



中國飛鶴有限公司

China Feihe Limited

Stock Code: 6186



47°degrees north latitude
the World's Golden Milk Belt

Environmental, Social and
Governance Report

2019

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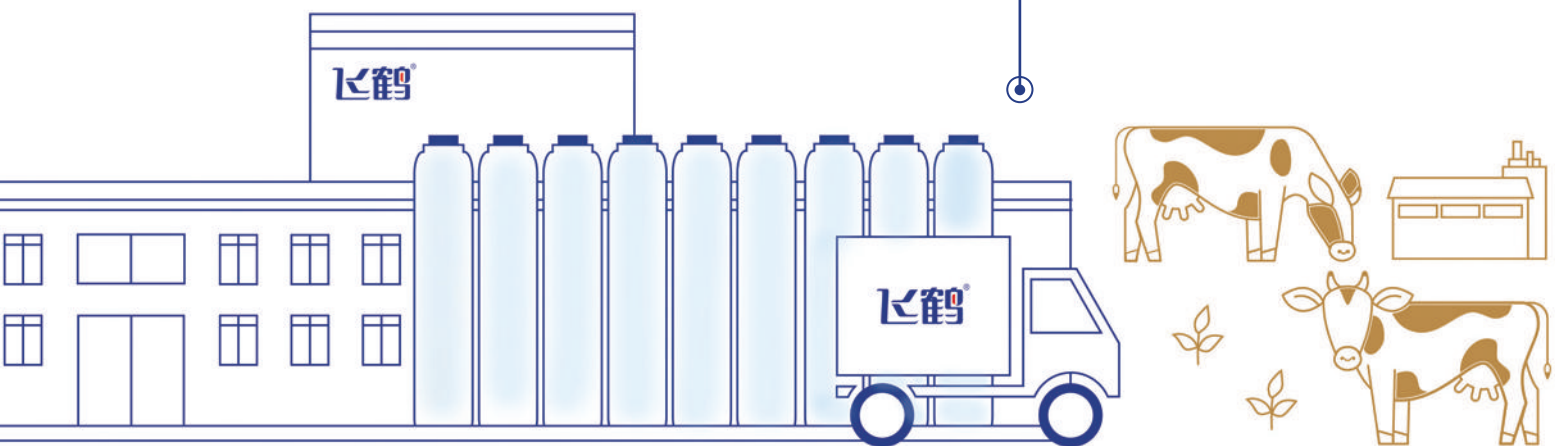
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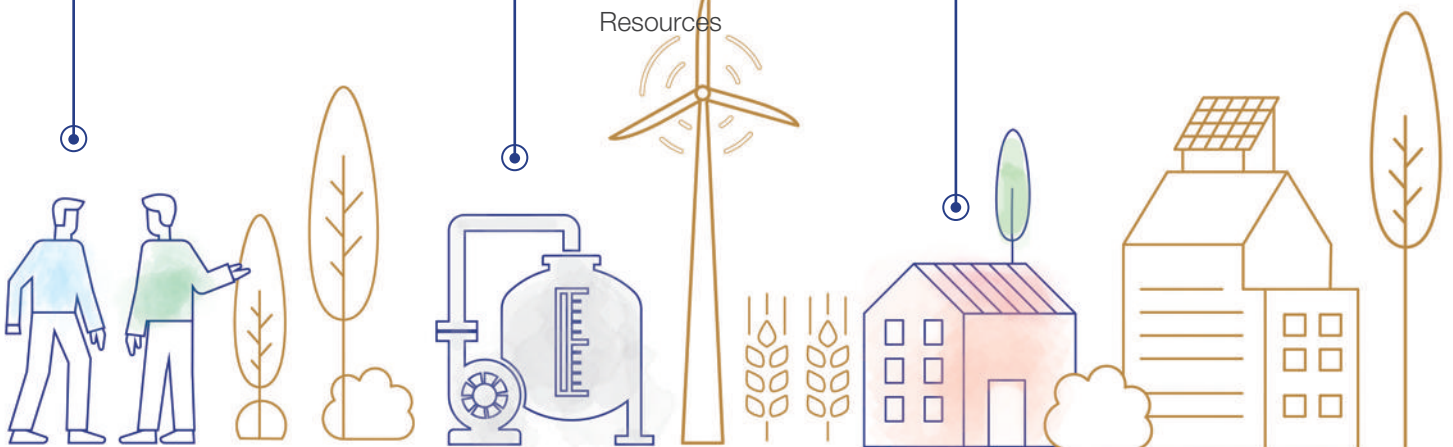
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About This Report

This is China Feihe Limited's inaugural non-financial report, illustrating our environmental, social, and corporate governance (hereinafter referred to as "ESG") performance.

Reporting Entity:

China Feihe Limited (hereinafter referred to as "Feihe", the "Company" and "we").

Reporting Period:

January 1, 2019 – December 31, 2019. This report may include matters that happened before or after this period to maintain the continuity of information.

Reporting Scope:

Feihe and our subsidiaries. The scope of the subsidiaries is consistent with our financial report.

Data Sources:

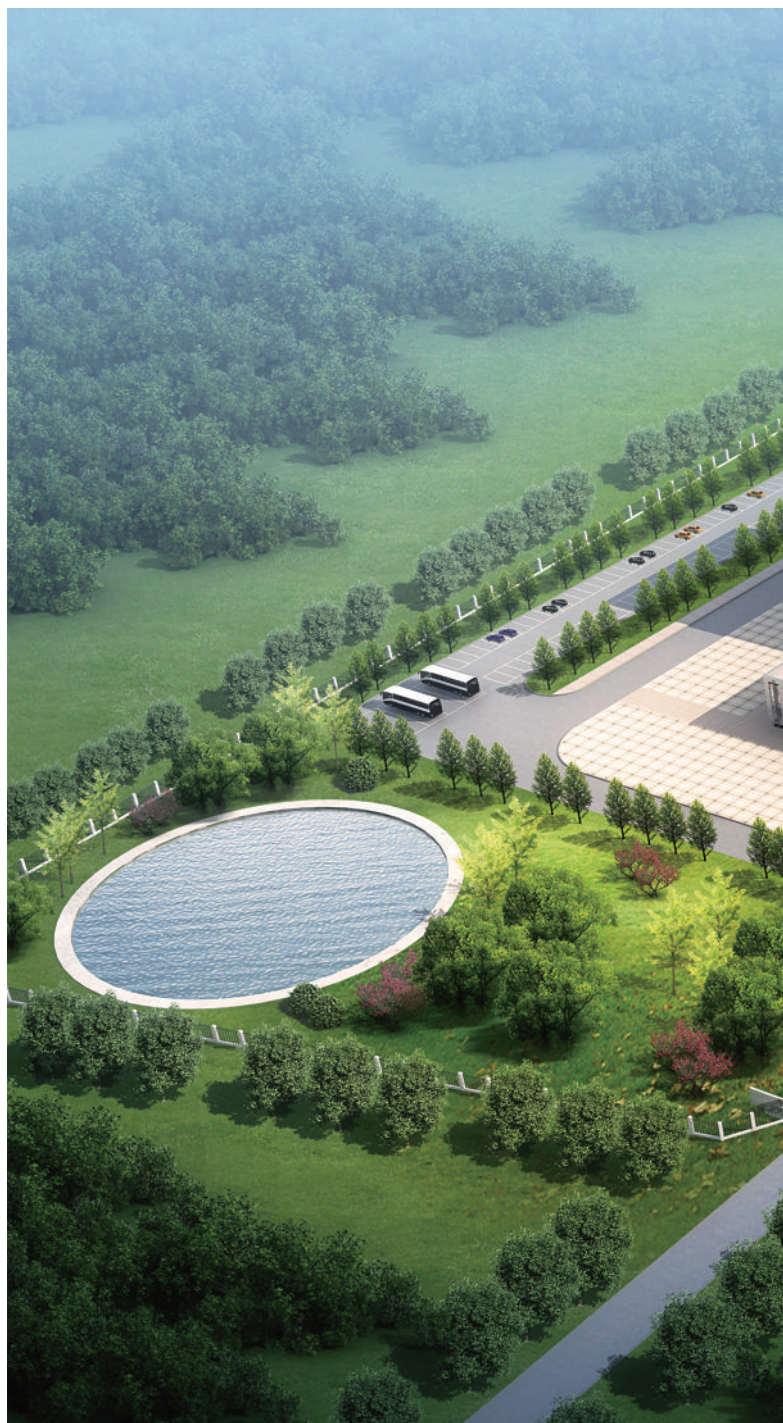
The data herein are all from the internal statistical reports, documents and reports of the Company, third-party surveys and interviews. The amounts herein are all expressed in RMB (yuan).

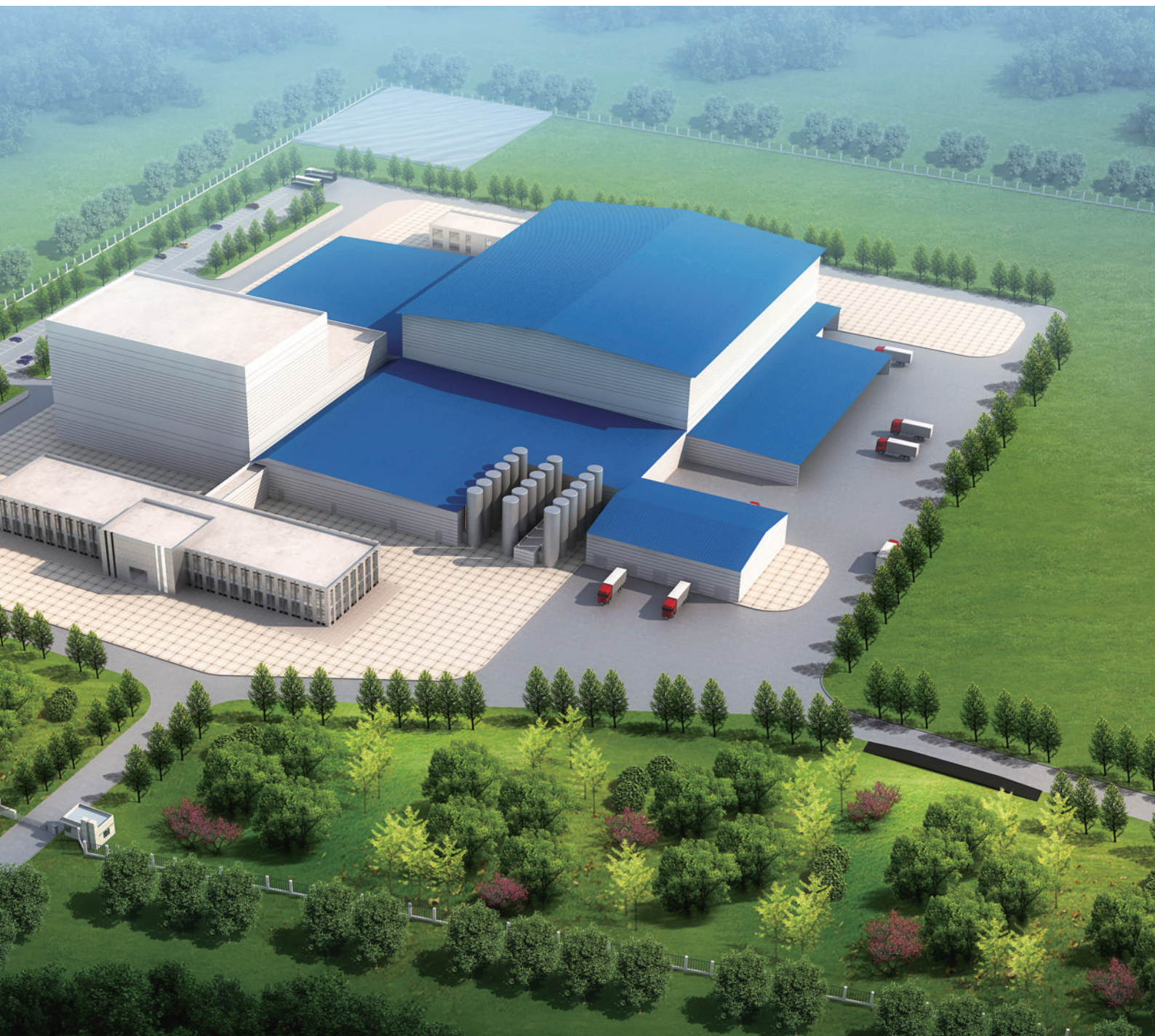
Reporting Guidelines:

This report is prepared with reference to the requirements of Appendix 27 *Environmental, Social and Governance Reporting Guide* (hereinafter "ESG Reporting Guide") of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited (hereinafter "HKEX") and the *GRI Sustainability Reporting Standards* (hereinafter "GRI Standards") issued by the Global Reporting Initiative (hereinafter "GRI").

Form of Report:

This report is available in English and Chinese, including printed and electronic editions. To browse or download the electronic version, please visit <http://www.feihe.com/>.





Chairman's Statement



Feihe drove product development with innovation and R&D in 2019 and addressed customers' specific needs. Our 2019 revenue was RMB13,721.5 million, a year-on-year 32.0% increase, while net profit increased 75.5% year-on-year to RMB3,934.6 million.

We understand the importance of our reputation in the upstream and downstream industry value chain, and this drives us to improve product and service quality and promote service innovation.

We enhanced our production through world-class manufacturing management, establishing ISO 9001 and FSSC 22000 management systems across our factories. We appointed specific employees to be responsible for these systems, protected food safety, and formed quality and security management systems covering the whole industry value chain from the feed to the farms and to consumers. Our lab's test data has gained recognition from over 100 accreditation institutions internationally, including the International Laboratory Accreditation Cooperation (ILAC). We pioneered a visual traceability system for products to improve transparency for consumers while integrating information platforms and resources including online classes, hotlines, and WeChat

customer service to offer complete infant feeding solutions for Chinese parents, mothers-to-be, and families.

We deepened our breast milk research using China's first dairy engineering academician workstation to further develop our raw materials. We obtained a patent for invention for the phospholipid of breast milk simulation and made a historical breakthrough in brain development research to study thoroughly breast milk simulation. We co-established the Feihe Infant Formula Whole-Industry-Chain Innovation Center with the National Agricultural Science & Technology Innovation Alliance (NASTIA) to intensify process standards for the industry value chain and speed up industrial upgrading.

We upheld green and low-carbon practices in our pursuit of a sustainable business model. 2019 saw us improve our environmental protection system and fold green principles into our plant planning, construction, and operation. We promoted energy conservation and water savings, strengthened waste management, saved resources, and mitigated our environmental impact, improving the ecological stance of China's dairy industry.

We are attuned to our employees' needs when building a positive working environment. In 2019 we paid attention to employee equality and diversity, set forth seven recruitment principles, and offered vocational training via an improved training system. We also improved our delivery of safe products and services while emphasizing employees' vocational safety and physical and mental health.

We continued to focus on health education and public welfare in 2019, focusing on improving the quality of life for mothers and infants, including our advocacy for positive parenting through the 528 Chinese Baby Day event. We helped alleviate poverty in areas including health and education through local industry investments.

We firmly believes that the cause of infant milk powder is the cause of the nation, conscience and mothers. In the future, we will remain committed to our stakeholder promise and help to give babies a positive start with our products.

LENG Youbin

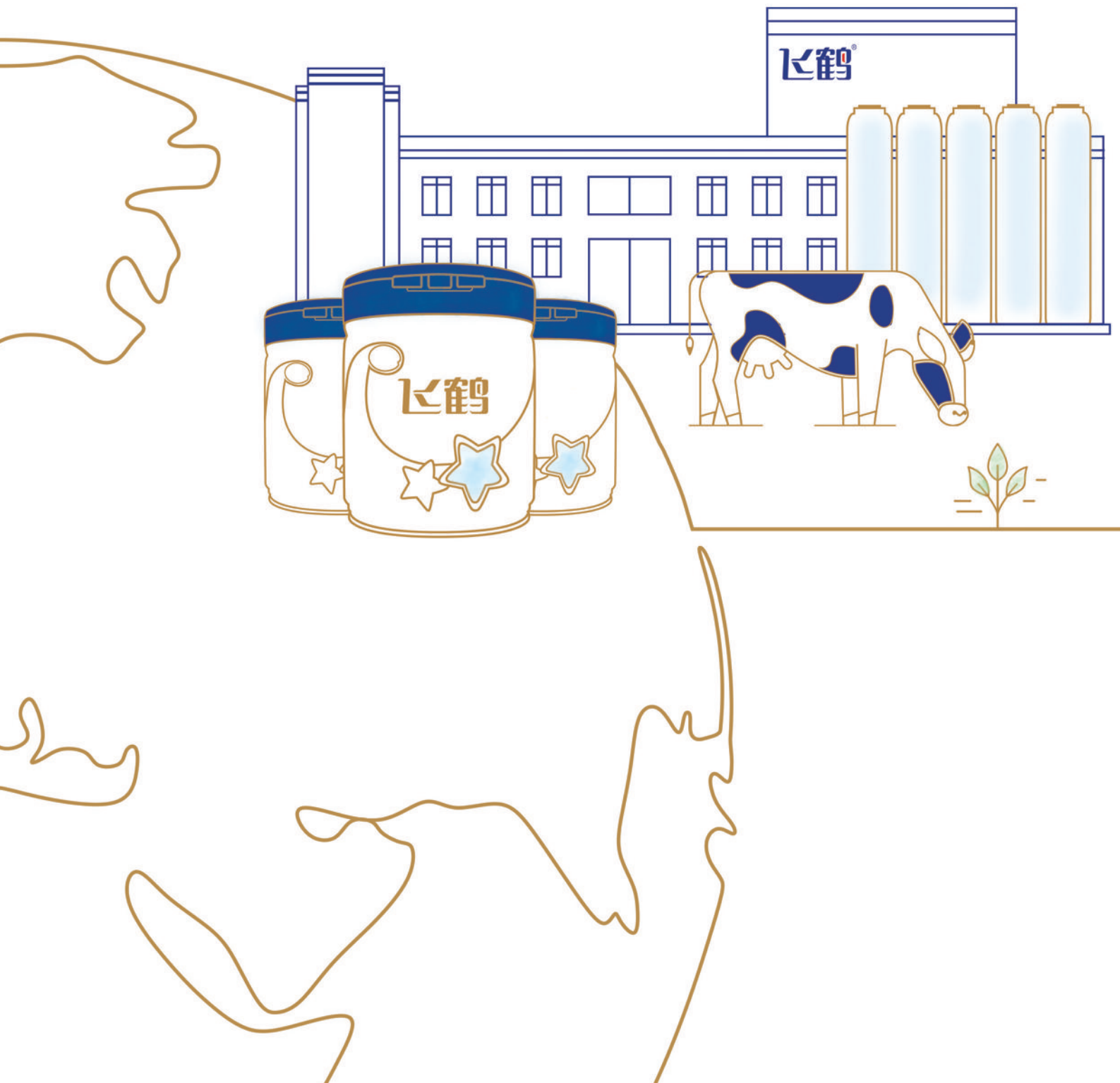
Chairman

June 2020



Company Profile

Feihe is among the earliest milk powder producers in China and was founded in Qiqihar in 1962. Over the past 58 years, we have focused on researching infant health and breast milk nutrition. We have led the industry to create a variety of technologies, formulas, and processes, making milk powder more suitable for babies. We were the first domestic infant milk powder producer with annual sales exceeding RMB10 billion and we won the Gold Medal for the Monde Selection for five consecutive years. Mothers have used over 100 million servings of our milk powder annually. We strive for constant improvement for much fresher and more suitable high-quality milk powder products.



Feihe Honors in 2019

Quality

- Won the 2019 Quality Gold Award for Infant Formula Products from the China Dairy Industry Association
- Named as a model enterprise of social responsibility in China's dairy industry in 2019 by the China Dairy Industry Association
- Won the 2019 TPM Award from the Japan Institute of Plant Maintenance (JIPM)



Digitization

- Kedong Intelligent Project accepted in accordance with the Plant National Intelligent Manufacturing Project
- Tailai Plant won the title of Digital Workshop in Heilongjiang Province and obtained financial subsidies
- Obtained the Integration of Informationization and Industrialization Management System Certificate
- Won the Digital Transformation and Innovation Award of the Year at the fifth WRE Retail & Consumer Goods CIO Summit
- Won the 2019 Innovation Enterprise Management Activity Award from Business Review



Research

- The SCI factor of papers published by Feihe is as high as 6.044, which proves its leading strength in scientific research
- The Development and Industrialization of Breast Milk-Based Infant Milk Powder project won first prize in the Heilongjiang Province Science and Technology Progress Award in 2019



Brand

- Received May 1st Labor Medal, as the only infant formula company
- Listed in the top 500 Chinese manufacturers
- Rated as the Chinese brand of the year and ranked first in the baby formula category by World Brand Lab
- Listed in the Top 500 Asian Brand and Gold Award for Top Brand in Asia, jointly named by Asiabrand and other organizations

Feihe Milestones



1962

- Hongguang Dairy (later expanded as Zhaoguang Dairy), the predecessor of Feihe HLJ, was established

1984

- We registered our "Feihe" trademark in the PRC

1996

- Feihe HLJ, the first member of the Group with business operations 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
- Pioneered in launching nucleotide and CPP formula products and quickly ranked among the high-end product of the industry

2005

- Flying Crane U.S. became listed on the NYSE Archipelago Exchange and ceased to be traded on the OTCBB
- Acquired the Nutricia, Netherlands and started the construction of international model factory

2007

- Become the first dairy enterprises specialized in infant formula with industrial cluster layout

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

2010

- We launched our super-premium Astrobaby product series
- Participated in National 863 Project, national 12th Five Year Plan for Sci&Tech Development and other national projects of scientific research and joined in the building of the largest breast milk database in China; established the first clinical feeding experiment

2009

- Flying Crane U.S. transferred the listing of its shares from the NYSE Archipelago Exchange to the NYSE:ADY

2008

- We organized a rescue team to distribute supplies to victims of the Wenchuan earthquake
- Globally pioneered researches in the breast milk formula which is more suitable for Chinese baby's constitution, and successfully addressed the three major problems of humanized fat humanized protein, and protein allergy prevention



2013

- Flying Crane U.S. was privatized and its shares were delisted from the NYSE
- NHPEA became a shareholder of DIF Holding
- We organized a rescue team and donated RMB3 million to Ya'an during earthquake
- We received a honored title of "National Key Enterprise for Industrialization in Agriculture"
- Quickly deployed channels for maternal and infant products

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

2015

- Our Astrobaby product series won the Gold Award by Monde Selection
- We were listed in Chinese Dairy D20 Enterprise Alliance

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
- We became the first certified dairy enterprise for sourcing area protection by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China

2018

- We completed the acquisition of the retail health care business of Vitamin World
- We received the People's Corporate Social Responsibility Award – Poverty Alleviation Award, and the National Poverty Alleviation Award
- Completed the acquisition of Vitamin World USA, the top brand nutrition company for women in the United States
- The first enterprise to hit over 10 billion sales volume in the history of Chinese infant formula milk-based powder industry

2017

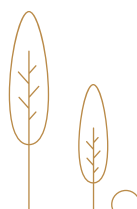
- Our Astrobaby product series won the Gold Award by Monde Selection for the third consecutive years
- We hosted the 2017 Chinese Dairy D20 Summit
- We donated RMB176 million worth of imported Siemens diagnosis devices to 10 counties in poverty and a city

2019

- Our Astrobaby product series won the Gold Award by Monde Selection for the fifth consecutive year
- We initiated a charity event "Milk Action" for education and poverty alleviation
- We founded the Feihe Infant Formula Whole-Industry-Chain Innovation Center together with a dairy innovation team from Chinese Academy of Agricultural Sciences
- We were officially listed in HKEX (Stock Code: 06186.HK)

2020

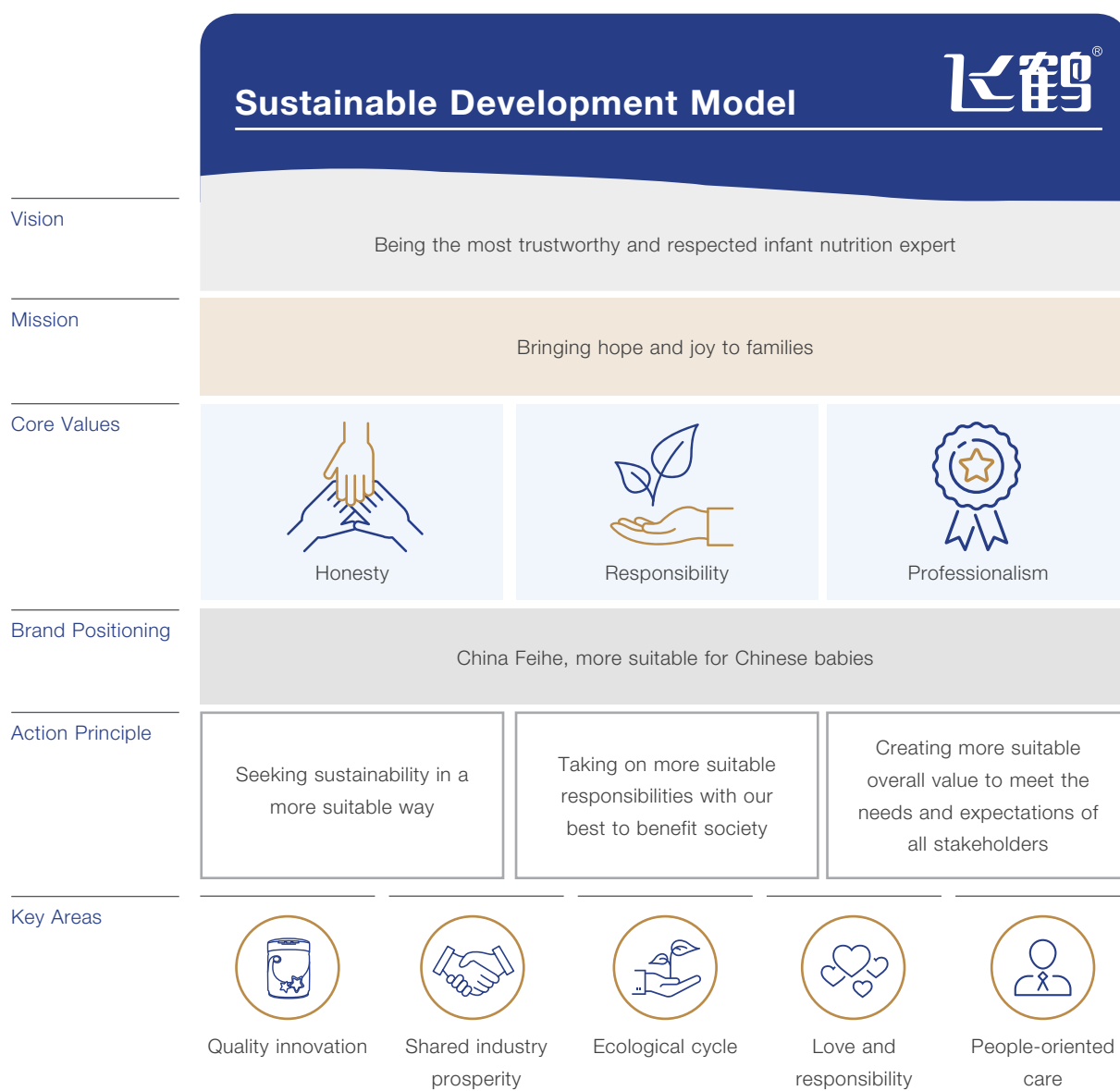
- During the outbreak of COVID-19, we donated RMB200 million to Red Cross, with RMB100 million in cash and RMB100 million worth of milk powder and nutrition products



Sustainable Development Management

Concept of Sustainable Development

We value sustainable development management. In our commitment to being the most trustworthy and respected infant nutrition expert, we have developed a sustainable development model guided by our goal to provide a more suitable product for children.



Communication with Stakeholders

When continuing to advance ESG work, Feihe attaches great importance to communication with stakeholders. We improve various communication mechanisms, listen to stakeholders, know about their concerns, timely collect and review feedback from all parties and take proper measures to meet the reasonable expectations and demands of stakeholders in hopes of growing together with stakeholders.

Key Stakeholders	Expectations and Demands	Our Responses
Government and supervision agencies	<ul style="list-style-type: none"> • Operation in accordance with laws and regulations • Tax payment according to the law 	<ul style="list-style-type: none"> • Subject to regulatory assessment • Participate in meetings and training organized by the government and relevant associations
Shareholders and investors	<ul style="list-style-type: none"> • Investment return and growth • Enhanced information disclosure • Increase the value of the Company 	<ul style="list-style-type: none"> • Convene shareholders' meeting • Regular reports and company announcements • Investor relations activities
Consumers	<ul style="list-style-type: none"> • Improve product quality • Innovate in customer service • Available communication channels 	<ul style="list-style-type: none"> • Engaged in basic research • Investment in innovation and R&D • Online and offline communication via multiple channels • Build a visual tracking system for the whole industry
Industry partners	<ul style="list-style-type: none"> • Follow business ethics • Mutual benefit and common growth 	<ul style="list-style-type: none"> • Regular communication with suppliers • Distributors training and evaluation
Industry	<ul style="list-style-type: none"> • Fair competition • Boost industry development 	<ul style="list-style-type: none"> • Participate in industry evaluation • Develop industry standards • Industry-university-research collaboration
Environment	<ul style="list-style-type: none"> • Protect eco-environment • Reasonable resource usage 	<ul style="list-style-type: none"> • Build green plants • Promote green offices • Strengthen energy conservation and emission reduction
Employee	<ul style="list-style-type: none"> • Protect basic rights and interests • Career development for employees • Employee work/life balance 	<ul style="list-style-type: none"> • Establish a multi-dimensional training system • Provide more space for employee growth • Provide multiple benefits for employees
Community	<ul style="list-style-type: none"> • Promote local economic development • Community communication • Help the needy 	<ul style="list-style-type: none"> • Facilitate health education • Nutrition and health-based poverty alleviation • Engage in charitable activities

Determination of Material Issues

We identified and reported our material ESG issues in 2019 according to the *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the *Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited*. We included input from stakeholders and analysis of issues disclosed in industry ESG reports.

01

Identify relevant issues

An independent third-party consultant identified 19 ESG issues in five dimensions: environment, labor, operation, community, and corporate governance. These issues came from a wide range of data sources, including ESG Reporting Guide of the Hong Kong Stock Exchange, GRI guidelines, corporate policies and management strategies, industry benchmarking, and ESG rating system analysis.

02

Survey the importance of issues

The independent third-party consultant conducted a questionnaire survey on stakeholders including employees, suppliers, consumers, investors, distributors, government agencies and regulators, community representatives, business partners, industry associations, and media. We invited stakeholders to evaluate the importance of each issue from their own perspectives and collected 640 valid questionnaires.

03

Analyze its impact on the operation

The independent third-party consultant evaluated the importance of issues to our operation after analyzing our annual business focus and soliciting management opinion. They collected 25 valid questionnaires.

04

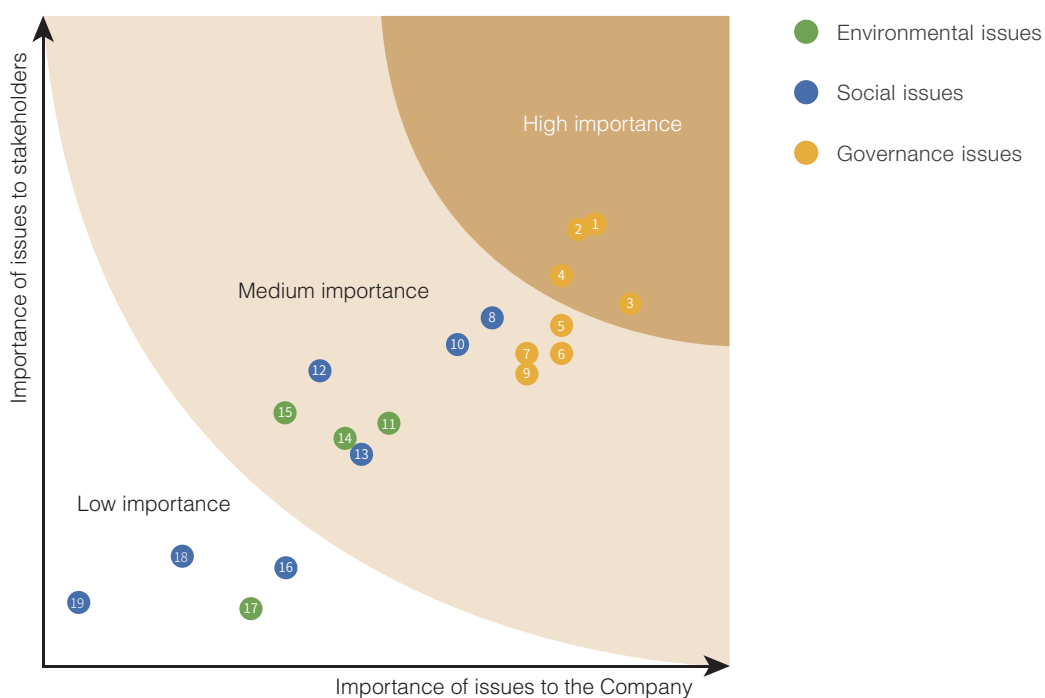
Determine the ranking of issues

We ranked these issues in a materiality matrix based on their importance to all stakeholders and to Feihe. This materiality matrix will be an important reference for ESG strategy formulation, goal setting, and further information disclosure in the future.



In 2019, our material ESG issues were as follows:

ESG Materiality Matrix of Feihe in 2019



High importance

- 1 Safe production
- 2 Food safety and production
- 3 High quality service
- 4 Legal compliance

Medium importance

- 5 Industry value chain construction
- 6 R&D innovation
- 7 Anti-corruption
- 8 Occupational health of employees
- 9 Supply chain management
- 10 Protection of employees' rights and interests
- 11 Waste management
- 12 Employee training and development
- 13 Employee care
- 14 Water resources management
- 15 Energy conservation and emission reduction

Low importance

- 16 Improvement of local development
- 17 Ecological protection
- 18 Promotion of health education
- 19 Charity

01



Compliance Operations



Compliance is the cornerstone of stable enterprise operation. We value corporate governance and risk management and control. We take adverse events seriously, including risks associated with compliance and quality, and corruption due to the negligence in management and control. We strive to eliminate them altogether.





Corporate Governance

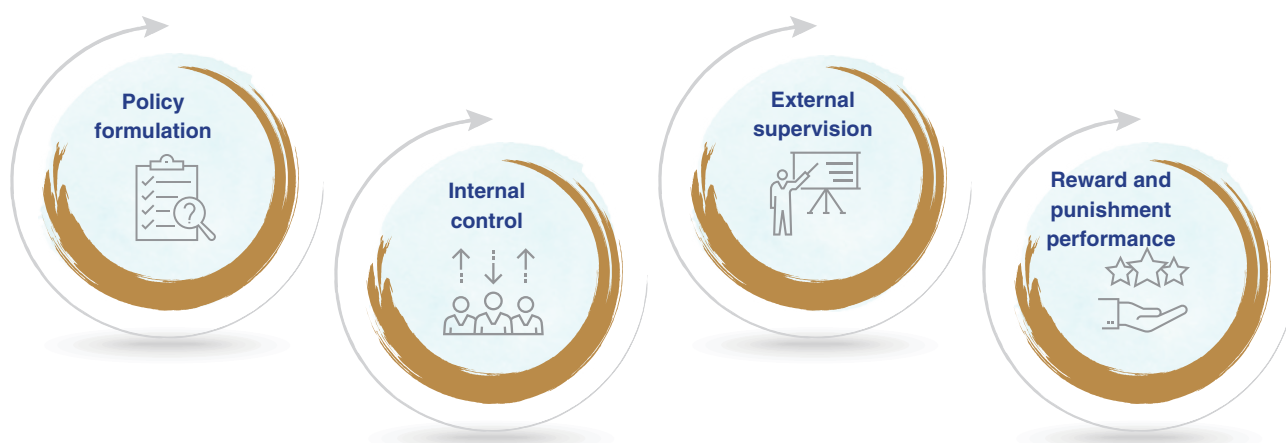
We abide by laws and regulations including the *Company Law of The People's Republic of China*, the *Cayman Companies Law* and all applicable provisions of the *Code of Corporate Governance Practices (Appendix 14 of the Main Board Listing Rules)* of Stock Exchange of Hong Kong, and have a compliance operation mechanism.

Our Board of Directors comprises 12 directors, including six executive directors, two non-executive directors, and four independent non-executive directors, all of whom are independent of the controlling shareholders in terms of management, operation, and finance. The Board of Directors has an Audit Committee, a Remuneration Committee, and a Nomination Committee, which are fully responsible for corporate governance.

We have granted our Board multiple rights in strict accordance with our internal articles of association and operational characteristics. These include implementing resolutions passed by the General Meeting of Shareholders, determining our business strategies and investment plans, creating and reviewing corporate governance, risk management, and internal control policies, and compliance with laws and regulatory provisions.

Risk Control

We focus on enterprise risk management and control. Based on many years of operation practice and experience, we have developed a stable and effective risk management system supporting policy creation, internal control, external supervision, incentives, and penalties. This improves our market performance and product quality.



We conduct enterprise risk control and internal control in accordance with the *Audit System of Feihe Dairy* and the *Crisis Management System of Feihe Dairy*.

We set up an audit committee to review and supervise our internal control system. We have established a crisis management team to deal with crises that may have a significant impact on our reputation, operation and stock, and we practice strict internal controls. We train directors and senior management in the listing rules and responsibilities of directors in companies listed in Hong Kong.

We have appointed consultants to review internal control measures related to our main business processes, identify deficiencies and opportunities for improvement, recommend remedial measures, and review their implementation.

According to the *Reward and Punishment Management System of Feihe Dairy*, we further link violations by specific departments or personnel with their performance. We grade those violations with descriptions to reduce internal violations across the Company.

Anti-Corruption

We advocate for company-wide integrity. Being subject to the *Company Law of the People's Republic of China*, the *Supervision Law of the People's Republic of China*, *Anti-Money Laundering Law of the People's Republic of China* and other laws and regulations, we have formulated management rules such as the *Anti-Fraud System of Feihe Dairy*, the *Inquiry Measures For Employees' Violations* and *China Feihe Limited Anti-Money Laundering Management Measures*. These help avoid corrupt and money laundering behavior across the Company, and enforce disciplinary measures where necessary. We also factor corruption into our annual evaluations and performance appraisals, urging regional companies to strengthen their anti-corruption management.

Anti-Corruption Efforts

Our Audit Department handles our end-to-end anti-corruption operations, encompassing fraud case acceptance, verification, investigation, and reporting. It takes internal disciplinary action or refers the case to the judicial authority according to the severity of the case.

We have developed mature anti-corruption supervision methods, and reporting channels including telephone, email, and written letter. Upon receiving a report we will immediately start the anti-corruption trial procedure. After preliminary verification, evidence analysis, investigation for trial and other procedures, we will thoroughly investigate the case, issue an investigation report, and report to our management or the Board. We keep whistleblower information confidential and protect the case investigators. In 2019, there were no corruption-related lawsuits across the Company.

Anti-corruption
training
nationwide



650 person-times

2019

Average
training hours
per person



2.5 hours

2019

Anti-Corruption Training

Feihe conducts anti-corruption and anti-bribery compliance training to improve employee awareness. In 2019, we conducted anti-corruption training nationwide for a total of 650 person-times, with 2.5 average training hours per person. The training targeted the Board of Directors, management, employees, and distributors.

Case
study

Anti-corruption training

- In March 2019 we held a monthly provincial manager meeting in Harbin. Participants included the director of the Marketing Business Department, provincial managers, regional managers, and personnel from our headquarters and the Audit Department. During the meeting, the Audit Department conducted anti-corruption and institutional strategy training. There were over 200 participants.
- In April 2019 we held a semi-annual meeting in Nanchang to explain anti-corruption and institutional strategies, including Board members and marketing management personnel. There were over 150 participants.
- In August 2019, we trained new Audit Department employees in Xuchang. The Audit Department explained its overall operation and the anti-corruption system during two sessions of training for new hires. There were 30 participants.
- In November 2019 we held the Distributor Marketing Conference in Nanjing, teaching some customers and provincial managers about our management system, anti-corruption system, and reporting rules. There were 180 participants.
- In December 2019 at the Audit Department's Beijing summary meeting, we promoted our system strategy to our leaders and employees from branch headquarters. There were 60 participants.

02

Superior Experience with High Quality

The dairy industry has a long production chain covering forage and feed, cow breeding, dairy products processing, and sales terminals. We serve customers through quality control across this entire manufacturing and serving process.





Quality Upgrading

Safety and quality are basic tenets of infant milk powder production. We strive to ensure freshness, building the first complete industry value chain in China's infant milk powder industry and ensuring that all milk powder product is of suitable quality.

Dairy Farm Management

High-quality dairy farms are critical to the quality of Feihe Dairy. We control the quality of dairy farm suppliers by developing systems and specifications including the *Dairy Farm Management Requirements* and the *Organic Dairy Farm Management Requirements*. We clarify our management methods and offer product quality assurance through supplier audit, on-site management, and capacity building.



Farm audit

Our personnel audit all ranches every year in line with Good Agricultural Practice (GAP). They conduct on-site and system-related document audits covering environmental facilities, feeding and watering, feed management, pest control, sanitation management of mechanical equipment, cattle health management, cleaning and disinfection, laboratory testing, and monitoring and transportation of fresh milk. In 2019, pursuant to the management requirements of Good Agricultural Practice (GAP), Feihe carried out on-site audits and system document audits for pasture with strategic cooperation, largely involving environmental facilities, feed and drinking water, feeding management, pest control, mechanical equipment health management, cattle health management, cleaning and disinfection, laboratory inspection and monitoring, and transportation of fresh milk.



Site management

Each month, our plants inspect their farm sites' fresh milk microbial indicator controls, forage and feed management, and purchase, warehousing, usage, and withdrawal of veterinary drugs. Plants sample feed and forage for each inspection and relay inspection results to the farm.



Capacity building

Plants occasionally benchmark fresh milk testing data with the farms under their jurisdiction. In March 2019 they offered change management training on farms covering procedures, forms, and post-change verification. We invited clean-in-place (CIP) experts to Zhenlai natural farm in the second quarter of 2019 for troubleshooting of process pipelines and cleaning problems. We reported the results back to the farm for improvement and tracking.

Quality Management

We have developed a series of quality management methods and plans in strict accordance with the *Food Safety Law of the People's Republic of China* and other relevant laws and regulations. These include the *HACCP plan*, the *Quality Control Plan*, the *Food Protection Plan*, the *Food Fraud mitigation and Management Procedure*, the *Guidelines for Production Equipment Cleaning and Disinfection*, the *Sales Terminal Product Quality Management Procedure*, and the *Traceability Procedures*. We also introduced management tools such as the world class manufacturing (WCM) system and manufacturing execution system (MES). We also established a team to audit quality across our plants and departments, assigning it primary responsibility for the protection of food safety.

Traceability

We consider it our duty to be transparent about our products' source and destination. We have established a whole-process product control chain covering forage, dairy farms, formula, raw materials, production and processing, inspection, storage, logistics, sales, and customer service. It covers four business sectors, 10 industrial links, and over 40 business processes. Each plant has established material and product identification and traceability procedures and organizes annual traceability drills for raw materials, packaging materials, and products. Consumers can check product-related information by scanning the QR code at the bottom of the powder can at any time through the internationally advanced traceability system.

Quality standard

We have six modern domestic plants and one in Canada which are in line with international standards, including European Hygienic Engineering & Design Group (EHEDG), European Design Code for Dairy Products Plant, Deutsches Institut für Normung (DIN), and related specifications in China. They are also qualified for CE Certification for imported equipment. We introduced a full set of automated production lines from the GEA group. We selected SGS, AIB China, and other professional food safety organizations for third-party inspection and evaluation under international advanced standards. All plants have passed ISO 9001 and FSSC 22000 certification to ensure quality and food safety.



Each of our plants has set up a testing laboratory to guarantee product quality through advanced hardware, high management capacity, and excellent personnel.

Laboratory testing capability

- The laboratory includes a sensory evaluation center, dairy lab, process lab, chemical lab, microorganism lab, packaging and material lab.
- The testing scope covers raw milk, environment, raw and auxiliary materials, water, process, semi-finished products, finished products, packaging materials. This guarantees end-to-end inspection of the production process and finished products.
- The lab is responsible for inspection, detection, monitoring, and data analysis during new product R&D, selection of new raw materials, trial production of new products, product stability and shelf life and circulation to ensure the continuous safety and stability of product quality.
- The lab has over 1,400 sets of various testing instruments worth about RMB150 million.

Laboratory quality management and control system

- We established a professional lab quality management system according to ISO/IEC 17025¹ and CNAs CL01² which has been approved by the China National Accreditation Service for conformity assessment (CNAs). The lab's testing data and testing report is internationally recognized.
- The lab has established a comprehensive and complete quality control system. We establish and effectively run a comprehensive internal and external quality control program, including personnel comparison, method comparison, instrument comparison, blank test, standard recovery, certified quality control samples at home and abroad, inter-laboratory comparison, ability verification, blind sample assessment, and company assessment. We also established a unified quality control sample and participated in ability verification at home and abroad.
- In 2019, the lab participated in over 40 capacity verifications organized by FAPAS, LGC, CICC and other domestic and foreign authorities involving over 200 testing projects, and achieved satisfactory results.

Staffing and development

The lab has over 300 professional testing staff at all levels, including three employees with senior titles. They all have at least an associate degree in food, chemistry, or related majors and extensive experience in testing. They are familiar with relevant domestic and foreign testing methods and standards. The lab offers a comprehensive training and promotion plan covering topics including national policies, standards interpretation, management systems, lab management, testing technology, quality control, data analysis, data audit, instrument and equipment operation and maintenance, abnormality analysis, and basic knowledge. In 2019 we conducted 2,200 person-times quality management-related training sessions.

¹ General Requirements for The Competence of Testing and Calibration Laboratories by ISO.

² Accreditation Criteria for The Competence of Testing and Calibration Laboratories by CNAS.





In 2019 the lab implemented the lab information management system (LIMS) to enhance its standardized management. It ensures the accuracy of test results relating to the management system, Standard process technology level, and management level.

Case study

Manufacturing standardization at Feihe

In 2019, we promoted process standardization in three areas: manufacturing design, operation, and knowledge:



- Construction of new projects: During the establishment of the Tailai, Jilin, and Kedong phase II projects, we reviewed the pipeline instrument diagram (PID) design to ensure that key manufacture nodes and overall manufacture process were the same.
- Reconstruction of existing projects: To ensure that the products produced by the existing projects (Gannan, Longjiang phase I) are in line with those produced by the new projects (Tailai, Jilin, Kedong phase II) in terms of data and senses, we discussed with suppliers, compared designs, identified the indicators to be improved in the existing projects, and carried out technology transformation.



- Manufacturing direction (MD): We used MD to identify, count and file all manufacturing nodes and standardize infant formula manufacturing document formats across all plants. We also discovered and eliminated the differences in manufacturing nodes by comparing MD.
- Introduction of particle size distribution (PSD): We concluded data and curves through optical analysis of particle size distribution of powder to compare the differences in product appearance and physical characteristics. Meanwhile, we conducted a PSD analysis of the production of the same formula in different plants to ensure current product standardization.



- Online milk powder manufacturing courses: To ensure communication of manufacture knowledge in the production system, the Production Department cooperated with an online training platform Magic College to develop online milk powder processing courses in 2019. These allowed students to learn on computers and mobile apps, including 165 courses in both Chinese and English, 761 videos, and 161 documents. The course totaled 100 hours.



Case study

Feihe launches MES at the Gannan plant

Feihe's Gannan plant launched an MES. The system assigns a unique ID to the materials in the production workshop and identifies and rechecks material usage and circulation. This prevents the errors caused by human rechecking and ensures product quality. Integration with enterprise resource planning (ERP), warehouse management system (WMS), distribution requirements planning (DRP), GEA and other systems, allows data sharing to improve quality control and quality traceability.

Product withdrawal (recall)

We developed documents including the *Management Procedure for Product Withdrawal (Recall)* in compliance with the laws and regulations such as the national *Administrative Measures for Food Recall*. Our document defines each department's detailed product withdrawal (recall) process and responsibilities. Departments responding to product quality issues should invoke the *Control Procedure For Non-Conformity (Product)* to investigate deviations and assess risks before a qualified person makes decisions on disposal.

In 2019, we issued no product withdrawals (recalls).

Transportation and Storage Management

Our Logistics Department handles base logistics, general warehousing and shipments. We developed transportation and storage management systems such as the *Unit-based Transportation Management System at General Warehouse* and the *Unit-based Storage Management System at General Warehouse* according to national laws and regulations, quality system standards and internal management requirements. We standardized product loading, delivery, and transportation safety requirements. We also normalized warehouse storage processes including product loading and unloading, stacking, safe storage, pest monitoring and control, temperature and humidity, and health management to product quality and safety. Finally, we standardized product delivery rules to ensure smoother, faster delivery.



Excellent Service

Beyond dairy product quality, consumers value high-quality shopping experiences. We continue to upgrade our services and consumer experience while providing high-quality products.

Customer Accessibility

Our sales channels connect consumers with our products. We have improved our channel accessibility by deploying online shopping malls. In 2019, we collaborated with two maternal and child stores, Babybear and Dencare to improve our product penetration across all channels. We also cooperated with 29 online shopping malls, including Yonghui-JD Daojia, Wumart-Dmall, Suning.com, www.leyou.com.cn, and Shidian Jishi to connect online and offline malls, publicize and sell products across multiple lines, and improve our customers' purchase experience.

We also innovate in our communication channels to build stronger customer relationships. As of December 31, 2019, our WeChat official account, Star Mom, shared 56 courses involving 41 leading experts, attracting 2.4 million views. It topped in the mother-child care category in WeChat and ranked first on the platform in the milk powder brand category.

Our customer service personnel continued working during the COVID-19 outbreak. It received over 50,000 phone calls and 100,000 online consultations. We offered classes via columns of Star Mom, Daily Star Parenting and others with professional advice for mothers and babies to cope with the pandemic.

We conduct customer satisfaction surveys every quarter. In 2019, our customer service operation served 32 million people with a satisfaction rate of 98%.

In 2019,
we served



32 million people

Customer
satisfaction rate



98%



Case
study

Smart customer service

We launched a smart customer service system across all of our businesses to improve our knowledge of customer needs.

Smart customer service integrates channels including H5, WeChat official accounts, and mini-apps. It fields initial contact using chatbots and then switches to human agents, improving our efficiency when handling consumer issues including product usage, price consultations, complaints, logistics inquiries, points, and Feihe gift activities. The robot addresses over 49% of problems without escalating to a human agent, which optimizes the service process and reduces the loss caused by human errors. The system also binds multiple trunk numbers to enable multiple business lines running at the call center. These include 400 for consumer consultations and 699 for the poster and high-speed rail advertising queries and verification of new nutrition customers. It is also equipped with a smart quality inspection system that has inspected 674,006 online chat messages and voice calls in real time.

Protection of Consumers' Rights and Interests

We are committed to protecting our customers' legitimate rights and interests.

Our *Management Procedure for Handling Consumer Complaints* clarifies specific measures for handling complaints and protecting consumer rights and interests.

We also strive to protect consumer privacy. Our *Confidentiality Management for Marketing Documents and Data* and *Confidentiality Measures for Customer Information in User Center* documents define our requirements for data security and disciplinary measures for data leakage. We use the customer relationship management (CRM) system to manage and store customer information independently and uniformly, controlling the scope and authority for customer service personnel to access customer information. We also created a complete communication agreement that informs new customers registering at the Star Mom service platform and e-commerce platform of both parties' rights and obligations. The agreement includes user terms, service instructions, registration and use, user personal information protection and authorization, network distribution, user code of conduct, liability for breach of contract, and interpretation right.

When standardizing product publicity and responsible marketing, we have conducted compliance audits on marketing labels and advertising contents in accordance with the requirements of relevant laws, regulations and standards such as the *Advertising Law of the People's Republic of China*. We have formulated the *Product Packaging Design Process* and label management system to ensure the authenticity of label content and avoid the use of misleading advertising terms.

Information Security Protection

We observed the *Cybersecurity Law of the People's Republic of China* when creating the *Information Management System of Feihe Dairy* and the *Information Security Management System of Feihe Dairy*. These clarify our information security protection mechanism and the responsibilities of all departments to support effective information security. We work towards ISO 27001 and information security protection in areas including industrial control security, cybersecurity, application security, terminal security, and data security. In 2019, we experienced no major information security incidents.

In 2019, we began building the Group's hybrid cloud architecture and IDC redundancy architecture to improve the security and stability of our information system. We deployed it in two production plants of the Gannan and Longjiang branches to improve security in industrial control and other aspects of branch production. We also set up a network security firewall, enhancing network security protection and improving the industrial control security system.

We organize semiannual information security awareness training and regularly engage external information security experts and professional partners to train our information security managers in the latest security trends and technologies.

Empowerment with Digitalization

In the digital era, enterprises must embrace the advantages of data. We lead in digital transformation under the strategic goal of '3+1+2' IT planning. This strategy builds business systems with intelligent manufacturing at the digital plant and ERP at the core while strengthening our unified office platform. It guides smart supply chain development, integrating all parties by connecting their data systems to improve their efficiency and product quality.



**Digital
unified office
platform**

- The digital unified office platform has eight modules comprising 11 sections including corporate news, themed information, industry trends, the collaborative office, announcements, a meeting calendar, a forum, and a service section for new employees.
- Since the platform was launched on September 19, 2019, the total number of platform users has reached 5,153. We have primarily built an online office for all employees, unified the entrance of the employee office platform, and enabled the smart office.



**ERP
business
system**

- The ERP system involves five business sectors, serving six domestic production bases, six large warehouses, 12 transit warehouses, nearly 1800 distributors, over 100,000 outlets, and about 400 suppliers.
- The system is an overall planning and implementation platform for our sales, procurement, production, and logistics. It enables collaboration to improve overall operation efficiency, supports a distributed multi-level warehouse/distribution model, and optimizes the distribution path across the whole logistics network, improving logistics cost efficiency by integrating data for end-to-end process visibility.



**Digital
plant
system**

- The digital plant system upgrades quality traceability across the whole production process from raw material delivery to packaging and warehousing of the finished product. We have already digitalized the Kedong and Gannan plants.
- The system increases the one-time product qualification rate, improves production efficiency through real-time data transmission, eliminates over 80% of paper-based documents from the workshop, and ensures the authenticity and accuracy of our records.



**Digital
middle
office
marketing
center**

- Provides nearly 10 scenarios, including consumer life cycle analysis, outlet analysis and shopping guide analysis, customized reports and marketing-oriented business applications.
- As of November 2019, we had launched the Digital Middle Office Phase I project to extend the our analysis of product and distributor scenarios.



**Smart
supply
chain**

- The smart supply chain system helps to refine our warehouse network layout, suggesting regional and urban warehouse locations based on usage, cost estimate, and transportation metrics.
- The system optimizes logistics network efficiency by predicting real-time demand, reducing inventory, and accelerating its turnover. This improves the freshness of milk powder sold at our outlets.



**Smart
customer
service**

- Our customer-centric service operation unifies and standardizes our services, enabling us to efficiently answer questions and complaints in areas including product usage, pricing and logistics, loyalty points, and gift activities.
- Our chatbot addresses over 49% of problems without escalating to a human agent. This optimizes the service process, reduces human error, and enables our call center to serve multiple business lines.

03

Commitment to Promote Common Development and Prosperity

We are committed to mutually beneficial development with our employees and partners and work to build close relationships with them for our common development and prosperity.





Employee Growth

Employees are our most valuable asset. We pursue effective talent management systems and employee-centric management methods to attract and retain the best talent.

Employment Policy

We adhere to labor and social security policies including the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Special Provisions on Labor Protection of Female Workers*, the *Social Insurance Law of the People's Republic of China*, and the *Provisions on the Prohibition of Using Child Labor*. This helps us to protect the legitimate rights and interests of our workers by refining and standardizing our labor management. In 2019, we experienced no incidents related to the illegal use of child labor or forced labor.

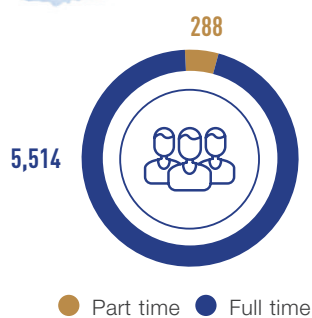
We have created a complete company-wide human resources management system in line with national policies and relevant regulations. It centers on our *Human Resources Management Measures*, covering aspects such as employee relations, recruitment, training, remuneration, performance, and benefits. It standardizes and guides relevant management procedures and ensures that human resources-related work has a system to follow.

- Our recruitment and hiring system covers internal and external recruitment. We use internal recruitment to capitalize on our rich talent pool while continuing to expand external recruitment channels. We attract outstanding talents through recruitment channels such as recruitment websites, job fairs, campus recruitment, and headhunting.
- Our recruitment process follows seven key principles to provide equitable talent development opportunities based on objectivity and suitability.

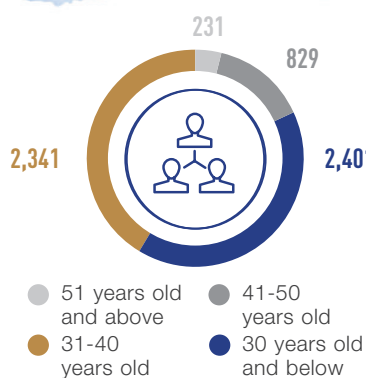


Employee composition

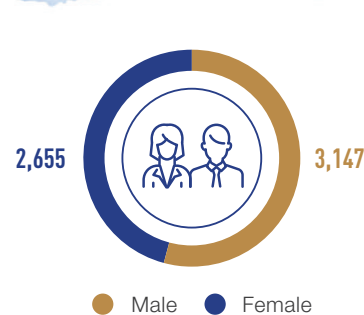
Number of employees (Type)



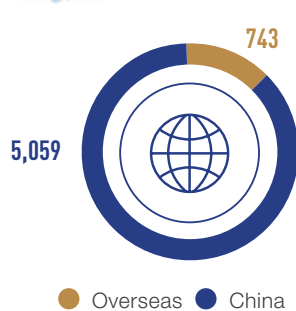
Number of employees (Age)



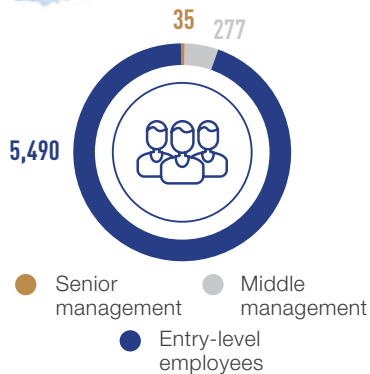
Number of employees (Gender)



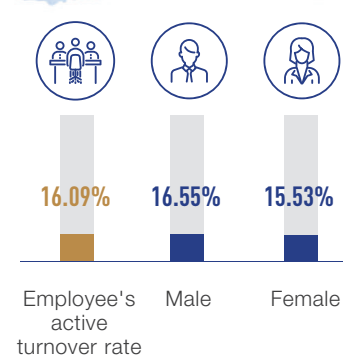
Number of employees (Region)



Number of employees (Level)



Employee turnover



Note: Employee turnover data includes data from mainland China and Canada, not includes data from United States.

Case study

Feihe Management Trainee Project: F Star Program

In 2019, we created the F Star Program management trainee recruitment and training initiative. We have hired over 180 management employees through online dissemination, 66 mutual selection job fairs, and 34 campus fairs.

In July 2019, management trainees received on-board training at our headquarters, covering development training, team integration, general face-to-face teaching, production learning, and professional skills. Our President and other senior executives spoke as lecturers. The training team, comprising the Human Resources Department, mentors, and middle management, also helped management trainees integrate quickly into the Company and improve their professional skills by combining theory and practice with multi-dimensional guidance and evaluation.



On-board Development Training for Feihe Management Trainees

Employee Development and Training

We operate a broad career development platform for our employees. We run a complete remuneration system with transparent promotion and development channels and systematic training programs to fuel talent development and growth.

Remuneration Incentives

According to the *Remuneration Management Mechanism and Management Measures*, we participate in an annual fast moving consumer goods industry remuneration survey to learn about the average remuneration for each position in the industry. We ensure that our annual remuneration increase exceeds the industry average to keep us competitive in the market for talent. Our employee remuneration includes fixed income and floating income. We also periodically evaluate personnel performance to assess the effectiveness of the remuneration system.

Feihe Employee Performance Evaluation System

Evaluation mechanism	Evaluation cycle
The functional system inspects key work and special work, and pays attention to learning and growth.	The senior management receive annual evaluations.
The sales system adopts a ladder-style performance-related mechanism that links salary and sales so that compensation accurately reflects performance.	The middle management and functional entry-level employees receive quarterly evaluations.
The factory uses a production wage mechanism that reflects the value of the work.	The entry-level employees including sales, nutritionists, customer services, operators, etc. receive monthly evaluations.

Promotion System

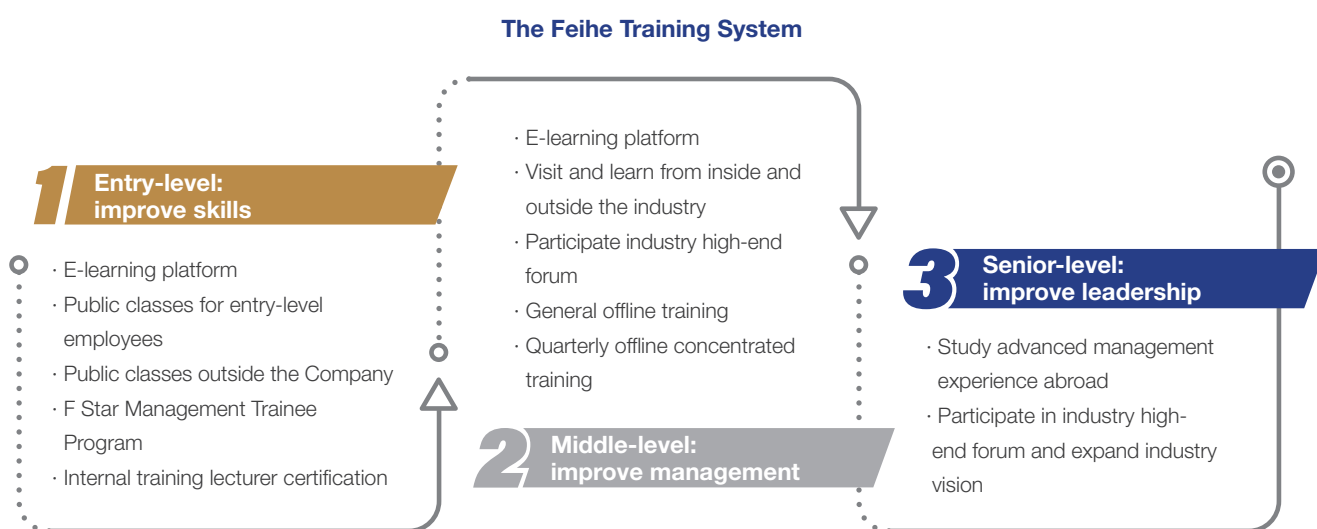
We created the management and professional promotion channels to help employees develop. When employees develop to a certain stage we consider their suitability for a career in management or a specific profession, and help employees determine their best career development direction based on their aspirations and talent training plans.

In 2019, we completed three major tasks in improving the employee promotion system:



Employee Training

We strive to improve our training organization structure. We built a training system covering the three major systems of production, marketing, and administration, covering employees at all levels. The courses cover outcomes including onboarding, on-the-job training, career development, and certification. We also focus on improving training methods based on training needs analysis. Our measures include integrating learning resources, standardizing training operations, evaluating training results, and developing an online training platform for more efficient training with better results.



In 2019,
employees
attended



2,942 offline

training
sessions
a total of

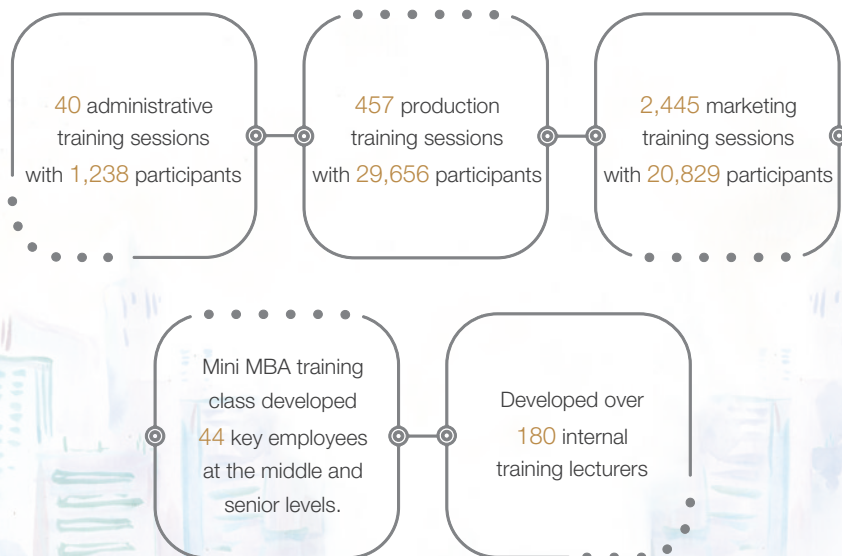


51,723 participants

workforce
received training

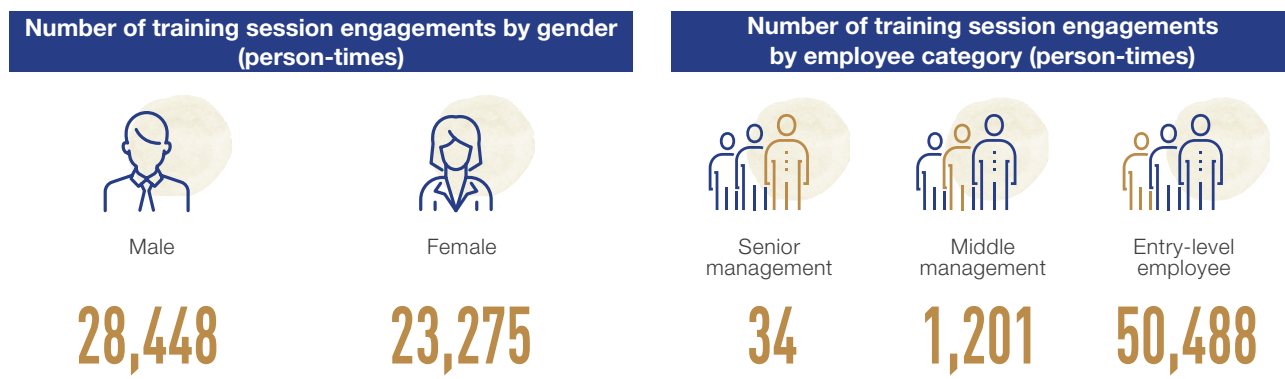


95 %

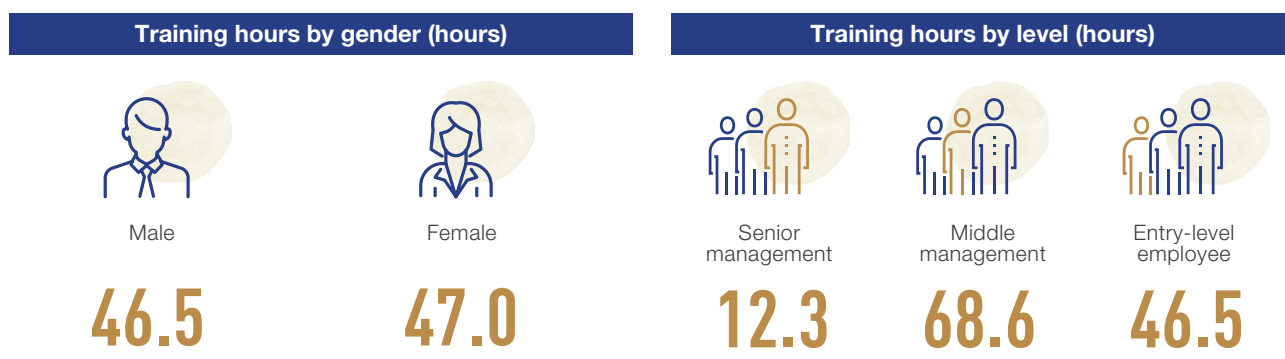


Note: Employee training data only includes data from mainland China.

Feihe number of training in 2019



Feihe average training hours in 2019



Note: Employee training data only includes data from mainland China.



Training of Feihe Internal Marketing Lecturers

Case study

Peixunbao Online Learning Platform System

Feihe and NetEase Cloud Classroom cooperated to build an online learning platform system called Peixunbao, providing over 100 courses covering professional literacy establishment, self-management and promotion, and leadership development. The training organization is paperless, with sign-in, feedback, and analysis all completed online.

In addition to regular online learning courses, 102 trainees participated in four online learning projects with a 100% completion rate in 2019. The students combined online learning, offline sharing, and learning group sharing. The student satisfaction rate reached 90%, improving our training effectiveness significantly.

Case study

Feihe Mini MBA program empowers talent development

We have long cooperated with Peking University and other universities in training our managers. As of 2019, we had held the Feihe-Peking University Mini MBA Seminar three times, developing over 100 middle and senior-level management personnel. The study gives our managers a better understanding of management ideas and methods. They apply what they learn to their work, improving their decision-making, generating innovative ideas, and achieving outstanding performance.

In October 2019, the third phase of Feihe-Peking University was completed at Peking University. Students included 44 mid-level managers from different systems. They completed six concentrated studies and one benchmarking enterprise study tour with a 100% completion rate.



The company president handed out diplomas to the trainees in the Peking University class

Humanized Management

We attach great importance to employee communication. Through our collaborative online OA system, we set up industry and company events, make announcements, and facilitate forums to teach employees about industry and company developments. We also organize regular offline exchanges including quarterly summary and planning meetings, strategy analysis meetings, and annual summary and planning meetings, to promote cross-disciplinary exchange and learning and achieve inter-departmental cooperation.

In 2019 we launched the Feihe Corporate Culture Rebuilding project to reshape and corporate culture in the face of our rapid strategic development. We analyzed over fifty years of our corporate culture via three workshops, 110 one-on-one interviews, and over 2,900 questionnaires to produce the final research report. We gained an in-depth understanding of our employees' opinions and listened to their suggestions on concerning our development.

We also conducted employee loyalty, engagement, and satisfaction surveys in 2019. Results showed a high level of overall morale, with our employees scoring higher than the industry average for these indicators.

Case study

Colorful cultural activities

We organized a series of staff activities in 2019 to celebrate the 70th anniversary of the founding of the People's Republic of China. Each department recorded a *Me and My Motherland* music video for internal and external dissemination, held competitions in areas including photography, video blogs, and essay writing, organized morning reading meetings to recite the *Founding Ceremony*; and arranged a *Me and My Motherland* viewing activity. These activities advocated the widespread dissemination of our core values and stimulated employees' sense of purpose and belonging.



Company executives and employees sang *Me and My Motherland*



Occupational Health

We attach great importance to safety management and follow national laws and regulations including the *Work Safety Law of the People's Republic of China*, the *Fire Protection Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, and the *Regulations on Safety Supervision of Special Equipment*. We update the list of environmental health and safety (EHS)-related laws and regulations every year, clarify our corporate responsibility for safe production, and maintain our related records. In 2019, we invested RMB3.8357 million into safety production. There were no fatal work accidents in any of our branches and we lost just 2,699 working hours due to work-related injury.

We created a series of systems including the *Safety Production Responsibility System*, *Fire Safety Management System*, and *Safe Construction Management Measures*. We also set up our safety performance evaluation system to incorporate safety management into the performance evaluation of senior executives. If major mistakes happen in the work or major safety liability accidents occur within the scope, we cancel the corresponding personnel's annual performance salary for that year. In 2019, the EHS Department issued the *Environmental Protection, Health and Safety Incident Reporting and Investigation Procedures* to further deepen the construction of safety systems and improve the standardization of safety management procedures.

Complete and clear security management systems and organizational structures are a necessary prerequisite for enterprises to carry out safety work. We set up an independent EHS department to coordinate environmental protection and occupational health and safety management, establish EHS management programs and measures in line with our operations, and conduct an annual risk assessment. We also unified EHS management and control via supervision, performance appraisals, and training and drill projects at all branches' EHS departments and engineering construction centers.

All the factories established and improved their EHS management and control documentation in line with ISO 14001 and OHSAS 18001, including EHS manuals, legal recognition programs, management of high-risk work (at height, in hot areas, and in confined spaces), occupational health management, and chemicals management. We also prepared and filed occupational health and safety emergency plans and established employee occupational health files to organize daily safety work.

The Engineering Construction Center focuses on standardizing construction site safety, implements a three-level responsibility signing system, requires project personnel at all levels to fulfill their safety responsibility obligations, and builds a safety management system covering both management and construction personnel. We implement construction safety management daily to eliminate construction casualties and accidents. The Engineering Construction Center conducts safety inspections at least once a month for each project site, and the project team uses a WeChat group for safety management to discover unsafe behaviors, conditions, and incidents, rectifying them quickly.

In 2019, each branch updated its risk assessment list and control measures based on results in all departments, continued with observing and analyzing behavior, created rectification plans and gradually reduced risks to ensure production safety. Branches also managed high-risk work and made pre-work risk predictions to ensure the safety of personnel and equipment during technical transformation, maintenance, and cleaning.

In 2019,
our safety production
investment



RMB
3.8357 million

fatal work
accidents in any
of our branches



0





Feihe EHS-related system certification

Dual Prevention Mechanism

We have created a dual prevention mechanism covering risk grading management and hazard investigation and governance based on the ISO management system idea (PDCA) and the requirements of national laws and regulations on occupational health and safety. We generated management documents including the *Procedure Documents for Work Safety Risk Identification and Management*, the *Procedure Documents for Troubleshooting and Treatment of Hidden Risks in Work Safety Accidents*, along with risk identification tables to promote standardized branch-level production safety management, conduct annual risk identification, and generate lists for management and control. We also reduced risks to a controllable level through personnel behavior observation, daily sharing, high-risk work management, personnel training, and emergency drills.

We organized seven group security risk reduction activities in 2019 to observe and correct over 20,000 risk behaviors, discovering and resolving over 19,000 hazards through daily sharing.

In 2019,
observed and
corrected risk
behaviors



over **20,000**

discovered and
resolved hazards
through daily
sharing



over **19,000**

Occupational Health and Safety

We implement management systems and requirements such as the *Responsibility System for Occupational Disease Hazard Prevention* in accordance with the requirements of relevant laws and regulations and industry standards. We strived to build a safe, healthy, happy, and harmonious working environment via occupational health and safety protection measures including training and promotion, hazard detection, occupational health examinations, and personal protective equipment. In 2019 our occupational health examinations covered all employees. Our Healthy China, Healthy Occupation activity held during Occupational Health Week covered 1,419 people.



In order to strengthen the health and safety awareness of employees, Feihe conducted various safety education training targeted for different operational activities to enhance the safety awareness of personnel to protect themselves and others and integrate employee safety concepts into daily operations. We delivered safety training to 8,759 person-times over 513 hours in 2019, covering 100% of staff. Sessions including on-board training, laws and regulations training, and special training. The training effectively enhanced employees' safety awareness and improved their professional skills.



Employees participated in occupational health and safety training

Case study

Cross-examination and on-site training for the Longjiang Phase II Project

In 2019, with the Longjiang Phase II Project as the main part, the Company conducted on-site cross-training to learn from other projects across the country. We trained for the three major projects under construction regarding personnel admission, temporary electricity usage, and cross-operation protection. We organized 15 hours of training with 50 participants.

Through on-site study and observation, the Longjiang Phase II Project learned several things from the Zhenlai and Kedong factories, including safe production and modern construction, safety hazards to expect throughout the project, and how to discover and solve hidden dangers. It improved its safety knowledge and skills to help prevent accidents.

**Safety Culture Construction**

We organize activities to promote safety, environmental protection, and occupational health every year. In 2019 we launched the Prevent Risks, Remove Hazards, Reduce Accidents campaign covering 1,485 people. We conducted 12 Fire Prevention Day activities under our Prevent the Risk of Fire, Build a Better Home campaign covering 715 people. We organized 92 drills covering emergency situations including fire, evacuation, and food poisoning, covering 2,634 people. By educating the staff, employee safety awareness was improved effectively.



Case study

Fire drills for the Longjiang Phase II Project

As summer begins, on-site electricity consumption grows, and so does the risk of fire due to hot weather. The Feihe Longjiang Phase II Project conducted fire drills in June to increase fire safety awareness and boost our employees' fire escape and self-rescue skills.

We observed and performed exercises with real fires, simulating activities including on-site emergency rescue, fire self-rescue, first aid, and fire extinguishing. We taught employees how to check and eliminate hidden fire hazards, organize rescue efforts at the beginning of a fire, organize personnel to evacuate, and implement fire protection training. After the event, project staff summarized the drills, optimizing and supplementing the plan based on the actual situation, and significantly improving the fire emergency response capabilities of all staff.



Simulated on-site fire drill



Employee Care

We value humanistic care for our employees, formulate differentiated benefits for employees from different systems and constantly promote new benefits to increase employee satisfaction and happiness. Our employee benefit programs include five social insurance programs, a housing fund, free lunch, transportation and communication subsidies, travel allowances, holiday gifts, health examinations, marriage or maternity gifts, and sickness assistance. We also operate a charity fund to help employees suffering from extraordinary events.

We provide employees with a wide variety of leisure activities, organized annual basketball games, and developed teamwork spirit. We organized social activities for single employees, and arranged trips and annual parties to enrich our employees' spare time.



Team building



Activity for promoting fellowship



Feihe Cup basketball game



Annual Ceremony on Spring Festival

A Mutually Beneficial Industry Chain

We work with industrial partners to strengthen our innovation capabilities and promote the healthy and integrated development of the industry, aid the industry in an open and shared manner and continuously empower the sustainable development of China's dairy industry.

Supplier Management

Supplier quality management is an important part of Feihe's whole-industry-chain quality management system. We continue to establish clear management systems and methods in supplier selection, audits, management, and evaluation to ensure the stability and quality of our sources.



- We created the *Standardizations on New Material and New Supplier Development* document. Based on the equally important basic principles such as quality, cost, delivery and technical service, we examined whether the supplier has a stable and effective quality assurance system and whether the supplier has sufficient production capacity and pre-sales and after-sales technical service.



- We created the *Supplier Approval and Re-assessment Procedures* and annual supplier on-site audit program.
- We evaluated our suppliers' food safety management system in accordance with the ISO22000 standard. Suppliers who fail to pass the audit are excluded from our list of qualified suppliers.
- In 2019, according to our supplier annual audit plan, 83 of our 120 qualified raw material suppliers conducted on-site re-reviews.



- We created our *Supplier Approval and Reassessment Procedures* document that covers management regulations including the supplier approval process, supplier primaries, risk assessment, supplier on-site review and approval, and supplier reassessment. It guides our supplier quality, food safety, and technical capabilities assessment. We include approved suppliers in the list of qualified suppliers.
- We formulated the *Raw Materials Quality Standards* in line with the national food safety regulations. The supplier provides materials in accordance with the *Supplier Approval and Reassessment Procedures*, the *Procurement Contract Management Practices*, and the *Raw and Auxiliary Materials Quality Standards*. The quality standard signed by the supplier is part of the purchase contract. In 2019, 86 copies of *Raw and Auxiliary Materials Quality Standards* were created or updated.



- We evaluated supplier performance every month, including qualified rates, service, cost of procurement, and timely arrival rates.
- We rearranged the suppliers for management based on the annual performance score.
- We established a supplier reward system. We prioritize outstanding suppliers and increase their share of our purchase orders. We subject those that have not affected production to performance evaluation. We penalize those that have affected our production and capacity after a comprehensive review of the supply chain, and we cancel the qualification of any supplier that causes inestimable losses to terminal customers.

Supply chain risk management

- Risk Monitoring: We monitor the potential risks of chemical pollutants and pathogens to raw and auxiliary materials included in finished products. We base our plans on the annual risk monitoring plans issued by the relevant national agencies, early warning and assessment of food safety issued by the European Union (EU), the German Bundesinstitut für Risikobewertung (BfR), the World Health Organization (WHO), the US Food and Drug Administration (FDA), the Canadian Food Inspection Agency (CFIA), and other international organizations. Our risk monitoring plan updates the daily inspection plan for raw and auxiliary materials at our branches. In 2019, we updated 42 risk monitoring plans for raw and auxiliary materials.
- Regional Distribution of Substantial Raw Material Sources: We identify and evaluate the source of all direct materials at least once a year. In situations where the source of supply is at risk from factors such as international trade disputes and frequent natural disasters, or where the source is too singular, we determine our development direction based on the assessment. In 2019, the internationally procured materials whose source of supply needs to be decentralized included lactose (the US is the main production area) and Irish skimmed milk powder.
- We included anti-corruption clauses in procurement contracts and required all employees of suppliers, agents, contractors, and partners to abide by relevant anti-bribery and anti-corruption laws and regulations and standards.

Green procurement promotion

- Environmental Practices for Packaging Materials Procurement: We enhanced our green packaging by promoting standard paper boxes and reducing the previous 138 types of boxes to 13, decreasing waste in layout production, ink usage, and the amount of scrap inventory.
- Green Procurement Project: We switched from offset paper boxes to Kraft paper boxes to reduce our film consumption. We also conducted a feasibility study on octagonal boxes to reduce the use of corrugated paper.

Supplier support

- We evaluated the materials that can be localized based on factors including the buyer's influence, upstream raw material list, and localization cost. We then encouraged them to issue localization feasibility reports and schedules through communication. In 2019, the supplier was promoted to realize the localization of the mixing section of mixed vegetable oil (including 1,3-dioleate 2-palmitate triglyceride).
- We introduced leading plastic cover mold manufacturers to set up supporting factories in Qiqihar and improved the industry benchmark standard of suppliers in Heilongjiang Province.
- We introduced can packaging material suppliers to build a factory within the factory and sent our professional quality team to quickly improve the supplier's quality management awareness and on-site and environmental risk management and control ability.

During the reporting period, we worked with 180 suppliers, including 128 suppliers in mainland China and 52 overseas suppliers.



Distributor Management

We hold sustainable development as a core value. We are committed to building a high-value and high-quality industrial chain with our distributors. In 2019, we compiled the *2019 Distributor Management System* and altered distributor operations including cooperative evaluation and daily quality management. We subject distributors to rigorous qualification assessments covering areas including personnel and business ability. We only work with distributors whose assessment score reaches our standard. We continue to monitor and manage distributor quality during the working relationship, using incentives for continuous improvement.

In 2019, we targeted distributors and terminal services with standards for store grading, visits and services. We established star evaluation programs for distributors and evaluated them each month, recognizing them annually. We organized MBA classes for distributors, terminals, and partners and conducted business communication meetings, distributor meetings and fresh traceability activities to improve the quality of our strategic partnerships.

Case study

2019 Partner Annual Conference

On November 25, 2019, we held our 2019 annual partners conference, titled From Now On To The Future. We invited 1,500 partners, including distributors, business supermarket systems, online channels, self-owned stores and core representatives. Attendees discussed the future development of China's infant milk powder industry.



Annual Partner Conference

Case study

2019 Distributor Conference

In 2019, we held seven distributor conferences across the country with the theme of “Sticking to the original heart and taking the lead” to convey our strategic direction and strengthen dealer confidence. We invited top distributors to accept their five-star ranking at our annual summary meeting. In 2019, we named 334 five-star distributors and 292 four-star distributors.



Group photo of five-star distributors

Case study

Feihe Partner Class

While developing itself, Feihe also actively strengthens the development of the upstream and downstream of the industrial chain, advances the cultivation of talents and builds a win-win ecosystem for enterprises. In June 2017, we cooperated with Peking University to set up a partner MBA seminar series that offered learning opportunities for employees of our core distributors, strategic suppliers, and key maternal and infant system partners. The education sessions helped partners improve their operations and corporate profitability, so as to walk side by side with Feihe and achieve win-win development.

As of December 31, 2019, a total of 150 core partners completed the seven concentrated learning sessions and two study tours to benchmark enterprises. We completed distributor and supplier seminars in June 2019 at Peking University with a 100% graduation rate.



Group Photo of Feihe Partner MBA Seminar Graduates

Industry Pioneer

Feihe proactively shoulders the responsibility of the dairy industry's revitalization, struggling to make progress. We intensified scientific and technological research and development and focused on scientific innovation in infant formula milk powder, playing a model role in industrial transformation and upgrading and innovative development.

Basic R&D

In order to better meet the nutritional needs of consumers, we focus on the establishment of the breast milk database and research on the composition of breast milk and become the forerunner of research and development. Besides, we constantly strengthen scientific research, and always stand at the forefront of the industry regarding breast milk and basic research.

We launched the Feihe China Breast Milk Database Project in 2015 to better understand the nutritional composition and regional differences of breast milk in China and provide a theoretical basis for the R&D of infant formula foods. We set up breast milk sample sites across the administrative regions in the country and have collected over 1,800 samples. We cooperated with the Ministry of Education's Key Laboratory of Dairy Science, the Institute of Agri-Processing, and other professional teams to standardize the sampling process. We monitored aspects including sample collection, transport, storage, and testing to ensure the scientific legitimacy of sample data. We also took the lead in the detection and analysis of proteomics, triglycerides, phospholipids, oligosaccharides, and breast milk probiotics as part of our breast milk data analysis program.

We cooperated with authoritative organizations on a review and analysis of breast milk data at home and abroad that was the first such initiative in the field of breast milk research in China. It explored academically published data on the composition of breast milk in China. The research focused on the core components of breast milk, including fatty acids, proteins, oligosaccharides, and infant intestinal flora. In 2019, we conducted research on fatty acid and amino acid patterns of breast milk in China, providing a theoretical basis for formula design.

In 2019, we also cooperated with the Chinese Academy of Agricultural Sciences on researching on front-end forage planting and dry matter in fresh milk, helped agricultural science planting to improve the level of forage planting, and assisted animal husbandry in scientific farming to increase cow breeding management levels. We also researched the relationship between amniotic milk and diabetes in response to rising diabetes rates and published the phased results of the research in the SCI journal in December 2019.

In 2019, the Department of Science and Technology in Heilongjiang Province evaluated and accepted our breast milk database and the humanized infant milk powder projects. We also collaborated with research institutes in Heilongjiang Province's Hundred-Thousand-Ten Thousand Project.

Case study

The Development and Industrialization of Breast Milk-Based Infant Milk Powder project won first prize in the Heilongjiang Science and Technology Progress Award

We have always led the industry in the field of humanized milk research and scientific research innovation. In 2009, we began the Development and Industrialization of Breast Milk-Based Infant Milk Powder project, which was the first to introduce OPO structural fat into the formula of milk powder. We completed the infant formula milk powder clinical feeding experiment with the Chinese Academy of Sciences and won the Monde Selection gold medal for five consecutive years. In 2016, the project won the first prize of Scientific and Technological Progress in Qiqihar and the outstanding contribution award for Scientific and Technological Achievements Industrialization in the Heilongjiang Province's 12th Five Year Plan.

In 2019, the Science and Technology Project Department's Innovation Center applied for the Heilongjiang Science and Technology Progress Award. Heilongjiang Province's Science and Technology Department organized industry experts to conduct formal and on-site panel reviews of the application project, which won first prize in the Heilongjiang Science and Technology Progress Award. The project's research results are targeted and progressive in line with the national dairy industry's policy guidance, which is of great significance to the structural adjustment of the dairy industry in Heilongjiang Province.



Intellectual Property Protection

We established the *Feihe Dairy Group Intellectual Property Management System*, including related management requirements for trademarks, patents, and barcodes. During the project establishment process, we assess the risk of patent and trademark infringement on formulas, raw materials, and other components. We focus on the patent layout and application of key technologies and the protection of technological intellectual property (IP) rights. Before products are listed, we assess the risk to their IP rights.

In 2019,
R&D investment

RMB

170 million



Case study

Feihe patented humanized phospholipid

In June 2019, we obtained patent authorization for an infant formula powder rich in a variety of milk phospholipids. Breast milk lipids are not only an important source of energy but also necessary nutrients for the development of the baby's brain and nerves. Although the content of breast milk phospholipids is not high, it still plays a very important role in infant growth and development. At present, a large amount of vegetable oil is used in infant formula powders to replace milk fat, which lowers the content of milk phospholipids compared to breast milk. The patented formula can significantly increase the content of various milk phospholipids such as cephalin, sphingomyelin, and phosphatidylcholine while optimizing the composition of fatty acids to make them closer to breast milk components.

Collaboration with Universities and Research Institutions

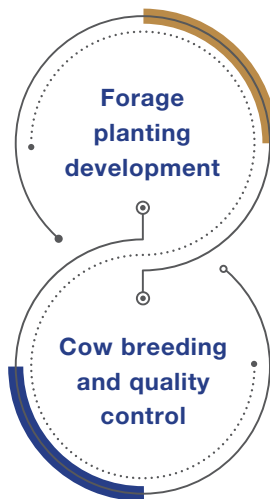
Innovation is the fundamental driving force to advance the infant formula milk powder industry, which deeply relies on cutting-edge technology. Feihe continuously integrates collaboration with universities and research institutions to hunt for talent to join the Company and the industry, creating more key competitive edges, and driving the high-quality development of China's dairy industry.



In 2014, we established the Feihe Nutrition Laboratory (FNL) at the Beth Israel Deaconess Medical Center (BIDMC) of Harvard Medical School (HMS) in Boston, Massachusetts, researching nutrition in infants and adults. In 2019, our team researched topics including goat milk powder, blood glucose, and antioxidation. We also provided consumers with nutritional guidance.

In April 2019, we established the Feihe Infant Formula Whole-Industry-Chain Innovation Center in collaboration with the Chinese Academy of Agricultural Sciences' Dairy Innovation Team, marking the industry's first collaboration with universities and research institutions. The innovation center focuses on developing safe and healthy, environmentally friendly, low carbon footprint, nutritious and fresh infant milk powder and other products. It aims to improve the quality of our supplying dairy farms and the "fresh and functional" quality of Feihe dairy milk powder. It also provides an experimental platform for Feihe and the Chinese Academy of Agricultural Sciences' dairy innovation team to research technological cooperation within the industrial chain (fodder, breeding, raw milk, processing, products, quality control, and logistics).

In 2019, the Feihe Infant Formula Whole-Industry-Chain Innovation Center made several achievements in forage planting development, cow breeding, and quality control technology:



We selected the most suitable forage variety for our farms according to our yield and nutrition evaluation based on multiple planting and screening times, and developed high-yield forage cultivation and quality control technology in accordance with local conditions. As a result, the quality of cow breeding has also increased. In 2019, we selected the most suitable corn variety to continue improving our cow breeding quality and began screening our alfalfa and oat varieties.

We developed quality control technologies for cow nutrition and milk, and established a standard pricing system to provide high-quality fresh milk suitable for infant formula milk powder production. Adjusting the feeding formula increased the proportion of dry matter in fresh milk and increased the health of our cows.



The unveiling ceremony for the launch of the Feihe Infant Formula Whole-Industry-Chain Innovation Center

Case study

Dairy Engineering Academician Workstation officially established

On December 28, 2019, we held the unveiling ceremony for the Feihe Industry Chain Innovation Center for Infant Milk Formula in Beijing. The Chinese Academy of Engineering's innovation team and academician Zhu Beiwei pursued innovations in dairy product processing to improve our innovation ability and market competitiveness.

In 2019, the Workstation conducted the novel infant formula powder milk protein ingredients separation and characteristics study, which solved the difficulty of the application of α -casein reconstitution after the extraction of α -casein and resulted in two patent applications. The Workstation promotes cutting-edge collaboration with universities and research institutions and accelerates the transformation of scientific and technological breakthroughs. It also brings us new scientific research skills to further industry development and build a positive image as a national brand.

Case study

Feihe hosted a seminar on dairy innovation and nutrition

On December 18, 2019, we hosted the Dairy Innovation and Nutritional Seminar in Beijing, China, focusing on dairy innovation and nutrition. Numerous scholars spoke at the seminar, including: Zhu Beiwei, academician at the Chinese Academy of Engineering and professor at the School of Food Science and Technology, Dalian Polytechnic University; Wang Jiaqi, Director of the Institute of Food and Nutrition Development, Ministry of Agriculture and Rural Affairs; Lai Jianqiang, Deputy Director of the Institute of Nutrition and Health of the Chinese Center for Disease Control and Prevention; Wang Ji, professor of the Beijing University of Chinese Medicine. The topics ranged from Chinese infant physique research to dairy product quality and safety. The seminar contributed suggestions to the scientific and technological progression and development of China's dairy industry and provided new ideas for dairy innovation and development.



Zhu Beiwei, academician at the Chinese Academy of Engineering and professor at the School of Food Science and Technology, Dalian Polytechnic University giving a speech



04

Dedication to the Ecological Cycle

Caring for nature is in return caring for human beings. Therefore, Feihe advocates keeping a harmonious relationship between human and nature, and firmly believes that high-quality products stem from an improved environment. We value resource usage efficiency and proper waste disposal to limit environmental impact.





The main review of Feihe's Environmental Performance in 2019:

			2019 Environmental Data
Pollutants		Unit	
Emissions	Total waste gas emissions	10,000 m ³	112,340.52
	SO ₂ emissions	Tons	107.15
	NOx emissions	Tons	113.38
	PM emissions	Tons	20.06
	Smoke emissions	Tons	38.34
Wastewater	Domestic wastewater	10,000 tons	26.97
	Industrial wastewater	10,000 tons	69.26
	COD Emissions	Tons	52.82
	BOD Emissions	Tons	10.97
	Ammonia nitrogen emissions	Tons	0.99
CO ₂ emissions	Total	10,000 tons	36.21
	Scope 1	10,000 tons	11.95
	Scope 2	10,000 tons	24.26
	Greenhouse gas (GHG) emissions per unit	10,000 tons/RMB million	0.0026
Hazardous waste	Abandoned laboratory flasks	Tons	5.58
	Liquid discharge	Tons	7.73
	Used oil	Tons	2.14
Hazardous waste total and density	Total	Tons	15.45
	Density	Tons/RMB million	0.001
Domestic solid waste	Wasted paper in office	Tons	5.52
	Kitchen wastes	Tons	75.70
	Waste generated or recycled during production	Tons	547.50
Total industrial solid waste	Ash	Tons	2,196.02
	Slag	Tons	9,050.41
	Sludge	Tons	5.20

		2019 Environmental Data	
Pollutants		Unit	
General solid waste total and density	Total	Tons	11,880.34
	Density	Tons/RMB million	0.87
Energy consumption	Electricity	10,000 kWh	5,132.70
	Coal	Tons	45,453.16
	Fuel oil	Liters	10.89
	Diesel	Liters	57,859.82
	Natural gas	10,000 m ³	1,863.86
	Steam	Tons	476,469.22
	Total comprehensive energy consumption	Tons standard coal	12.49
	Comprehensive energy consumption per unit	Tons standard coal/RMB million	0.0009
Water consumption	Office operations consumption	10,000 tons	0.61
	Industrial consumption	10,000 tons	142.14
	Water consumption per unit	Tons/RMB million	104.03
	Reduction of COD emissions	Tons	7,199.49
Reduction	CO ₂ emissions reduction	Tons	68,709.39
	Water consumption reduction	Tons	12,800.00
Packaging material consumption	Paper, cardboard	Tons	8,919.38
	Iron	Tons	16,573.48
	Plastic	Tons	4,485.70
	Packaging for semi-manufactured products, hot glue KG, glue sticks, etc.	Tons	53.90
	Total	Tons	30,032.46

Notes:

1. The data above was collected merely based on domestic businesses in the People's Republic of China.
2. The comprehensive energy consumption calculations are based on the *General Principles for Calculation of Total Production Energy Consumption GB-T2589-2008*, which is directly calculated from the energy usage of fuel oil, diesel, natural gas, electricity, steam, coal and water consumption.
3. GHG emissions are calculated according to the *Guidelines for Greenhouse Gas Emission Accounting and Reporting for Food, Tobacco and Wine (For Trial Implementation)* issued by the National Development and Reform Commission, where Scope I emissions include emissions from fossil fuel combustion and Scope II emissions include those attributable to externally purchased electricity and thermal power.

Improving the Environmental Protection System

We abide by laws and regulations including the *Environmental Protection Law of the People's Republic of China* and the *Environmental Impact Assessment Law of the People's Republic of China*. We created a set of management systems including the *Procedures of Environmental Protection, Health, and Security Incidents Reporting and Investigation*, the *Procedures of Environmental Factor Recognition, Assessment, and Management*, and the *Procedures of Environmental Management and Operations*. We facilitated environmental management verifications including GB/T 24001-2016 and ISO 14001: 2015 in our subsidiary companies and factories and created specific procedures including the *Procedures of Disposal on Solid Waste*, the *Operating Procedures of Sewage Disposal*, the *Procedures of Exhaust Emissions*, the *Environmental Emergency Response Plan*, and the *Procedures of Discharge Disposal* based on their own operating characteristics. These all contribute to our overall environmental system.

Our Production Management Department is in charge of corporate environmental supervision and has recruited EHS specialists to monitor and manage our implementation of laws, regulations, and corporate standards. We also conduct regular environmental risk management assessments and production training. In 2019, we trained employees in areas including EHS regulations and risk management in storage and transportation in laboratories. We also improved routine assessments including testing of wastewater, emissions, and third-party industrial enterprise noise at our boundaries. In 2019, we experienced no environmental compliance violations.

Building a Green Working Space

The awareness of protecting the environment can make a great difference in the details. In accordance with the principle of "All Matters" regarding environmental protection, we promote environmental protection throughout our business operations and improve the production process and skillsets, successfully achieving a unique practice. We invested RMB21,693,100 in environmental protection in 2019.

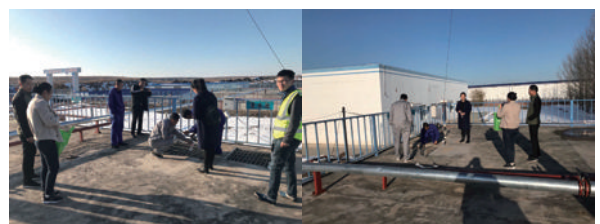
We have reformed our online operating systems, creating our ERP system and digital middle office to reduce our consumption of resources including paper and other office supplies, fuel, and electricity. These efforts helped us to build an environmentally friendly working space.

Our management has helped us to build a more environmentally friendly daily office operation, improving our monitoring of office water, electricity, and paper consumption, implementing LED lighting and limiting our usage of lightning and summer air conditioning to reduce our electricity usage. We encouraged double-sided printing and virtual conferences, and improved our waste classification and recycling policies. We also continue to organize regular environmental protection training and energy-saving events to further promote environmental awareness.

Case study

A Clearer Sky Built by Everyone campaign on Environmental Day

In 2019, we held the Clearer Sky Built by Everyone campaign, hanging banners around our plants for Environmental Day. The EHS Department supervised the entire process by inspecting the compliance of wastewater identification marks and measuring dissolved oxygen level wastewater in real time.



Pictures of the campaign on Environmental Day

Protecting Natural Resources

Feihe strives to protect natural resources and regulate waste disposal. We pay close attention to environmental protection measures, enhancing resource usage efficiency and following strict standards when building green factories.

Green Factory Construction

We are dedicated to constructing an energy-saving, environmentally friendly factory with a low carbon footprint. We have implemented our Life Cycle Management and Control System in compliance with the *General Principles for Assessment of Green Factory*.

Plant Planning

Prior to each construction project, we assess its negative impacts on the surrounding neighborhoods to avoid potential environmental damage and take land usage efficiency into account during our planning. We select construction areas far from residential areas to reduce the negative impact on the community.

Plant Construction

We comply with national safe construction standards, implementing the *Standard for Environment and Sanitation of Construction Site (JGJ146-2013)* by through our *Safe Construction Management Regulations and Safe Construction Management Measures*. We encourage the use of environmentally friendly materials during construction to manage environmental risks. We also thoroughly sort waste generated by engineering construction and recycle it on a case-by-case basis.



Considerate construction

We have adopted several measures to suppress dust during construction. We complete construction in all living, office, storage, and temporary construction areas to avoid dust generation. We cover the exposed ground, earthwork, gravel, and cement with dust-proof nets and suppress water using water-sprinkling carts on roads and construction areas. We cover residue-laden trucks with screening to avoid scattering along the roads. We set up car-washing areas at construction area entrances to eliminate potential pollution.

To eliminate construction noise, we adopted low-noise construction machinery or equipped it with noise reduction appliances. Machinery generating intense noise on the construction site (such as blenders, electric saws, electric planers, and grinders) must be modified with sealed mechanical sheds to reduce the spread of intense noise. We manufacture products such as prefabricated components, doors, and windows in factories and workshops as much as possible to reduce noise. Before construction, we warn residents living nearby and send advanced notices of construction to related departments and bureaus.



Plant Operations

We have adopted advanced technologies and management systems to save energy resources and alleviate negative environmental impacts. We monitor plant waste discharge and emissions through sewage and boiler discharge monitoring facilities, and cooperate with local monitoring stations to control wastewater and emissions. We sort and recycle waste and properly dispose of any that is not recyclable.

Case study

Adoption of environmentally friendly materials

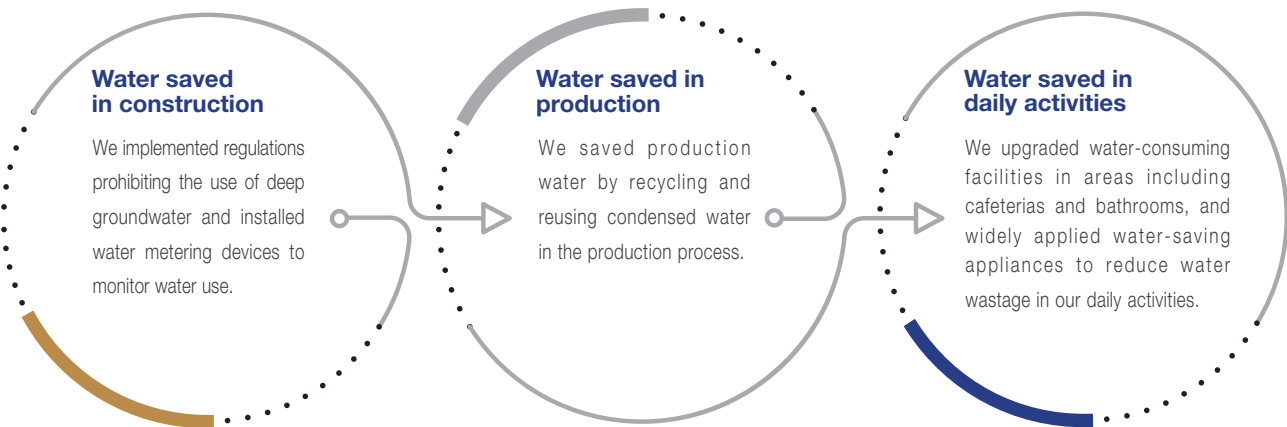
We have abandoned the use of solvent-based paints and coats in favor of waterborne epoxy alternatives. This replaces organic solvents with water, almost entirely eliminating pollution from these materials during the production, transportation, and construction process. We replaced red bricks and other clay sintering materials with new environmentally friendly construction materials made of slag cement and industrial residue to save natural resources and protect the environment. These include ceramic composite blocks, foamed concrete blocks, and prefabricated wall panels.

Protection of Natural Resources

Feihe greatly values the efficient use of resources and energy. We hope to strengthen the supervision of resource use and avoid the potential production of waste to the largest extent, so as to relieve the increasing burden on our planet's environment.

Water resources management

The dairy industry is a water-intensive industry that requires limitations on water usage. We have obtained related water usage permits in compliance with policies including the national water resources control policies and regulations. We have adopted a water resource allocation map to identify water loss and eliminate water waste.



In 2019, we launched the condensed water recycling program and the production process pump seal water recycling program. These saved 2,522 tons/year and 2,190 tons/year of softened water and cooling tower water respectively.

Energy conservation

We attach great importance to energy conservation and consumption reduction. We follow energy-saving principles from the design stage through measures such as heat energy recovery. We focus on controlling energy-intensive facilities during production and operation in accordance with energy efficiency regulations. We inspect machines regularly to prevent issues like dripping and leakage. We organized events across multiple departments to promote energy-saving awareness among employees by exchanging energy-saving ideas and experiences. We also implemented technological reforms and energy recycling projects in 2019 to save steam and electricity energy and reduce emissions.

Case study

Drying tower heat energy recycling system

We implemented a drying tower heat energy recycling system that recycles 90℃ heat from the drying tower. This recycled heat preheats the entrance of the drying tower via heat exchange, reducing natural gas consumption and the air pollution it causes. It also decreases the air temperature discharged by the drying tower into the atmosphere.

Case study

Heat recycling of air compressor

The Zhenlai project stores the heat generated by the air compressor and sends it to the thermal softening water tank, saving the equivalent of 1,745.92 MJ of energy per hour for boilers and workshop users and reducing natural gas consumption by around 50 m³ per hour (1,000 m³ per day).

Case study

Upgrade of Sewage Process Aeration System Phase II in Longjiang

We upgraded the Sewage Process Aeration System by installing four additional air-suspension centrifugal blowers in Phase II. These increased efficiency by 30% compared with the traditional Roots blowers, saving nearly 300,000 kWh of electricity annually.



Waste Disposal

We have improved our waste management, properly disposing of waste generated in operations and reducing environmental damage.

Solid waste

We pay close attention to the proper disposal of solid waste from construction and business operations.



Exhaust emissions

We have addressed emission requirements by directly installing gas boilers in new plants and replacing coal with gas as fuel in the three main suitable factories. We adapted coal-fired boilers using desulfurization, denitrification, and dust removal in the two factories unsuitable for gas boilers to ensure compliance with emission requirements. We also equipped all factories with online equipment to monitor emissions in real time.

Case study

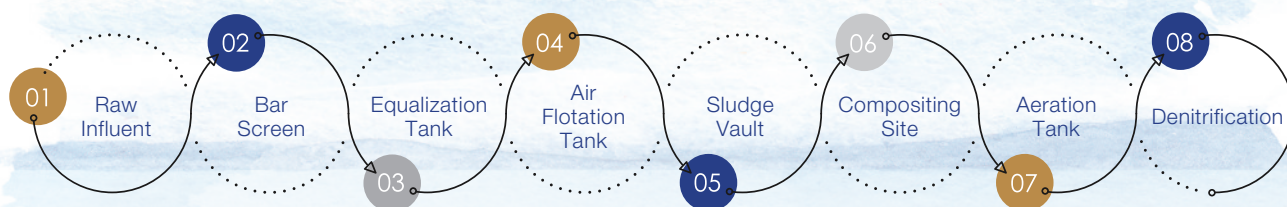
Emission reduction from construction vehicles

Vehicle emissions have been a constant source of air pollution in construction. We have addressed this problem in several ways. First, all construction vehicles must meet the national inspection requirements, pass the annual motor vehicle exhaust test, and obtain the relevant permit. Second, all vehicles excluding necessary heavy vehicles are electrically powered. Finally, we focus on construction machinery and vehicle maintenance, prohibiting the overloading of construction machinery with diesel fuel.

Wastewater disposal

We account for sewage discharge and disposal in our factory designs and have installed sewage disposal facilities for every standardized factory. Each factory installed sewage online monitoring equipment to report disposal data in real time in line with the relevant requirements. In 2019, our research center reduced the total daily sewage volume in the milk parlor from over 430 tons to 350 tons by adjusting the cow breeding formula, and reduced the daily sewage volume in the parlor by over 80 tons, effectively alleviating the sewage treatment burden.

Wastewater disposal flowchart



GHG Emissions

We adopted measures including technological transformation and installing environmental protection machinery to reduce greenhouse gas emissions. A coal reformation project reduced CO₂ emissions by 50,600 tons in 2019 compared to 2018. We also launched our Packaging Disposal Plant Inside The Plant project, reducing annual transportation CO₂ emissions by 300 tons.

05



Devotion to Philanthropic Causes

Feihe is concerned about mother and infant health. We pursue social welfare initiatives including the public education of parenting concepts and knowledge sharing. We also take on social responsibilities like targeted poverty alleviation.





Public Education of Health

As the leader of the infant formula industry in China, Feihe has been dedicated to maternal and infant health and is committed to sharing knowledge on scientific parenting. We are committed to in-depth customer communication so that we can resolve their problems and promote healthy parenting concepts, ensuring healthy infant growth.

Case study

Pioneering Parenting Concepts exhibit explores parenting topics

In 2019, our Pioneering Parenting Concepts II exhibit reflected on the difficulties and pain points of parenting, helping young parents born in the 1990s resolve their parenting struggles, introducing authoritative and avant-garde parenting concepts for consumers' pain points. On December 7, 2019, we brought nine parenting experts to the Beijing subway, spreading parenting concepts through our slogan, "More suitable for Chinese babies". The program effectively helped the consumers resolve their struggles with their parenting, and greatly contributed to high-end parenting in China.



Case study

Feihe joined the 2019 Kids Sports Games

In October 2019, we organized the 2019 Feihe Cup Kids Sports Games final in Changlong, Zhuhai, China. Over 2,500 families and 2,673 children from all over the nation participated in the competition and broke The Guinness Record for the biggest sentence composed of photos. 37,417 photos of smiling children completed the sentence "Feihe Kids Sports Games, stronger Chinese babies".

Physical health, and perseverance are important in child development. Moderate sports can benefit kids for the rest of their lives. The Kids Sports Games targets children aged between two and eight, building their physiques and perseverance. As a national dairy brand, Feihe has been dedicated to serving Chinese babies and providing more suitable dairy to contribute to the healthier growth of Chinese babies and better Chinese parenting.



Targeted Poverty Alleviation

Feihe has a long history of “benefiting society with its best” and has actively responded to the national advocates for “targeted poverty alleviation”. Based on our own advantages, we have developed a model “based on industry characteristics, three-dimensional poverty alleviation, and targeted alleviation”, mainly concentrates on alleviating poverty through enhancing health and nutrition among disadvantaged groups, improving the lives of impoverished people, and contributing to local economic development. In 2019, we made numerous poverty alleviation donations:

We donated RMB **five million** to the Feihe Charity Foundation to hold education-focused poverty alleviation events, improving the teaching capabilities of rural school principals and top teachers in Qiqihar (including nine counties and seven districts).

We donated RMB **one million** to the families of deceased and injured policemen in Qiqihar City.

We donated RMB **233,400** to the Kedong County Charity Foundation for the construction of a cultural square in Kedong County's poverty-stricken Changsheng Village.

We donated RMB **810,000** for infrastructure construction in Renjin Village, Kedong County.

Case study

Charity Bright Tour improves health conditions

From September 26 to October 1, 2019, we took the Charity Bright Tour to Longjiang County, Heilongjiang Province along with the Feihe Charity Campaign hosting committee to treat local people with cataracts. We received 1,500 impoverished cataract patients in Longjiang County and operated on 150 patients. We expressed their devotions to the cause of targeted poverty alleviation by aiding visually handicapped patients and therefore rebuilding their hope to lead better lives. This greatly facilitated the alleviation of poverty throughout Heilongjiang Province.



Case study

China's Well-off Milk Action campaign supports health and poverty alleviation

In 2019, we donated 2,000 boxes of milk powder worth RMB1.32 million to primary and middle school students in poverty-stricken areas including Hebei Province, Gansu Province, Xinjiang Province, and Sichuan Province. We also shared health and nutrition knowledge with children.

Feihe actively responded to the advocates of China Well-off Milk Action from the Ministry of Agriculture and Rural Affairs of the People's Public of China and the Dairy Association of China, greatly contributing to poverty alleviation through education, facilitating the achievement of a “Healthy China” dream, reflecting the power from the national brand.



Philanthropic Activities

We founded the Feihe Charity Foundation in 2018 in Heilongjiang Province to focus on mothers and infants. It also explores other philanthropic possibilities, initiating and supporting sustainable philanthropic projects with long-term social impact. Our philanthropic causes have expanded and become more specialized and in depth. As of December 31, 2019, our charitable donations totaled RMB21,484,000 and over 1,960 people have volunteered have participated.

After the outbreak of COVID-19, we led in donating RMB100 million to the Red Cross Foundation of China to set up the China Red Cross Foundation Feihe Special Fund to Fight the COVID-19 Outbreak. The fund paid for medical staff, medical supplies, and new hospital construction. We donated another RMB100 million in food and other nutrition products to medical staff and pregnant women during the pandemic.

Case study

Happy Growing Up Through Reading event offers parenting education

We launched the Happy Growing Up Through Reading event on parenting education with the China Children and Teenagers' Fund (CCTF). We donated RMB one million for the project, providing 45,000 books to hundreds of families with children aged up to three years in Chongqing City, Luzhou City, and Enshi Tu Autonomous Prefecture. We integrated offline workshops and book donations to explore high-quality parenting methods.



Case study

5.28 Chinese Babies' Day shares parenting methods with families

On May 28, 2019, we held the Initiating 5.28 Chinese Babies' Day – Companion: A More Suitable Love event along with the China Dairy Industry Association and Dairy Association of China. We invited celebrity mothers to share their parenting experiences and created an outdoor Parent-Child Companion Space Station offering crafts, games, and sports.

At the event, we released the *Parental Companion Quality Research Report 2019* with iResearch, analyzing the current parenting situation in China and offered recommendations to parents based on this information. Initiating Chinese Babies' Day helped us bring high-quality companionship solutions to more families.





The strong and healthy development of babies relies on the care of maternal love. Feihe has also shown devotion to maternal care through donations and seminars to contribute to the cause of maternal and infant care in China.

Case study

Attention to Postpartum Depression project

On February 28, 2019, the Feihe Charity Foundation in Heilongjiang Province and Beijing Taijitang Life Sciences Research Institute in Beijing launched the Academic Seminar on Postpartum Depression and Attention to Postpartum Depression symposium, raising awareness of postpartum depression and maternal care.

At the Academic Seminar on Postpartum Depression, experts recommended ways to relieve postpartum depression. The Feihe Charity Foundation donated RMB20 million to the project to support the development of mother and infant care in China.



Future Outlook

In 2020, we will continue to innovate, integrate resources, and serve consumers, partners, communities, and the environment. We will promote the sustainable and healthy development of China's dairy industry for mutual benefit. We will continue to improve the R&D capacity of the Feihe Infant Formula Innovation Center, directing our sustainable development with new technologies and products. We will also drive industrial innovation, protect the environment through green development, care for employees, and give back to society. We will meet our commitments to all stakeholders, bringing hope and happiness to families with our ingenuity and leadership.



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Subject Areas, Aspects, General Disclosures and KPIs		Mapping O/S
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General disclosure		P.20-22, P.24, P.26
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	P.24
B6.2	Number of products and service related complaints received and how they are dealt with.	P.25, P.26
B6.3	Description of practices relating to observing and protecting intellectual property rights.	P.48
B6.4	Description of quality assurance process and recall procedures.	P.20-22, P.24
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	P.26
Aspect B7: Anti-corruption		
General disclosure		P.17
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	P.17
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	P.17
Community		
Aspect B8: Community investment		
General disclosure		P.65, P.66
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	P.62
B8.2	Resources contributed (e.g. money or time) to the focus area.	P.64-66

Feedback

Dear readers,

Thank you very much for reading the 2019 Environmental, Social and Governance Report of China Feihe Limited. We attach great importance and look forward to your feedback on Feihe's management, practice and report related to environmental, social and governance. To further improve our work and make the next report better meet your expectations, we hope that you will give feedback and suggestions in the following aspects.

1. Are you satisfied with the overall report?

Satisfied ☐ Acceptable ☐ Not Satisfied ☐

2. Is the information you care about presented in this report?

Satisfied ☐ Acceptable ☐ Not Satisfied ☐

3. Do you think Feihe's environmental protection, social compliance and corporate governance and the impact on stakeholders are accurately presented in this report?

Satisfied ☐ Acceptable ☐ Not Satisfied ☐

4. Can you easily find the information of interest in this report?

Satisfied ☐ Acceptable ☐ Not Satisfied ☐

Open question

Please write down your comments and suggestions on China Feihe Limited's environmental protection, social compliance and corporate governance, as well as on this report.

Your contact information

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We will give due consideration to your comments and suggestions, and promise to protect your information from being accessed by third parties.



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