u>	<u>1,800</u>	<u>7,381,731</u>

APPENDIX I

ACCOUNTANTS' REPORT

Financial liabilities

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

31 December 2018

Company

Financial assets

	Loans and receivables
	<i>RMB'000</i>
Due from subsidiaries	923,580
Cash and cash equivalents	3,782
	<u>927,362</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	34,671
Due to the immediate holding company	222
Due to subsidiaries	1,075,974
Interest-bearing and other borrowings	377,298
	<u>1,488,165</u>

APPENDIX I

ACCOUNTANTS' REPORT

31 March 2019

Group

Financial assets

	Financial assets at fair value through profit or loss- designated as such upon initial recognition	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income – equity investments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial asset at fair value through other comprehensive income	–	–	1,800	1,800
Long-term bank deposits	–	150,000	–	150,000
Non-current pledged deposits	–	1,014,715	–	1,014,715
Trade and bills receivables	–	549,065	–	549,065
Financial assets included in prepayments, deposits and other receivables	–	250,984	–	250,984
Due from a director	–	3,580	–	3,580
Structured deposits	158,747	–	–	158,747
Pledged deposits	–	663,000	–	663,000
Restricted cash	–	33,992	–	33,992
Cash and cash equivalents	–	4,634,331	–	4,634,331
	<u>158,747</u>	<u>7,299,667</u>	<u>1,800</u>	<u>7,460,214</u>

APPENDIX I

ACCOUNTANTS' REPORT

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Trade and bills payables	879,220
Financial liabilities included in other payables and accruals	1,251,920
Due to related companies	432
Interest-bearing bank and other borrowings	2,199,949
Lease liabilities	176,924
	<u>4,508,445</u>

31 March 2019

Company

Financial assets

	Financial assets at amortised cost
	<i>RMB'000</i>
Due from subsidiaries	970,603
Cash and cash equivalents	49,667
	<u>1,020,270</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>RMB'000</i>
Financial liabilities included in other payables and accruals	48,511
Due to the immediate holding company	217
Due to subsidiaries	1,261,290
Interest-bearing and other borrowings	292,044
	<u>1,602,062</u>

APPENDIX I

ACCOUNTANTS' REPORT

43. 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			
	31 December 2016 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>	31 March 2019 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>	31 March 2019 <i>RMB'000</i>
Financial assets								
Available-for-sale investment	1,800	1,800	-	-	1,800	1,800	-	-
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800	-	-	1,800	1,800
Structured deposits	<u>443,398</u>	<u>806,539</u>	<u>1,183,741</u>	<u>158,747</u>	<u>443,398</u>	<u>806,539</u>	<u>1,183,741</u>	<u>158,747</u>
Financial liabilities								
Interest-bearing bank and other borrowings	<u>534,140</u>	<u>966,919</u>	<u>1,740,569</u>	<u>2,199,949</u>	<u>527,995</u>	<u>942,360</u>	<u>1,723,364</u>	<u>2,145,116</u>

Management has assessed that the fair values of cash and cash equivalents, restricted cash, short-term bank deposits, pledged deposits, structured deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts with directors, amounts with related companies and an amount due to the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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ACCOUNTANTS' REPORT

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 Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each of the Relevant Periods was 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.

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
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016				
Available-for-sale investment	-	-	1,800	1,800
Structured deposits	-	443,398	-	443,398
	<u>-</u>	<u>443,398</u>	<u>-</u>	<u>443,398</u>
At 31 December 2017				
Available-for-sale investment	-	-	1,800	1,800
Structured deposits	-	806,539	-	806,539
	<u>-</u>	<u>806,539</u>	<u>-</u>	<u>806,539</u>
At 31 December 2018				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	1,183,741	-	1,183,741
	<u>-</u>	<u>1,183,741</u>	<u>-</u>	<u>1,183,741</u>
At 31 March 2019				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	158,747	-	158,747
	<u>-</u>	<u>158,747</u>	<u>-</u>	<u>158,747</u>

During the Relevant Periods, 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.

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ACCOUNTANTS' REPORT

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016				
Interest-bearing bank and other borrowings	–	527,995	–	527,995
At 31 December 2017				
Interest-bearing bank and other borrowings	–	942,360	–	942,360
At 31 December 2018				
Interest-bearing bank and other borrowings	–	1,723,364	–	1,723,364
At 31 March 2019				
Interest-bearing bank and other borrowings	–	2,145,116	–	2,145,116

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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ACCOUNTANTS' REPORT

Interest rate risk

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

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

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax</u> <i>RMB'000</i>
31 December 2016		
US\$	50	30
RMB	50	9,046
US\$	(50)	(30)
RMB	(50)	(9,046)
	<u> </u>	<u> </u>
31 December 2017		
US\$	50	127
CAD	50	16
RMB	50	16,893
US\$	(50)	(127)
CAD	(50)	(16)
RMB	(50)	(16,893)
	<u> </u>	<u> </u>
31 December 2018		
US\$	50	1,449
CAD	50	206
RMB	50	30,163
US\$	(50)	(1,449)
CAD	(50)	(206)
RMB	(50)	(30,163)
	<u> </u>	<u> </u>
31 March 2019		
US\$	50	78
CAD	50	(1,310)
RMB	50	30,791
US\$	(50)	(78)
CAD	(50)	1,310
RMB	(50)	(30,790)
	<u> </u>	<u> </u>

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Credit risk

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

Maximum exposure and year-end staging as at 31 December 2018 and 31 March 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018 and 31 March 2019. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2018

	12-month		Lifetime ECLs		Total
	ECLs		Simplified		
	Stage 1	Stage 2	Stage 3	Approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank deposits	150,000	–	–	–	150,000
Trade receivables*	–	–	–	434,225	434,225
Bills receivable – Not yet past due	78,612	–	–	–	78,612
Financial assets included in prepayments, deposits and other receivables	159,469	–	–	–	159,469
Due from a director	80	–	–	–	80
Due from related companies	750	–	–	–	750
Pledged deposits – Not yet past due	1,666,000	–	–	–	1,666,000
Structured deposits	1,183,741	–	–	–	1,183,741
Restricted cash	66,218	–	–	–	66,218
Cash and cash equivalents – Not yet past due	3,640,836	–	–	–	3,640,836
	6,945,706	–	–	434,225	7,379,931

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ACCOUNTANTS' REPORT

As at 31 March 2019

	12-month		Lifetime ECLs		Total
	ECLs				
	Stage 1	Stage 2	Stage 3	Simplified Approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank deposits	150,000	-	-	-	150,000
Trade receivables*	-	-	-	408,885	408,885
Bills receivable – Not yet past due	140,180	-	-	-	140,180
Financial assets included in prepayments, deposits and other receivables	250,984	-	-	-	250,984
Due from a director	3,580	-	-	-	3,580
Pledged deposits – Not yet past due	1,677,715	-	-	-	1,677,715
Structured deposits	158,747	-	-	-	158,747
Restricted cash	33,992	-	-	-	33,992
Cash and cash equivalents – Not yet past due	4,634,331	-	-	-	4,634,331
	<u>7,049,529</u>	<u>-</u>	<u>-</u>	<u>408,885</u>	<u>7,458,414</u>

* For trade receivables which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the Historical Financial Information.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different countries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the Historical Financial Information.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, restricted cash, pledged deposits, structured deposits, an available-for-sale financial asset/financial asset at fair value through other comprehensive income, other receivables, and amount due from a director, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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ACCOUNTANTS' REPORT

Foreign currency risk

The Group has transactional currency exposures.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ and HK\$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax
		<i>RMB'000</i>
31 December 2016		
US\$	5	(25,407)
HK\$	5	(2,827)
US\$	(5)	25,407
HK\$	(5)	2,827
	<u> </u>	<u> </u>
31 December 2017		
US\$	5	(24,572)
HK\$	5	(2,455)
CAD	5	(14,964)
US\$	(5)	24,572
HK\$	(5)	2,455
CAD	(5)	14,964
	<u> </u>	<u> </u>
31 December 2018		
US\$	5	(1,913)
HK\$	5	(2,590)
CAD	5	(74,397)
US\$	(5)	1,913
HK\$	(5)	2,590
CAD	(5)	74,397
	<u> </u>	<u> </u>
31 March 2019		
US\$	5	(18,832)
HK\$	5	(2,536)
CAD	5	(61,180)
US\$	(5)	18,832
HK\$	(5)	2,536
CAD	(5)	61,180
	<u> </u>	<u> </u>

APPENDIX I

ACCOUNTANTS' REPORT

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group's policy is to regularly monitor the current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

	On demand or less than one year	One to five years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2016			
Trade and bills payables	359,957	–	359,957
Financial liabilities included in other payables and accruals	506,771	–	506,771
Due to the immediate holding company	223	–	223
Interest-bearing bank and other borrowings	<u>557,112</u>	<u>–</u>	<u>557,112</u>
	<u>1,424,063</u>	<u>–</u>	<u>1,424,063</u>
31 December 2017			
Trade and bills payables	514,146	–	514,146
Financial liabilities included in other payables and accruals	758,333	–	758,333
Due to the immediate holding company	210	–	210
Interest-bearing bank and other borrowings	<u>912,680</u>	<u>67,488</u>	<u>980,168</u>
	<u>2,185,369</u>	<u>67,488</u>	<u>2,252,857</u>

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ACCOUNTANTS' REPORT

Group

	On demand or less than one year	One to five years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2018			
Trade and bills payables	833,383	–	833,383
Financial liabilities included in other payables and accruals	1,636,273	–	1,636,273
Lease liabilities	60,117	152,344	212,461
Interest-bearing bank and other borrowings	1,143,916	685,621	1,829,537
	<u>3,673,689</u>	<u>837,965</u>	<u>4,511,654</u>
31 March 2019			
Trade and bills payables	879,220	–	879,220
Financial liabilities included in other payables and accruals	1,251,920	–	1,251,920
Lease liabilities	54,891	138,654	193,545
Interest-bearing bank and other borrowings	1,254,824	1,037,567	2,292,391
	<u>3,440,855</u>	<u>1,176,221</u>	<u>4,617,076</u>

Company

The financial liabilities of the Company as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, were of no fixed terms of repayment or with maturity of less than one year.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholder, return capital to the shareholder or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the Relevant Periods.

APPENDIX I

ACCOUNTANTS' REPORT

The Group monitors capital using gearing ratio, which is net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances, time deposits and pledged deposits. Total capital is calculated as equity holders' funds (i.e., total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The gearing ratios as at the end of the each of the Relevant Periods were as follows:

	As at 31 December			As at
	2016	2017	2018	31 March
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Interest-bearing bank and other borrowings (note 30)	534,140	966,919	1,740,569	2,199,949
Less:				
Cash and bank balances (note 27)	(796,320)	(1,585,511)	(962,072)	(1,524,250)
Time deposits (note 27)	(352,500)	(1,355,630)	(2,894,982)	(3,294,073)
Pledged deposits (note 27)	(223,000)	(466,000)	(1,666,000)	(1,677,715)
Net debt	(837,680)	(2,440,222)	(3,782,485)	(4,296,089)
Total equity attributable to owner of the Company	<u>2,376,940</u>	<u>3,585,013</u>	<u>5,787,484</u>	<u>6,558,307</u>
Gearing ratio	<u>(0.35)</u>	<u>(0.68)</u>	<u>(0.65)</u>	<u>(0.66)</u>

45. EVENTS AFTER THE REPORTING PERIODS

There are no significant events that require additional disclosure or adjustments occurred after the Relevant Periods.

46. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 March 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN COMPANIES LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Companies law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on October 26, 2012 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on [●]. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) Classes of Shares

The share capital of the Company consists of ordinary shares. There is no restriction on the ownership of the Shares and securities of the Company under the Articles.

(b) Variation of Rights of Existing Shares or Classes of Shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to

**APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY
AND CAYMAN COMPANIES LAW**

one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) *Alteration of Capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(d) *Transfer of Shares*

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

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The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to Purchase its Own Shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the SFC.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of Any Subsidiary of the Company to Own Shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on Shares and Forfeiture of Shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not

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paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as of the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) *Appointment, Retirement and Removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any

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Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resign;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;

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- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) *Power to Allot and Issue Shares and Warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of

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them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) *Power to Dispose of the Assets of the Company or Any of its Subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) *Borrowing Powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

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Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or Payments for Loss of Office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and Provision of Security for Loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

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(h) Disclosure of Interest in Contracts with the Company or Any of its Subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

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- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.4 Alterations to the Constitutional Documents and the Company's Name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of Member

(a) *Special and Ordinary Resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

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Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting Rights and Right to Demand a Poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

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Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(c) *Annual General Meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(d) *Notices of Meetings and Business to be Conducted*

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

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Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) *Quorum for Meetings and Separate Class Meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as

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the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) *Members' requisition for meetings*

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

2.6 *Accounts and Audit*

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

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Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and Other Methods of Distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

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Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

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No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of Corporate Records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 Rights of Minorities in Relation to Fraud or Oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

2.10 Procedures on Liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

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If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription Rights Reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANIES LAW

The Company was incorporated in the Cayman Islands as an exempted company on October 26, 2012 subject to the Cayman Companies Law. Certain provisions of Cayman Companies Law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company Operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share Capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the

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company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) any manner provided in section 37 of the Cayman Companies Law;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial Assistance to Purchase Shares of a Company or its Holding Company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of Shares and Warrants by a Company and its Subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its

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shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and Distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of Minorities and Shareholders' Suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

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Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of Assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and Auditing Requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange Control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

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3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from June 29, 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to Directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of Corporate Records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

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3.14 Register of Members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

3.15 Register of Directors and Officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding Up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

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When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

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3.19 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

3.20 Economic substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Law, 2018, which became effective on 1 January 2019, together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from 1 July 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on such relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Harney Westwood & Riegels, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Appendix V – Documents Delivered to the Registrar of Companies and Available for Inspection." Any person wishing to have a detailed summary of Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT THE GROUP

1. Incorporation of the Company

The Company was established in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on October 26, 2012.

The Company has established its principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and was registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on December 16, 2015. In connection with such registration, the Company has appointed Ms. HO Siu Pik and Ms. CHAN Wai Ling as the authorized representatives of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong whose correspondence address is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

As we are incorporated in the Cayman Islands, our operations are subject to the relevant law and regulations of the Cayman Islands and our Memorandum and Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Memorandum and Articles of Association is set out in Appendix III to this Document.

2. Changes in the Share Capital of the Company and Our Subsidiaries

(a) Changes in the share capital of the Company

At the date of incorporation of the Company, the Company had an authorized share capital of US\$50,000, divided into 50,000 Shares of US\$1.00 each.

The following changes in the share capital of the Company have taken place since the incorporation of the Company up to the date of this Document:

- On October 26, 2012, the Company issued one ordinary share with a par value of US\$1.00 each to Walkers Nominees Limited, which was subsequently transferred to DIF Holding on the same day;
- On November 11, 2013, the Company issued 200 Shares with a par value of US\$1.00 each to DIF Holding;
- On [●], 2019, every share of par value of US\$1.00 in the authorized share capital of the Company was subdivided into 40,000,000 shares of par value of US\$0.000000025 each. Immediately following that, the authorized share capital of the Company became US\$50,000 divided into 2,000,000,000,000 Shares of par value US\$0.000000025 each;

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- On [●] 2019, DIF Holding, the then sole shareholder of the Company, redeemed all the issued DIF Ordinary Shares (except for one held by Garland Glory) in consideration of a swap of the entire issued share capital of the Company to the existing shareholders of DIF Holding in proportion to their respective shareholding in DIF Holding. See "History, Development and Reorganization – Reorganization" for shareholders of the Company and their respective shareholding immediately after such share swap.

Immediately following the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme), the authorized share capital of the Company will be US\$[REDACTED] divided into [REDACTED] Shares, of which [REDACTED] Shares will be issued fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

Save as disclosed in this Document, there has been no change in the share capital of the Company since its incorporation.

(b) Changes in the share capital of our subsidiaries

Our subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this Document. Save for the subsidiaries mentioned therein, we do not have other subsidiaries.

Please refer to "History, Development and Reorganization" for details of the changes in the share capital of our subsidiaries within the two years immediately preceding the date of this Document.

3. Resolutions in Writing of the Shareholders Passed on [●], 2019

Pursuant to the written resolutions passed by the Shareholders on [●], 2019:

- (a) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Document, (ii) the [REDACTED] being fixed on the [REDACTED] and (iii) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the [REDACTED]:
 - (i) the Company approved and adopted the Memorandum and Articles of Association which will come into effect upon [REDACTED];
 - (ii) the [REDACTED] was approved and the Directors were authorized to approve and effect (aa) the allotment and issue of the Shares and the transfer by the [REDACTED] of the [REDACTED] pursuant to the [REDACTED], and (bb) the transfer by the [REDACTED] of the [REDACTED] upon the exercise of the [REDACTED]; and
 - (iii) the proposed [REDACTED] was approved and our Directors were authorized to implement the [REDACTED];

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- (b) an unconditional general mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles of Association, (iii) the exercise of the options granted pursuant to the [REDACTED] Share Option Scheme, or (iv) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (i) 20% of the total number of the [REDACTED] of the Company immediately following the completion of the [REDACTED] (but excluding any Shares which may be [REDACTED] pursuant to the exercise of the [REDACTED] or any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme) and (ii) the total number of the Shares of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to in paragraph (c) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of our next annual general meeting, (ii) the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting or (iii) the date on which the resolution is varied or revoked by an ordinary resolution of our Shareholders in general meeting (the "**Applicable Period**");
- (c) an unconditional general mandate was granted to our Directors to exercise all the powers of the Company to repurchase on the Hong Kong Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose Shares with a total number of not more than 10% of the total number of the [REDACTED] of the Company immediately following completion of the [REDACTED] (but excluding any Shares which may be [REDACTED] pursuant to the exercise of the [REDACTED] or any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme), such mandate to remain in effect during the Applicable Period;
- (d) the unconditional general mandate mentioned in paragraph (b) above be extended by the addition to the aggregate number of Shares of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of a number representing the aggregate number of Shares of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above, provided that such extended number shall not exceed 10% of the aggregate number of the Company's [REDACTED] immediately following completion of the [REDACTED] (but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme); and

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- (e) conditional on the Listing Committee granting the [REDACTED] of, and permission to deal in, the Shares underlying the options granted pursuant to the [REDACTED] Share Option Scheme and the commencement of trading of the Shares on the Hong Kong Stock Exchange, the Board or any committee thereof was authorized to allot and [REDACTED] Shares, procure the transfer of, and otherwise deal with Shares in connection with the [REDACTED] Share Option Scheme.

4. Repurchases of Our Own Securities

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a [REDACTED] on the Hong Kong Stock Exchange to repurchase their own securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a [REDACTED] on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on [●], 2019, an unconditional general mandate (the "**Repurchase Mandate**") was given to the Directors authorizing any repurchase by the Company of the Shares on the Hong Kong Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, of not more than [REDACTED] of the aggregate number of the Company's issued Shares immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme), such mandate to expire at the earliest of (i) the conclusion of our next annual general meeting, (ii) the expiration of the period within which we are required by any applicable laws or our Articles of Association to hold our next annual general meeting or (iii) the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum and the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

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A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by the Company may be made (i) out of the profits of the Company, (ii) out of the share premium account of the Company, (iii) out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, (iv) subject to the Cayman Companies Law, out of capital. Any premium payable on the purchase must be made out of either or both the profits or the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Hong Kong Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities on the Hong Kong Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing

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Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Hong Kong Stock Exchange other than in exceptional circumstances. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of securities on the Hong Kong Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his, her or its securities to the listed company.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining in accordance with the Listing Rules. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

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(c) Funding of Repurchases

In repurchasing securities, the Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material adverse impact on the working capital and/or gearing position of the Company (as compared with the position disclosed in this Document) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for the Company.

(d) General

The exercise in full of the repurchase mandate, on the basis of [REDACTED] Shares in [REDACTED] immediately following the completion of the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme), could accordingly result in up to approximately [REDACTED] Shares being repurchased by the Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates, has any present intention to sell any Shares to the Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of the Company has notified the Company that he/she or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

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If, as a result of any repurchase of Shares pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Hong Kong Stock Exchange, could only be implemented if the Hong Kong Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

5. Reorganization

For details of the Reorganization, please refer to "History, Development and Reorganization" in this Document.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company within the two years preceding the date of this Document and are or may be material:

[●]

(b) the [REDACTED].

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2. Our Material Intellectual Property Rights

As of the Latest Practicable Date, we had registered or made applications for registration of the following intellectual property rights which we believe are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we believe are material in relation to our business:

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
1		5	Feihe HLJ	PRC	27023215	October 7, 2018	October 6, 2028
2		5	Feihe HLJ	PRC	29009949	December 21, 2018	December 20, 2028
3		5	Feihe HLJ	PRC	20433273	August 14, 2017	August 13, 2027
4		29	Feihe HLJ	PRC	20433538	August 14, 2017	August 13, 2027
5		29	Feihe HLJ	PRC	8099886	May 7, 2011	May 6, 2021
6		5	Feihe HLJ	PRC	8099873	March 14, 2011	March 13, 2021
7		29	Feihe HLJ	PRC	14104805	April 14, 2015	April 13, 2025
8		5	Feihe HLJ	PRC	14104652	April 14, 2015	April 13, 2025
9		5	Feihe HLJ	PRC	23036497	February 28, 2018	February 27, 2028
10		29	Feihe HLJ	PRC	23036018	February 28, 2018	February 27, 2028
11		29	Feihe HLJ	PRC	10713009	September 7, 2013	September 6, 2023
12		5	Feihe HLJ	PRC	10713004	September 7, 2013	September 6, 2023
13		29	Feihe HLJ	PRC	6008568	January 7, 2010	January 6, 2020
14		5	Feihe HLJ	PRC	6008569	January 21, 2010	January 20, 2020
15		5	Feihe HLJ	PRC	28931351	December 28, 2018	December 27, 2028

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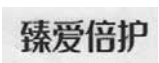
No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
16		29	Feihe HLJ	PRC	29146482	December 28, 2018	December 27, 2028
17		29	Feihe HLJ	PRC	14004525	April 21, 2015	April 20, 2025
18		5	Feihe HLJ	PRC	14004511	April 21, 2015	April 20, 2025
19	 	5, 29	the Company	Hong Kong	303593629	May 16, 2016	May 15, 2026
20		30, 35	Feihe HLJ	Hong Kong	304462281	March 7, 2019	March 6, 2029

- (1) Class 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (2) Class 29: Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; edible oils and fats.
- (3) Class 30: Sugar, rice flour, soybean flour, cereal product, oatmeal food, frozen yogurt (frozen dessert), noodles, candy, condiment, biscuits.
- (4) Class 35: Advertisement, franchise business management, television advertisement, display merchandise on communication media for retail purposes, provide business information through the website, selling for others, provide business information and advice to consumers, provide online marketplaces for buyers and sellers of goods and services, sales marketing, import and export agent.

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As of the Latest Practicable Date, we had applied for the registration of the following trademarks which we believe are material in relation to our business:

<u>No.</u>	<u>Trademark</u>	<u>Class</u>	<u>Name of Applicant</u>	<u>Place of Registration</u>	<u>Application Number</u>	<u>Application Date</u>
1		30	Feihe HLJ	PRC	34684019	November 15, 2018
2		29	Feihe HLJ	PRC	29303510	February 14, 2018

- (1) Class 29: Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; edible oils and fats.
- (2) Class 30: Sugar, rice flour, soybean flour, cereal product, oatmeal food, frozen yogurt (frozen dessert), noodles, candy, condiment, biscuits.

The class number represents the specifications of products or services which have already been registered or are in the process of registration. Detailed specifications of the products or services represented by that class number are set out in the relevant registration certificates or [REDACTED].

(b) Domain Names

As of the Latest Practicable Date, we had registered the following domain names which we believe material to our business:

<u>No.</u>	<u>Domain Name</u>	<u>Registrant</u>	<u>Date of Registration</u>	<u>Expiry Date</u>
1.	feihe.com	Feihe HLJ	April 24, 2000	April 25, 2116
2.	feihguoji.com	Feihe HLJ	January 7, 2014	January 7, 2024
3.	飛鶴國際.com	Feihe HLJ	January 7, 2014	January 7, 2024
4.	星飛帆.com	Feihe HLJ	January 7, 2014	January 7, 2024
5.	超級飛帆.com	Feihe HLJ	January 7, 2014	January 7, 2024
6.	飛帆.com	Feihe HLJ	January 7, 2014	January 7, 2024
7.	feihechina.com	Feihe HLJ	June 12, 2017	June 12, 2027
8.	中國飛鶴.com	Feihe HLJ	June 12, 2017	June 12, 2027

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(c) Patents

As of the Latest Practicable Date, we had registered the following patents which we believe are material in relation to our business:

<u>No.</u>	<u>Patent</u>	<u>Patentee(s)</u>	<u>Patent No.</u>	<u>Patent Type</u>	<u>Date of Application</u>	<u>Grant Date</u>	<u>Expiry Date</u>
1.	Milk powder can (1)	Feihe HLJ	201530324810.8	Design patent	August 27, 2015	February 20, 2016	August 27, 2025
2.	Milk powder can (2)	Feihe HLJ	201530324816.5	Design patent	August 27, 2015	January 6, 2016	August 27, 2025
3.	Packaging tin (Classic 1962 Collection)	Feihe HLJ	201730046432.0	Design patent	February 17, 2017	July 28, 2017	February 17, 2027
4.	Packaging bag (Classic 1962 Collection)	Feihe HLJ	201730042468.1	Design patent	February 17, 2017	July 28, 2017	February 17, 2027
5.	A yak milk powder for middle-aged and senior	Feihe HLJ	201410413289.X	Design patent	August 21, 2014	August 24, 2016	August 21, 2024
6.	Functional milk tablet containing spirulina and its preparation method	Feihe HLJ	201410403543.8	Design patent	August 18, 2014	April 6, 2016	August 18, 2024
7.	Preparation method of an infant formula milk powder containing sialic acid	Feihe HLJ	201310309223.1	Design patent	July 23, 2013	March 25, 2015	July 23, 2023

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<u>No.</u>	<u>Patent</u>	<u>Patentee(s)</u>	<u>Patent No.</u>	<u>Patent Type</u>	<u>Date of Application</u>	<u>Grant Date</u>	<u>Expiry Date</u>
8.	A liquid milk suitable for infants from newborn to 6 months old and its preparation method	Feihe HLJ	201310061796.7	Design patent	February 27, 2013	September 24, 2014	February 27, 2023
9.	Cold sterilization method of milk	Feihe HLJ	201010191281.5	Design patent	May 28, 2010	January 23, 2013	May 28, 2020

As of the Latest Practicable Date, we had applied for the registration of the following patents which we believe are material in relation to our business:

<u>No.</u>	<u>Patent</u>	<u>Applicant(s)</u>	<u>Application No.</u>	<u>Patent Type</u>	<u>Date of Application</u>
1.	An oatmeal milk composition with low glycemic index and its preparation method	Feihe HLJ	201610289716.7	Design patent	May 4, 2016
2.	An infant formula milk powder rich in various milk phospholipids	Feihe HLJ	201610480246.2	Design patent	June 27, 2016
3.	An infant formula milk powder for improving intestinal absorption and comfort and its preparation method	Feihe HLJ	201610751979.5	Design patent	August 26, 2016
4.	A modified milk powder composition for stabilizing blood sugar and its preparation method	Feihe HLJ	201610289514.2	Design patent	May 4, 2016

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<u>No.</u>	<u>Patent</u>	<u>Applicant(s)</u>	<u>Application No.</u>	<u>Patent Type</u>	<u>Date of Application</u>
5.	A composition for improving sleep quality and its preparation method	Feihe HLJ	201710725197.9	Design patent	August 22, 2017
6.	A cheese suitable for Chinese cuisine and its preparation method	Feihe HLJ	201710712756.2	Design patent	August 18, 2017
7.	A goat milk-based powder full-nutrition formula food for special medical use and its preparation method	Feihe HLJ	201710800280.8	Design patent	September 7, 2017
8.	A composition for increasing bone density	Feihe HLJ	201810196002.0	Design patent	March 9, 2018
9.	A healthcare goat milk powder with anti-fatigue function and its preparation	Feihe HLJ	201810209515.0	Design patent	March 14, 2018
10.	A freeze-dried fermented milk-soluble bean product containing bifidobacteria and its preparation method	Feihe HLJ	201811270413.6	Design patent	October 29, 2018
11.	A room temperature ready-to-eat cheese and its preparation method	Feihe HLJ	201810912643.1	Design patent	August 10, 2018

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<u>No.</u>	<u>Patent</u>	<u>Applicant(s)</u>	<u>Application No.</u>	<u>Patent Type</u>	<u>Date of Application</u>
12.	A method for extending shelf life of low-salt halloumi cheese with essential oil nano-emulsion coating	Feihe HLJ	201810858573.6	Design patent	July 31, 2018
13.	A healthcare goat milk powder with functions of anti-fatigue and improving blood deficiency and its preparation	Feihe HLJ	201810643416.3	Design patent	June 21, 2018
14.	A composition for immunity regulation, anti-fatigue and laxative and its preparation method	Feihe HLJ	201811076320.X	Design patent	September 14, 2018
15.	A nutrition meal replacement powder and its preparation method	Feihe HLJ	201810966362.4	Design patent	August 23, 2018
16.	A compound fat simulating breast milk fatty acid, an infant formula milk powder containing the said compound fat and its preparation method	Feihe HLJ	201811340961.1	Design patent	November 12, 2018

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C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure Of Interests

(a) Interests of Directors and Chief Executive of the Company

Save as disclosed below, immediately following completion of the [REDACTED] (before any exercise of the [REDACTED] and without taking into account any Shares to be [REDACTED] upon the exercise of the options granted under the [REDACTED] Share Option Scheme), none of our Directors or chief executive of the Company will have any interests and short positions in the Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to us and the Hong Kong Stock Exchange or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein once the Shares are listed.

(i) Interest in the Company

<u>Name of Director/ Chief Executive</u>	<u>Capacity/Nature of Interest</u>	<u>Number of Underlying Shares</u>	<u>Approximate Percentage of Interest</u>
Mr. Leng ⁽¹⁾	Founder of a discretionary trust and interest in a controlled corporation	[REDACTED]	[REDACTED]
Mr. Liu Hua ⁽²⁾	Founder of a discretionary trust	[REDACTED]	[REDACTED]
Mr. Liu Shenghui ⁽³⁾	Founder of a discretionary trust	[REDACTED]	[REDACTED]
Mr. Cai Fangliang ⁽⁴⁾	Interest in a controlled corporation	[REDACTED]	[REDACTED]
Ms. Tu ⁽⁵⁾	Founder of a discretionary trust	[REDACTED]	[REDACTED]

(1) Harneys Trustees, the trustee of Leng Family Trust, in its capacity as trustee holds the entire issued share capital of LYB International, which in turn holds the entire issued share capital of Garland Glory. Leng Family Trust is a discretionary trust established by Mr. Leng (as the settlor and the only discretionary object). Accordingly, Mr. Leng is deemed to be interested in the Shares held by Garland Glory by virtue of the SFO. Dasheng Limited directly will hold [REDACTED] Shares immediately following the [REDACTED]. Dasheng Limited is also granted [REDACTED] Share Options to subscribe for [REDACTED] Shares under the [REDACTED] Share Option Scheme. Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui each hold approximately [REDACTED]% equity interests in Dasheng Limited.

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- (2) Harneys Trustees, the trustee of LH Family Trust, in its capacity as trustee holds the entire issued share capital of LH Capital, which in turn holds the entire issued share capital of LH Financial. LH Family Trust is a discretionary trust established by Mr. Liu Hua (as the settlor and the only discretionary object). Accordingly, Mr. Liu Hua is deemed to be interested in the Shares held by LH Financial by virtue of the SFO. Dasheng Limited directly held [REDACTED] Shares as of the Latest Practicable Date. Dasheng Limited is also granted [REDACTED] Share Options to subscribe for [REDACTED] Shares under the [REDACTED] Share Option Scheme. Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui each hold approximately [REDACTED] equity interests in Dasheng Limited.
- (3) Harneys Trustees, the trustee of Liu Family Trust, in its capacity as trustee holds the entire issued share capital of LSH International, which in turn holds the entire issued share capital of LSH Investment. Liu Family Trust is a discretionary trust established by Mr. Liu Shenghui (as the settlor and the only discretionary object). Accordingly, Mr. Liu Shenghui is deemed to be interested in the Shares held by LSH Investment by virtue of the SFO. Dasheng Limited directly held [REDACTED] Shares as of the Latest Practicable Date. Dasheng Limited is also granted [REDACTED] Share Options to subscribe for [REDACTED] Shares under the [REDACTED] Share Option Scheme. Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui each hold approximately [REDACTED] equity interests in Dasheng Limited.
- (4) Mr. Cai Fangliang holds the entire issued share capital of Adroit Shipping, and is deemed to be interested in the Shares held by Adroit Shipping by virtue of the SFO.
- (5) J.T. Living Trust is a discretionary trust established by Ms. Tu (as the settlor, trustee and the only discretionary object). Accordingly, Ms. Tu is deemed to be interested in the Shares held by J.T. Living Trust by virtue of the SFO.

(ii) *Interest in associated corporations of the Company*

<u>Name of Director</u>	<u>Name of Associated Corporation</u>	<u>Nature of Interest</u>	<u>Number of Underlying Shares</u>	<u>Approximate Percentage of Interest</u>
Mr. CAI Fangliang	Jilin Green Energy Ecological Livestock Co., Limited ⁽¹⁾	Beneficial interest	N/A ⁽²⁾	7.66%

- (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 (有限公司) incorporated in the PRC and does not issue any shares.

(b) *Interests of Substantial Shareholders*

Save as disclosed in “Substantial Shareholders” of this Document, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of the Company, who has an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

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2. Directors' Service Contracts and Letters of Appointment

We [have] entered into a service contract with each of our executive Directors and issued a letter of appointment to each of our non-executive Directors and independent non-executive Directors. Each of the service contracts and appointment letters is for an initial term of three years commencing from each Director's respective appointment date. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

Save as disclosed in "Directors and Senior Management" of this Document and under [Note 9] to the historical financial information in Appendix I to this Document, no Director received other remuneration or benefits in kind from the Company in respect of each of the three financial years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019.

4. Directors' Competing Interests

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete (directly or indirectly) with the business of the Group and would require disclosure under Rule 8.10 of the Listing Rules.

5. Disclaimers

Save as disclosed in this Document:

- (a) none of our Directors or chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of the Company or our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to the Company and the Hong Kong Stock Exchange, in each case once our Shares are listed on the Hong Kong Stock Exchange;
- (b) so far as is known to any Director or chief executive of the Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in

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10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

- (c) none of our Directors nor any of the parties listed in "E. Other Information – 6. Qualification of Experts" of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this Document, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) save as disclosed in this Document or in connection with the [REDACTED], none of our Directors nor any of the parties listed in "E. Other Information – 6. Qualification of Experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Document which is significant in relation to the business of our Group as a whole;
- (e) save in connection with the [REDACTED], none of the parties listed in "E. Other Information – 6. Qualification of Experts" of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) save as disclosed in this Document, none of our Directors or their respective close associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of the number of our issued shares) has any interest in our five largest suppliers or our five largest customers.

D. [REDACTED] SHARE OPTION SCHEME

The following is a summary of the principal terms of the [REDACTED] Share Option Scheme approved and adopted by our then Shareholders on [●], 2019.

(a) Purposes

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

(b) Participants

A grant of the option (the "Option") under the [REDACTED] Share Option Scheme (the "Award") may be made to the Service Providers selected by the Board (including any committee of Directors or of other individuals appointed by the Board or by the compensation committee of the Board satisfying relevant requirements of applicable laws) of the Company (the "Administrator"). A holder of an outstanding Award will be a participant (the "Participant") under the [REDACTED] Share Option Scheme. For the avoidance of doubt, Awards may be granted to any holder of the outstanding DIF Share Options, who is a company wholly owned, directly or indirectly, by (i) one

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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).

(c) 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 [REDACTED] is [REDACTED], representing approximately [REDACTED] of the total number of the issued shares of the Company as of the date of adoption of the [REDACTED].

If an Award expires or becomes unexercisable without having been exercised in full or is surrendered pursuant to the terms of the [REDACTED] Share Option Scheme, the unpurchased Shares of the Company which were subject thereto will become available for future grant or sale under the [REDACTED] Share Option Scheme (unless the [REDACTED] Share Option Scheme has terminated). Shares that have actually been [REDACTED] under the [REDACTED] Share Option Scheme under any Award will not be returned to the [REDACTED] Share Option Scheme and will not become available for future distribution under the [REDACTED] Share Option Scheme. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the [REDACTED] Share Option Scheme. To the extent an Award under the [REDACTED] Share Option Scheme is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the [REDACTED] Share Option Scheme.

(d) Grant of Options

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

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

(e) Acceptance of an Offer of Options

Each Award of an Option will be evidenced by an award agreement (the "**Award Agreement**") setting forth the terms and provisions applicable to each Award granted under the [REDACTED] Share Option Scheme, which will specify the exercise price, the term of the Option, the number of Shares subject to the Option, the exercise restrictions, if any, applicable to the Option, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(f) Exercise Price

The per Share exercise price for the Shares to be issued pursuant to the exercise of an Option will be determined by the Administrator, provided that such exercise price will be no less than one hundred percent of the fair market value (the "**Fair Market Value**") per Share on the date of grant.

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For the avoidance of doubt, for the per Share exercise price for the Shares to be issued upon the exercise of an Option granted in order to replace the existing DIF Share Options as of the date of adoption of the [REDACTED] 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.

The Fair Market Value of the Shares under the Option is determined as follows:

- (i) if the Shares are listed on any internationally recognized regional or national stock exchange or quotation system (including the Hong Kong Stock Exchange), the Fair Market Value of a Share will be the closing sales price for such stock (or if no closing sales price was reported on that date, as applicable, on the last trading date such closing sales price was reported) as quoted on such exchange or system on the day of determination or as reported in such other source as the Administrator deems reliable;
- (ii) if the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Shares on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in such source as the Administrator deems reliable; or
- (iii) in the absence of an established market for the Shares, the Fair Market Value will be determined in good faith by the Administrator.

(g) Duration of [REDACTED] Share Option Scheme

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

(h) Time of Vesting and Exercise of Options

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

Subject to the [REDACTED] having taken place, in respect of any particular Option, the exercise period shall commence on the later of:

- (1) the Business Day immediately following the expiry of six months from the [REDACTED], or
- (2) where the exercise of such Option is subject to any performance target being met, the date of such performance target being proved (to the reasonable satisfaction of the Administrator) to have been met, and

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An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which an Option is exercised (together with applicable tax withholding). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by each individual Award Agreement and the [REDACTED] Share Option Scheme.

(i) Ranking of the Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue as from the day when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of the Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the grantee is registered on the register of members of the Company, provided always that when the date of exercise of the option falls on a day upon which the register of members of the Company is closed then the exercise of the option shall become effective on the first Business Day on which the register of members of the Company is reopened. A Share allotted upon the exercise of an option shall not carry any voting right until the completion of the registration of the grantee as the holder thereof.

(j) Limited Transferability

Unless determined otherwise by the Administrator, Awards may not be sold, pledged, assigned, hypothecated, or otherwise transferred in any manner other than by will or by the laws of descent and distribution, and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) as permitted by Applicable Laws.

(k) Rights on Termination of Employment

If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or disability as stated below, the Participant may exercise his or her Option within thirty days of termination, or such longer period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent that the Option is vested on the date of termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the shares covered by the unvested portion of the Option will revert to the [REDACTED] Share Option Scheme. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the shares covered by such Option will revert to the [REDACTED] Share Option Scheme.

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(l) Form of Consideration

Prior to the [REDACTED], the Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by applicable laws; (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided further that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the [REDACTED] Share Option Scheme; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator will consider if acceptance of such consideration may be reasonably expected to benefit the Company.

Upon and subsequent to the [REDACTED], consideration shall be settled by (1) cash; (2) check; (3) such other consideration and method of payment for the issuance of Shares to the extent permitted by the applicable laws; or (4) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator will consider if acceptance of such consideration may be reasonably expected to benefit the Company.

(m) Rights on Death or Disability

If a Participant dies while being an Employee, the Option may be exercised within six months following the Participant's death, or within such longer period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent that the Option is vested on the date of death, by the Participant's designated beneficiary, provided such beneficiary has been designated prior to the Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the [REDACTED] Share Option Scheme. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the [REDACTED] Share Option Scheme.

If a Participant ceases to be a Service Provider as a result of the Participant's total and permanent disability (the "Disability"), which in the opinion of the Board renders the Service Provider concerned unfit to perform the duties of his employment and which in the normal course would render the Service Provider unfit to continue performing the duties for the following twelve months provided such illness or injury is not self-inflicted, the Participant may exercise his or her Option within six months of termination, or such longer period of time as is specified in the Award Agreement (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement) to the extent the Option is vested on the date of termination. Unless otherwise

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provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the [REDACTED] Share Option Scheme. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the shares covered by such Option will revert to the [REDACTED] Share Option Scheme.

(n) Company Participant

If a Participant is a company, the provisions of paragraphs (k) and (m) shall apply to the Participant and to the Options granted to such Participant, *mutatis mutandis*, as if such Option had been granted to the relevant Service Provider, and such Option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (k) and (m) shall occur with respect to the relevant Service Provider; and the Option granted to the Participant shall lapse and terminate on the date the Participant ceases to be owned by the relevant Service Provider(s) (or, as the case may be, ceases to have the relevant Service Provider(s) as its beneficiaries or discretionary objects) provided that the Administrator may in its absolute discretion decide that such Option or any part thereof shall not so lapse or terminate subject to such conditions or limitations as the Administrator may impose.

(o) Adjustments

In the event that any dividend or other distribution (whether in the form of cash, shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the [REDACTED] Share Option Scheme, will adjust the number and class of shares that may be delivered under the [REDACTED] Share Option Scheme and/or the number, class, and price of shares covered by each outstanding Award; provided, however, that the Administrator will make such adjustments to an Award required by the applicable laws to the extent the Company is relying upon any exemption afforded thereby with respect to the Award. Provided further always that: (i) notwithstanding the above provisions, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures and any such adjustment shall comply with the guidance on Chapter 17 of the Listing Rules as set out in the letter issued by the Hong Kong Stock Exchange and/or in compliance with the Listing Rules and such applicable rules, codes, guidance notes and/or interpretation of the Listing Rules from time to time promulgated by the Hong Kong Stock Exchange, and (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value.

(p) Dissolution or Liquidation

In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

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(q) Leave of Absence

Unless the Administrator provides otherwise, vesting of Awards granted under the [REDACTED] Share Option Scheme will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company or any its subsidiaries.

(r) Merger or Change in Control

In the event of a merger or change in control of the Company, each outstanding Award will be treated as the Administrator determines (subject to the circumstances of the proposed dissolution or liquidation of the Company) without a Participant's consent, including, without limitation, that (i) Awards will be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices; (ii) upon written notice to a Participant, that the Participant's Awards will terminate upon or immediately prior to the consummation of such merger or change in control of the Company; (iii) outstanding Awards will vest and become exercisable, realizable, or payable, or restrictions applicable to an Award will lapse, in whole or in part prior to or upon consummation of such merger or change in control of the Company, and, to the extent the Administrator determines, terminate upon or immediately prior to the effectiveness of such merger or change in control of the Company; (iv) (A) the termination of an Award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the transaction (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion; or (v) any combination of the foregoing. In taking any of the actions as permitted in this section, the Administrator will not be obligated to treat all Awards, all Awards held by a Participant, or all Awards of the same type, similarly.

(s) Amendments to and Termination of the [REDACTED] Share Option Scheme

The Board may at any time amend, alter, suspend or terminate the [REDACTED] Share Option Scheme. The Company will obtain the Shareholder approval of any amendment to the extent necessary and desirable to comply with the applicable laws.

No amendment, alteration, suspension or termination of the [REDACTED] Share Option Scheme will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the [REDACTED] Share Option Scheme will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the [REDACTED] Share Option Scheme prior to the date of such termination.

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(t) Outstanding Options Granted under the [REDACTED] Share Option Scheme

All the Options representing [REDACTED] Shares were granted to Dasheng Limited on [●], 2019 under the [REDACTED] Share Option Scheme.

As of the date of this Document, none of the Options granted under the [REDACTED] Share Option Scheme has been exercised and no Options are lapsed.

Details of the outstanding Options granted under the [REDACTED] Share Option Scheme are set out below:

Name of Participant	Position held in the Group	Address	Date of Grant	Expiry Date	Number of Shares represented by Options	Exercise price	Approximate percentage of shareholding of the Company immediately following the completion of the [REDACTED]
Dasheng Limited	NA	Geneva Place Waterfront Drive P.O. Box 3469 Road Town Tortola BVI	[●], 2019	[●], 2022	[REDACTED]	USD[REDACTED] each	[REDACTED]

Dasheng Limited not required to pay for the grant of any Option under the [REDACTED] Share Option Scheme.

The exercise price per Share is USD[REDACTED], representing a discount of approximately [REDACTED]% to the mid-point of the [REDACTED], respectively. Except as unanimously approved by the Board, options being granted to Dasheng Limited shall vest with respect to [REDACTED]% on December 31, 2019, and [REDACTED]% on December 31, 2020; provided that, in each case, the performance target for the applicable fiscal year has been met. The Option shall lapse and become unexercisable with respect to any shares under the Option that do not vest because the performance target for such fiscal year is not met.

On the basis that all the Shares which shall be issued under the [REDACTED] (assuming the [REDACTED] is not exercised) were deemed to have been in issue throughout the three months ended March 31, 2019, the earnings per Share for the three months ended March 31, 2019 would be RMB[REDACTED] (unaudited). Based on the foregoing, assuming that all the Options granted under the [REDACTED] Share Option Scheme had been exercised and additional Shares were deemed to have been in issue during the three months ended March 31, 2019, there will be a dilution effect of approximately [REDACTED]% on the audited earnings per Share for the three months ended March 31, 2019 to RMB[REDACTED] (unaudited).

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The Options granted and outstanding under the [REDACTED] Share Option Scheme represent approximately [REDACTED]% of the enlarged issued shares of the Company immediately following the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued under the [REDACTED] Share Option Scheme). Exercise in full of all Options granted under the [REDACTED] Share Option Scheme would result in an increase in the total number of Shares in issue immediately upon completion of the [REDACTED] (assuming the [REDACTED] is not exercised) by approximately [REDACTED]%.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group.

2. Litigation

Save as disclosed in this Document, no member of the Company was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of the Group during the Track Record Period and up to the Latest Practicable Date.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Hong Kong Stock Exchange for the [REDACTED] of, and permission to deal in, our Shares in issue, to be issued pursuant to the [REDACTED] (including any Shares which may be issued pursuant to the exercise of the [REDACTED] and any Shares to be issued upon the exercise of the options granted under the [REDACTED] Share Option Scheme). All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The Joint Sponsors are independent from the Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsors fees payable to each of the Joint Sponsors are US\$400,000 and are payable by the Company.

4. Promoters

The Company has no promoter for the purpose of the Listing Rules.

5. Preliminary Expenses

The preliminary expenses incurred by the Company were approximately US\$3,800 and were payable by the Company.

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6. Qualification of Experts

The qualifications of the experts who have given their opinions or advice in this Document are as follows:

<u>Name of Expert</u>	<u>Qualification</u>
J.P. Morgan Securities (Far East) Limited	a licensed corporation under the SFO to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO
China Merchants Securities (HK) Co., Limited	a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
CCB International Capital Limited	a licensed corporation under the SFO to carry out Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 6 (Advising on Corporate Finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	PRC legal advisers
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Harney Westwood & Riegels	Cayman Islands legal advisers
DLA Piper (Canada) LLP	Canada legal advisers
DLA Piper LLP (US)	US legal advisers

7. Consents of Experts

Each of the expert named above has given and has not withdrawn its written consent to the issue of this Document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and the references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

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8. Binding Effect

This document shall have the effect, if any application is made in pursuance hereof, of rendering all persons concerned bound by the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

9. No Material Adverse Change

Our Directors believe that there has been no material adverse change in the financial or trading or prospects of the Group since March 31, 2019 (being the date to which the latest audited consolidated financial statements of the Group were prepared).

10. Bilingual Document

The English language and the Chinese language versions of this Document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a) Save as disclosed in this Document:
- (i) within the two years immediately preceding the date of this Document, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this Document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
 - (iv) within the two years immediately preceding the date of this Document, no commission has been paid or payable to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries;
 - (v) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
 - (vi) the Company has no outstanding convertible debt securities or debentures; and
 - (vii) there is no arrangement under which future dividends are waived or agreed to be waived.

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- (b) Our Directors confirm that there has not been any interruption in the business of the Company which may have or have had a material adverse effect on the financial position of the Company in the 12 months immediately preceding the date of this Document.
- (c) None of the equity and debt securities of the Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

11. Particulars Of the [REDACTED]

Certain particulars of the [REDACTED] are set out as follows:

<u>Name</u>	<u>Description</u>	<u>Address</u>	<u>Shares Offered for Sale</u>	
			<u>Before any exercise of the [REDACTED]</u>	<u>Assuming full exercise of the [REDACTED]</u>
NHPEA	A company incorporated in Cayman Islands with limited liability on October 11, 2011, which is wholly-owned by MSPEA III	Sertus Incorporations (Cayman) Limited Sertus Chambers P.O. Box 2547 Cassia Court Camana Bay Grand Cayman Cayman Islands	[REDACTED]	[REDACTED]
Dasheng Limited	A company incorporated in BVI with limited liability on September 3, 2009, which is owned by Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui each as to approximately 33.33%	Geneva Place Waterfront Drive P.O. Box 3469 Road Town Tortola BVI	[REDACTED]	[REDACTED]

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<u>Name</u>	<u>Description</u>	<u>Address</u>	<u>Shares Offered for Sale</u>	
			<u>Before any exercise of the</u> <u>[REDACTED]</u>	<u>Assuming full exercise of the</u> <u>[REDACTED]</u>
LH Financial	A company incorporated in BVI on November 12, 2015 with limited liability, which is wholly owned by LH Capital. LH Capital is wholly-owned by Harneys Trustees (the trustee of the LH Family Trust)	Craigmuir Chambers P.O. Box 71 Road Town VG 1110 BVI	[REDACTED]	[REDACTED]
LSH Investment	A company incorporated in BVI on November 11, 2015 with limited liability, which is wholly owned by LSH International. LSH International is wholly-owned by Harneys Trustees (the trustee of the Liu Family Trust)	Craigmuir Chambers P.O. Box 71 Road Town VG 1110 BVI	[REDACTED]	[REDACTED]
Adroit Shipping	A company incorporated in BVI on November 12, 2015, which is wholly-owned by Mr. Cai Fangliang	Geneva Place Waterfront Drive P.O. Box 3469 Road Town Tortola BVI	[REDACTED]	[REDACTED]
J.T. Living Trust	A revocable discretionary trust with Ms. Tu Judy Fong-Yee as settlor, trustee and the only discretionary object	2275 Huntington Dr., #278 San Marino CA 91108 USA	[REDACTED]	[REDACTED]

For details of beneficial interest of Directors in the Shares offered for sale, see “— C. Further Information about Directors and Substantial Shareholders — 1. Disclosure of Interests — (a) Interests of Directors and Chief Executive of the Company.”

APPENDIX V

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the [REDACTED];
- (b) the written consents referred to in “Appendix IV — Statutory and General Information — E. Other Information — 7. Consents of Experts”;
- (c) a copy of each of the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts”; and
- (d) the statement of particulars of the [REDACTED].

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Freshfields Bruckhaus Deringer at 55th Floor, One Island East, Taikoo Place, Quarry Bay, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Document:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young for the three years ended December 31, 2016, 2017, 2018 and the three months ended March 31, 2019, the text of which is set out in Appendix I to this Document;
- (c) the report on the unaudited pro forma financial information prepared by Ernst & Young, the text of which is set out in Appendix II to this Document;
- (d) the letter prepared by Harney Westwood & Riegels, our Cayman legal advisers, summarizing certain aspects of Cayman Companies Law as referred to in Appendix III to this Document;
- (e) the material contracts referred to in “Appendix IV — Statutory and General Information — B. Further Information about our Business — 1. Summary of Material Contracts”;
- (f) the written consents referred to in “Appendix IV — Statutory and General Information — E. Other Information — 7. Consents of Experts”;
- (g) the service contracts and letters of appointment referred to in “Appendix IV — Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 2. Directors’ Service Contracts and Letters of Appointment”;
- (h) the PRC legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisers, in respect of certain aspects of the Group and its property interests;

APPENDIX V	DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION
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- (i) the rules of the [REDACTED] Share Option Scheme;
- (j) the statement of particulars of the [REDACTED]; and
- (k) the F&S Report.