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China Feihe Limited
中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6186)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020:

- The Group's revenue was RMB8,707 million, representing an increase of 48% as compared to the same period last year;
- The Group's gross profit was RMB6,176 million, representing an increase of 55% as compared to the same period last year;
- The Group's profit for the period was RMB2,753 million, representing an increase of 57% as compared to the same period last year;
- Basic earnings per share of the Company amounted to RMB0.31; and
- Diluted earnings per share of the Company amounted to RMB0.30.

The board of directors (the "**Board**") of China Feihe Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2020 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2019.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2020

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Profit for the period		**2,753,131**	1,750,833
Other comprehensive income/(loss)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**107,202**	(445)
Total comprehensive income for the period attributable to owners of the parent		**2,860,333**	1,750,388

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

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

NOTES

1 BASIS OF PREPARATION

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

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

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have material impact on the Group's interim condensed consolidated financial information.

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

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

Investment in a joint venture

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

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

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

	30 June	31 December
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**2,886,903**	2,681,452
United States of America	**113,962**	209,660
Canada	**1,824,451**	1,801,859
	4,825,316	4,692,971

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

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

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

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

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

Notes:

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

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

5. PROFIT BEFORE TAX

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

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

6. OTHER EXPENSES

An analysis of other expenses is as follows:

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. INCOME TAX

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

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

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

9. DIVIDEND

During the six months ended 30 June 2020, the Company declared a final dividend of HK$0.1943 per ordinary share, equivalent to a total of approximately RMB1,582,447,000, for the year ended 31 December 2019 to its shareholders.

Subsequent to the end of the Reporting Period, the board of directors declared an interim dividend of HK$0.1375 (six months ended 30 June 2019: Nil) per ordinary share, amounting to a total of approximately RMB1,101,477,000 (six months ended 30 June 2019: Nil).

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

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

The calculation of the diluted earnings per share amount for the six months ended 30 June 2020 is based on the profit for the period attributable to owners of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options as at 30 June 2020 into ordinary shares under the share option scheme.

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

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

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

11. TRADE AND BILLS RECEIVABLES

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

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

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

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

12. TRADE AND BILLS PAYABLES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

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

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

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

- Favorable industry policies by the PRC government:

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

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

- Low level of exclusive breastfeeding rate. The rate of infants that are fed exclusively with breast milk for the first six months after birth was 29% in 2019. The increasing resemblance of infant milk formula to breast milk, availability of infant milk formula and inconvenience of breastfeeding for working mothers are among the primary factors that have influenced a mother's choice of whether or not to breastfeed her baby. With China's continued economic growth and urbanization process, breastfeeding rates are forecasted to remain at low levels, creating more demand for infant milk formula products.

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

Business Overview

Dairy Products

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

Sales and Distribution Network

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

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

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 30 June 2020, the Group had seven production facilities to manufacture its products with a designed annual production capacity of 192,400 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. In anticipation of the Group's continued robust growth and increasing demand for its products, the Group is expanding one of its existing production facilities (our Longjiang plant) and constructing one new production facility (our Harbin plant).

Marketing

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

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. In the six months ended 30 June 2020, more than 330,000 face-to-face seminars were held in total, which include more than 144,000 online face-to-face seminars and 186,000 offline face-to-face seminars;

- Maximize online interactivity with consumers; and

- Targeted and results-driven exposure on media.

Vitamin World USA

The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA ("**Vitamin World USA**"). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated 62 specialty stores across the United States of America (the "**United States**"), mostly in malls and outlet centres, and employed over 340 people as at 30 June 2020. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms. Revenue generated from nutritional supplement products was RMB186.3 million, accounting for 2.1% of the Group's total revenue for the six months ended 30 June 2020.

Operating Results and Analysis

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

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

Revenue

The Group's revenue increased by 47.8% from RMB5,891.7 million for the six months ended 30 June 2019 to RMB8,706.6 million for the six months ended 30 June 2020, primarily due to (i) an increase in revenue generated from the high-end infant formula product series primarily attributable to the increase in revenue from Super-premium Astrobaby and Super-premium Organic Zhenzhi product series, (ii) an increase in revenue generated from regular infant milk formula product series primarily attributable to the enhanced recognition of the Group's brand, and (iii) the Group's swift response to the development of the Pandemic in China, which helped minimize the impact of the Pandemic on the Group's production, logistics and sales. The decrease in the revenue from nutritional supplement products during the same periods was primarily due to the store closures resulting from the Pandemic in the United States.

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

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

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

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

Other Income and Gains, Net

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

Finance Costs

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

Profit before Tax

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

Income Tax Expenses

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

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

Profit for the Period

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

Liquidity and Capital Resources

In the six months ended 30 June 2020, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from the global offering of the Company (the "**Global Offering**"). The Group monitors its bank balances on a daily basis and conduct monthly reviews of our cash flows. We also prepare a monthly cash flow plan and forecast, which is submitted for approval by our Chief Financial Officer and Vice President of Finance Department, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs.

In addition, we also used cash to purchase wealth management products. The underlying financial assets of the wealth management products generally are a basket of assets with a combination of money market instruments such as money market funds, interbank lending and time deposits, debt, bonds and other assets such as assets in insurance, trust fund plans and letters of credit. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment.

Cash and Cash Equivalents

As at 30 June 2020, the Group had cash and cash equivalents of RMB10,583.3 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

Net Proceeds from the Global Offering

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

Bank and Other Borrowings

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

Capital Structure

As at 30 June 2020, the Group had net assets of RMB14,362.9 million, comprising current assets of RMB17,336.0 million, non-current assets of RMB5,171.2 million, current liabilities of RMB6,213.4 million and non-current liabilities of RMB1,930.9 million.

The Group's gearing ratio was calculated by net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances, time deposits, restricted cash and pledged deposits. Total capital is calculated as equity holders' funds (i.e. total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The Group's gearing ratio decreased from (0.49) as at 31 December 2019 to (0.68) as at 30 June 2020.

Interest Rate Risk and Exchange Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the six months ended 30 June 2020, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which is made in Canadian dollars. During the six months ended 30 June 2020, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2020, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

Pledge of the Group's Assets

The Group's pledged assets primarily represent construction in progress of RMB721.9 million, property, plant and equipment of RMB1,068.2 million and pledged deposits of RMB403.0 million. As at 30 June 2020, the total pledged group assets amounted to approximately RMB2,193.1 million, representing a decrease of RMB3,269.1 million as compared to the beginning of 2020.

Future Plans for Material Investments or Capital Assets

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

Contingent Liabilities

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

Future Prospects

Striving to lead R&D and technology development

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

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

Enhancing brand power by continuously providing value-added consumer services

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

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

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

Empower business development with digital and intelligent transformation

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

Enable problem-solving through innovative marketing

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

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

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

OTHER INFORMATION

EMPLOYEES AND REMUNERATION

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

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

Subsequent Events

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognizes the importance of maintaining and promoting sound corporate governance. The principles of the Company's corporate governance are to promote effective internal control measures, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to the Company and its shareholders. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

Save as disclosed below, the Board is of the view that the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2020.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman and Chief Executive Officer of the Company are held by Mr. LENG Youbin ("**Mr. Leng**"), who has in-depth industry experience and knowledge about the operation and management of the business of the Company. Mr. Leng is the founder of the Group and has been operating and managing the Group. He is responsible for the overall development strategies and business plans of the Group. The Board is of the view that given that Mr. Leng had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code of conduct regarding directors' dealings in the securities of the Company.

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2020.

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

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

Neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

USE OF NET PROCEEDS

The Company was listed on the Stock Exchange on 13 November 2019 and the net proceeds raised from the Global Offering were approximately HK$6,554.7 million. During the Reporting Period, there was no change in the intended use of net proceeds as disclosed in the prospectus of the Company dated 30 October 2019 (the "**Prospectus**").

As at 30 June 2020, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK$1,118.1 million being used for the payment of offshore debts; (ii) HK$62.5 million being used for the expansion of Vitamin World USA operations; and (iii) HK$67.9 million being used for the working capital and general corporate purposes. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of HK$0.1375 per Share for the six months ended 30 June 2020 (the "**2020 Interim Dividend**") with an aggregate amount of approximately HK$1,228,334,250 (equalling approximately RMB1,101,476,800) to shareholders of the Company (the "**Shareholders**") whose names are listed on the Company's register of members on 3 September 2020. The 2020 Interim Dividend is 40% of our net profit for the six months ended 30 June 2020, which is based on (i) our dividend policy set out in the Prospectus for distributing 30% of our net profit, and (ii) an additional special interim dividend of 10% of our net profit for the six months ended 30 June 2020 in RMB denomination being converted into Hong Kong dollar denomination based on the average central parity rate of RMB to Hong Kong dollar as announced by the People's Bank of China for the five business days prior to the date of this announcement. The 2020 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 18 September 2020.

In order to ascertain Shareholders' entitlement to the proposed 2020 Interim Dividend, the register of members of the Company will be closed from 2 September 2020 to 3 September 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 2020 Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 1 September 2020.

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

AUDIT COMMITTEE

The Company has established the audit committee of the Company (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, namely Mr. FAN Yonghong, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE. Mr. FAN Yonghong is the chairman of the Audit Committee.

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements and interim results for the six months ended 30 June 2020.

The unaudited consolidated interim results of the Company and its subsidiaries for the six months ended 30 June 2020 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2020 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.feihe.com. The 2020 Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders in due course and will be published on the websites of the Company and the Stock Exchange.

By Order of the Board
China Feihe Limited
LENG Youbin
Chairman

Beijing, China, 18 August 2020

As at the date of this announcement, our executive directors are Mr. LENG Youbin, Mr. LIU Hua, Mr. CAI Fangliang, Ms. Judy Fong-Yee TU and Mr. CHEUNG Kwok Wah; our non-executive directors are Mr. GAO Yu and Mr. Kingsley Kwok King CHAN; and our independent non-executive directors are Ms. LIU Jinping, Mr. SONG Jianwu, Mr. FAN Yonghong and Mr. Jacques Maurice LAFORGE.