China Feihe Limited
中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6186)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020:

- The Group's total revenue was RMB18,592.5 million, representing an increase of 35.5% as compared with last year.
- The Group's gross profit was RMB13,480.3 million, representing an increase of 40.3% as compared with last year.
- The Group's profit for the year was RMB7,436.6 million, representing an increase of 89.0% as compared with last year.
- The Company acquired 71.26% of the issued shares in YuanShengTai Dairy Farm Limited ("**YST**"). The Group recorded gain on bargain purchase of RMB1,729.6 million resulting from the acquisition of YST. The financial results of YST have been consolidated into the Group's financial statements since 2 December 2020 following such acquisition.
- The Group's adjusted profit for the year (as a non-IFRSs measure) was RMB6,045.4 million, representing an increase of 48.5% as compared with last year. See "Non-IFRSs Measure: Adjusted Profit for the Year" below for details.
- Basic earnings per share of the Company amounted to RMB0.83 (2019: RMB0.48).
- Diluted earnings per share of the Company amounted to RMB0.82 (2019: RMB0.48).
- The Board has proposed to declare final dividend of HK$0.1586 per share of the Company (2019: HK$0.1943 per share of the Company). The Company also paid an interim dividend of HK$0.1375 per Share with an aggregate amount of approximately HK$1,228,334,250 (equalling approximately RMB1,101,476,800) in September 2020.

The board of directors (the "**Board**") of China Feihe Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020, together with the comparative amounts and explanatory notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
Revenue	*4*	**18,592,465**	13,721,509
Cost of sales		**(5,112,187)**	(4,111,918)
Gross profit		**13,480,278**	9,609,591
Other income and gains, net	*4*	**1,414,493**	976,789
Gain on bargain purchase	*4*	**1,729,552**	–
Selling and distribution expenses		**(5,263,430)**	(3,847,985)
Administrative expenses		**(1,161,214)**	(913,226)
Other expenses		**(231,085)**	(69,800)
Finance costs		**(50,160)**	(72,693)
Share of loss of an associate		**(5,571)**	–
Changes in fair value less costs to sell of biological assets		**(12,374)**	–
Profit before tax	*5*	**9,900,489**	5,682,676
Income tax expense	*6*	**(2,463,857)**	(1,748,099)
Profit for the year		**7,436,632**	3,934,577
Attributable to:			
Owners of the parent		**7,436,873**	3,934,577
Non-controlling interests		**(241)**	–
		7,436,632	3,934,577
Earnings per share attributable to owners of the parent			
Basic (expressed in RMB per share)	*8*	**0.83**	0.48
Diluted (expressed in RMB per share)	*8*	**0.82**	0.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Profit for the year	**7,436,632**	3,934,577
Other comprehensive loss		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(144,687)**	(30,187)
Total comprehensive income for the year	**7,291,945**	3,904,390
Attributable to:		
Owners of the parent	**7,291,995**	3,904,390
Non-controlling interests	**(50)**	–
	7,291,945	3,904,390

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**7,197,272**	3,971,218
Investment properties		**78,134**	–
Right-of-use assets		**366,219**	377,261
Goodwill		**47,976**	47,976
Intangible assets		**89**	39
Investment in a joint venture		**6,301**	–
Investment in an associate		**136,959**	142,530
Financial asset at fair value through other comprehensive income		**1,800**	1,800
Deposits for purchases of items of property, plant and equipment		**126,070**	153,947
Biological assets		**1,441,941**	–
Deferred tax assets		**375,682**	208,686
Pledged deposits		**–**	811,715
Total non-current assets		**9,778,443**	5,715,172
CURRENT ASSETS			
Inventories		**1,284,472**	686,094
Trade and bills receivables	*9*	**288,808**	314,353
Prepayments, deposits and other receivables		**556,972**	571,112
Due from a director		**80**	80
Structured deposits		**6,331,376**	5,390,191
Pledged deposits		**–**	2,872,699
Restricted cash		**23,920**	76,578
Cash and cash equivalents		**10,058,767**	7,377,470
Total current assets		**18,544,395**	17,288,577
CURRENT LIABILITIES			
Trade and bills payables	*10*	**1,132,941**	1,041,547
Other payables and accruals		**4,517,720**	2,631,160
Interest-bearing bank and other borrowings		**448,254**	3,094,214
Lease liabilities		**98,331**	57,145
Tax payable		**910,123**	614,434
Total current liabilities		**7,107,369**	7,438,500
NET CURRENT ASSETS		**11,437,026**	9,850,077
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,215,469**	15,565,249

	2020 *RMB'000*	2019 *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**732,217**	1,716,064
Other payables and accruals	**374,259**	133,929
Deferred tax liabilities	**784,212**	557,192
Lease liabilities	**139,256**	128,486
Total non-current liabilities	**2,029,944**	2,535,671
Net assets	**19,185,525**	13,029,578
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1**	1
Reserves	**17,747,108**	13,029,577
	17,747,109	13,029,578
Non-controlling interests	**1,438,416**	–
Total equity	**19,185,525**	13,029,578

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 26 October 2012. The registered office address of the Company is P.O. Box 2075, George Town, Grand Cayman KY1-1105, Cayman Islands.

The Company is an investment holding company. During the year, the principal activities of the Group consisted of the production and sale of dairy products and raw milk, and sale of nutritional supplements.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 November 2019.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for a financial asset at fair value through other comprehensive income and structured deposits which have been measured at fair value and biological assets and agricultural produce which have been measured at fair value less costs to sell. The financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements:

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any significant impact on the financial position and performance of the Group.

(e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised (after the acquisition of YuanShengTai Dairy Farm Limited) into business units based on their products and has two reportable operating segments as follows:

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

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

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

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

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

Year ended 31 December 2020

	Raw milk *RMB'000*	Dairy products and nutritional supplements products *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	11,730	18,580,735	18,592,465
Intersegment sales	119,219	–	119,219
	130,949	18,580,735	18,711,684
Reconciliation:			
Elimination of intersegment sales			(119,219)
Revenue			18,592,465
Segment results	(3,154)	7,922,423	7,919,269
Reconciliation:			
Elimination of intersegment results			(36,442)
Bank interest income			124,562
Other interest income			213,049
Gain on bargain purchase			1,729,552
Share of loss of an associate			(5,571)
Finance costs (other than interest on lease liabilities)			(43,930)
Profit before tax			9,900,489
Segment assets	4,862,199	6,740,337	11,602,536
Reconciliation:			
Elimination of intersegment receivables			(119,219)
Corporate and other unallocated assets			16,839,521
Total assets			28,322,838
Segment liabilities	886,842	5,494,884	6,381,726
Reconciliation:			
Elimination of intersegment payables			(119,219)
Corporate and other unallocated liabilities			2,874,806
Total liabilities			9,137,313

During the year ended 31 December 2019, the Group principally focused 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, focused on the operating results of the Group as a whole as the Group's resources were integrated and no discrete operating segment information was available. Accordingly, no operating segment information was presented.

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**18,304,151**	13,162,917
United States of America	**288,314**	558,592
	18,592,465	13,721,509

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

(b) Non-current assets

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**7,516,705**	2,681,452
United States of America	**97,799**	209,660
Canada	**1,786,457**	1,801,859
	9,400,961	4,692,971

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

Information about major customers

There was no single external customer of the Group that individually accounted for 10% or more of the Group's total revenue during the year (2019: Nil).

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced amount of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers	**18,592,465**	13,721,509

(i) Disaggregated revenue information

	2020	2019
	RMB'000	*RMB'000*
Type of goods		
Sales of goods	**18,592,465**	13,721,509
Geographical markets		
Mainland China	**18,304,151**	13,162,917
United States of America	**288,314**	558,592
Total revenue from contracts with customers	**18,592,465**	13,721,509
Timing of revenue recognition		
Goods transferred at a point in time	**18,592,465**	13,721,509

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020	2019
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of goods	**1,047,653**	577,525

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of dairy products and raw milk

The performance obligation is satisfied upon delivery of products. The Group has a policy of requiring payment in advance from customers for sales of products (other than cash and credit card sales), except for some major customers and raw milk customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers.

Sale of nutritional supplements

The performance obligation is satisfied when the control of goods has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

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

	Note	**2020** ***RMB'000***	2019 *RMB'000*
Other income			
Bank interest income		**124,562**	87,659
Other interest income		**213,049**	75,341
Government grants related to			
– Assets		**12,973**	1,674
– Income	*(i)*	**997,636**	723,641
Gross rental income		**1,054**	–
Reversal of impairment of other receivable		**1,050**	1,172
Others		**30,493**	38,302
		1,380,817	927,789
Gains, net			
Fair value gains on structured deposits, net		**33,676**	40,192
Others		**–**	8,808
		33,676	49,000
Total other income and gains, net		**1,414,493**	976,789
Gain on bargain purchase		**1,729,552**	–
		3,144,045	976,789

(i) 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):

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold*	**5,012,242**	4,111,918
Breeding costs to produce	**73,586**	–
Production costs for raw milk	**26,359**	–
Cost of sales	**5,112,187**	4,111,918
Depreciation of property, plant and equipment	**220,478**	110,889
Less: Capitalised in biological assets	**(3,781)**	–
Depreciation recognised in the consolidated statement of profit or loss	**216,697**	110,889
Depreciation of investment properties	**930**	–
Depreciation of right-of-use assets	**45,245**	70,248
Rent expense – short term leases	**6,935**	7,920
Rent expense – contingent rent	**896**	2,846
Interest expense on lease liabilities	**6,230**	8,872
Amortisation of intangible assets	**7**	4
Changes in fair value less costs to sell of biological assets	**12,374**	–
Research and development costs@	**265,335**	171,070
Auditors' remuneration	**7,840**	4,700
Employee benefit expense* (excluding directors' and chief executive's remuneration):		
Wages and salaries	**787,898**	524,015
Pension scheme contributions (defined contribution schemes)	**44,699**	69,075
Equity-settled share option expense	**15,300**	–
Less: Capitalised in biological assets	**(3,453)**	–
	844,444	593,090
Write-down of inventories to net realisable value#	**1,754**	336
Impairment of trade receivables, net	**11,446**	640
Impairment/(reversal of impairment) of other receivables, net	**(1,050)**	15,683
Impairment of right-of-use assets^	**56,372**	–
Impairment of property, plant and equipment^	**2,710**	–
Loss on disposal of items of property, plant and equipment, net^	**18,181**	13,696
Gain on bargain purchase	**(1,729,552)**	–
Fair value gains on structured deposits	**(33,676)**	(40,192)

@ Included in "Administrative expenses" in the consolidated statement of profit or loss.

Included in "Cost of sales" in the consolidated statement of profit or loss.

^ Included in "Other expenses" in the consolidated statement of profit or loss.

* Part of the employee benefit expense is included in "Cost of inventories sold".

6. INCOME TAX

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

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

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

	2020	2019
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**2,398,574**	1,552,742
Deferred	**65,283**	195,357
Total tax charge for the year	**2,463,857**	1,748,099

7. DIVIDEND

On 14 October 2019, the Company declared a special dividend of HK$3 billion (equivalent to approximately RMB2.7 billion) to its shareholders.

Interim dividend of HK$0.1375 (2019: Nil) per ordinary share, equivalent to an aggregate of approximately RMB1.10 billion (2019: Nil) was declared and paid during the year ended 31 December 2020.

The proposed final dividend of HK$0.1586 (2019: HK$0.1943) per ordinary share, equivalent to an aggregate of approximately RMB1.19 billion (2019: equivalent to approximately RMB1.58 billion) for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "**AGM**").

8. 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 for the year ended 31 December 2020 and the weighted average number of ordinary shares in issue during the year.

The calculation of the basic earnings per share amount for the year ended 31 December 2019 was based on the profit attributable to owners of the parent for that year and the weighted average number of ordinary shares in issue during the year ended 31 December 2019. The weighted average number of ordinary shares had been retrospectively adjusted for the effect of the share subdivision on 14 October 2019 on the assumption that the share subdivision had been in effect on 1 January 2019.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 into ordinary shares under the share option scheme.

	2020	2019
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to owners of the parent	**7,436,873**	3,934,577

	Number of shares	
	2020	2019
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**8,933,340,000**	8,157,480,329
Effect of dilution – weighted average number of ordinary shares:		
Share options	**176,142,943**	18,122,990
	9,109,482,943	8,175,603,319

9. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**224,307**	214,350
Bills receivable	**85,542**	109,598
	309,849	323,948
Impairment	**(21,041)**	(9,595)
	288,808	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 and sales of raw milk), except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**251,382**	222,434
1 to 2 months	**14,044**	21,924
2 to 3 months	**13,603**	55,245
Over 3 months	**9,779**	14,750
	288,808	314,353

10. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade and bills payables	**1,132,941**	1,041,547

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**1,086,328**	1,018,656
3 to 6 months	**23,433**	9,211
Over 6 months	**23,180**	13,680
	1,132,941	1,041,547

The trade and bills payables are unsecured, non-interest-bearing and are normally settled on terms of one to six 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 accepted the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to a report by Frost & Sullivan, an industry consulting firm, due to China's declining birth rate, the retail sales volume in China's infant milk formula market in terms of retail sales volume began to decline in 2019, and is expected to decrease to 764,900 tons by 2025, representing a CAGR of -4.1% from 2020. However, due to the factors listed below, the retail sales value in China's infant milk formula market is expected to remain stable.

- Growth in consumers' confidence in the quality of and preference for China's infant milk formula products. With the enhancement in the quality management regime of China's dairy industry and the increased competitiveness of Chinese dairy brands, consumers' confidence in and consumption preference for China's infant milk formula products continued to increase. 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' 2020 Statistical Report on National Economic and Social Development, China's total economic volume in 2020 reached RMB101.6 trillion, with a per capita GDP of RMB72,447 (USD$10,500) (converted at the average exchange rate of 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 remain a 60% self – sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.

  - o 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 approximately 29% in 2020. 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.

Business Overview

Our 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's products cover infant milk formula products and children milk powder products, including super-premium, premium and regular series, as well as other products such as dairy products for adults and students, etc.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of approximately 2,000 offline customers with more than 110,000 retail points of sale as at 31 December 2020. The Group's offline customers are distributors who sell our products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 86.4% of its total revenue from dairy products for the year ended 31 December 2020.

To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, our products are also sold directly on some of the largest e-commerce platforms, such as Tmall, JD.com, and Suning.com, etc., in addition to our own website and mobile applications, such as WeChat.

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 31 December 2020, the Group had eight production facilities to manufacture its products with a designed annual production capacity of 232,400 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 existing production facility and constructing a new production facility.

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. In 2020, the Group appointed Wu Jing (吳京), an international celebrity, as our new brand ambassador primarily for organic products of the Group. 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 2020, around 700,000 face-to-face seminars were held in total;

- Maximising online interactivity with consumers; and

- Targeted and results-driven exposure on media.

Vitamin World USA

While focusing on the principal business of production and sales of infant milk formula products, the Group has been actively seeking opportunities to diversify its businesses. 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, mostly in malls and outlet centres, and employed 255 people as at 31 December 2020. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms, such as Amazon, Tmall Global and JD.hk. Revenue generated from nutritional supplement products was RMB311.7 million, accounting for 1.7% of the Group's total revenue for the year ended 31 December 2020.

Acquisition of YST

YST is one of the leading dairy farming companies in the PRC in terms of herd size and production volume. It has been our largest fresh milk supplier, offering excellent geographical advantages given its farms are in close proximity of our downstream processing plants, which enables the freshness of the fresh milk supplied to be optimally preserved.

In order to (i) further strengthen our leading position in high-end infant milk formula market, (ii) provide enhanced protection and security on our raw milk supplies in light of future policy trend and recent acquisition transactions in China's dairy farming industry, and (iii) become an integrated market leader with demonstrated ability to control the entire value chain and further enhance operation efficiency, we acquired 71.26% of the issued share capital in YST in 2020. The financial results of YST have been consolidated into our financial statements since 2 December 2020 following such acquisition. The Group recorded gain on bargain purchase of RMB1,729.6 million resulting from the acquisition of YST. For the year ended 31 December 2020, YST contributed revenue of RMB11.7 million and net profit of RMB0.9 million to the Group's financial performance.

For more details of the acquisition of YST, please refer to the joint announcements dated 6 September 2020, 28 September 2020, 12 October 2020, the update announcement dated 28 October 2020, the composite document dated 30 October 2020, the joint announcements dated 18 November 2020 and 2 December 2020 jointly issued by the Company and YST.

Operating Results and Analysis

The table below sets forth the Group's consolidated statement of profit or loss and consolidated statement of comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the years indicated, together with changes (expressed in percentages) from 2019 to 2020.

	Year Ended 31 December				Year-on-Year Change
	2020		2019		
	(In thousands of RMB, except percentages)				
Revenue	**18,592,465**	**100%**	13,721,509	100.0%	35.5%
Cost of sales	**(5,112,187)**	**(27.5)%**	(4,111,918)	(30.0)%	24.3%
Gross profit	**13,480,278**	**72.5%**	9,609,591	70.0%	40.3%
Other income and gains, net	**1,414,493**	**7.6%**	976,789	7.1%	44.8%
Gain on bargain purchase	**1,729,552**	**9.3%**	–	–	N/A
Selling and distribution expenses	**(5,263,430)**	**(28.3)%**	(3,847,985)	(28.0)%	36.8%
Administrative expenses	**(1,161,214)**	**(6.2)%**	(913,226)	(6.7)%	27.2%
Other expenses	**(231,085)**	**(1.2)%**	(69,800)	(0.5)%	231.1%
Finance costs	**(50,160)**	**(0.3)%**	(72,693)	(0.5)%	(31.0)%
Share of loss of an associate	**(5,571)**	**0%**	–	–	N/A
Changes in fair value less costs to sell of biological assets	**(12,374)**	**(0.1)%**	–	–	N/A
Profit before tax	**9,900,489**	**53.3%**	5,682,676	41.4%	74.2%
Income tax expense	**(2,463,857)**	**(13.3)%**	(1,748,099)	(12.7)%	40.9%
Profit for the year	**7,436,632**	**40.0%**	3,934,577	28.7%	89.0%
Other comprehensive loss					
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**(144,687)**	**(0.8)%**	(30,187)	(0.2)%	379.3%
Total comprehensive income for the year	**7,291,945**	**39.2%**	3,904,390	28.5%	86.8%

Revenue

The Group's revenue increased by 35.5% from RMB13,721.5 million in 2019 to RMB18,592.5 million in 2020, primarily due to (i) an increase in revenue generated from the infant formula product series primarily attributable to the increase in revenue from Astrobaby and Organic Zhenzhi product series and (ii) an increase in revenue generated from infant milk formula product series primarily attributable to the enhanced recognition of the Group's brand. The decrease in revenue from nutritional supplement products from 2019 to 2020 was primarily due to a decrease in consumer traffic and closure of stores in the United States attributable to the COVID-19 pandemic.

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

	Year Ended 31 December				**Year-on-Year Change**
	2020		2019		
	(In thousands of RMB, except percentages)				
Infant milk formula products	**17,673,809**	**95.0%**	12,538,115	91.4%	41.0%
Other dairy products*	**607,001**	**3.3%**	605,169	4.4%	0.3%
Nutritional supplement products	**311,655**	**1.7%**	578,225	4.2%	(46.1)%
Total revenue	**18,592,465**	**100%**	13,721,509	100.0%	35.5%

* Our 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 24.3% from RMB4,111.9 million in 2019 to RMB5,112.2 million in 2020, primarily due to the higher 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 years indicated.

	Year Ended 31 December				
	2020		2019		**Year-on-Year Change in Gross Profit**
	Gross Profit	**Gross Profit Margin**	Gross Profit	Gross Profit Margin	
	(In thousands of RMB, except percentages)				
Infant milk formula products	**13,098,171**	**74.1%**	9,080,595	72.4%	44.2%
Other dairy products	**233,685**	**38.5%**	210,240	34.7%	11.2%
Nutritional supplement products	**148,422**	**47.6%**	318,756	55.1%	(53.4)%
Gross profit	**13,480,278**	**72.5%**	9,609,591	70.0%	40.3%

As a result of the foregoing, the Group's gross profit increased by 40.3% from RMB9,609.6 million in 2019 to RMB13,480.3 million in 2020.

The Group's gross profit margin increased from 70.0% in 2019 to 72.5% in 2020, primarily due to the Group's infant milk formula product series, which had a relatively high gross profit margin among its products, accounted for an increased portion of sales in 2020.

Other Income and Gains, Net

Our other income and gains, net increased by 44.8% from RMB976.8 million in 2019 to RMB1,414.5 million in 2020, primarily due to (i) an increase in interest income and (ii) an increase in government grants.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 36.8% from RMB3,848.0 million in 2019 to RMB5,263.4 million in 2020, primarily due to (i) an increase in costs in relation to advertising and (ii) an increase in staff costs in relation to sales and distribution.

Administrative Expenses

Our administrative expenses increased by 27.2% from RMB913.2 million in 2019 to RMB1,161.2 million in 2020, primarily due to (i) an increase in research and development expenses and (ii) an increase in exchange loss.

Other Expenses

Our other expenses increased by 231.1% from RMB69.8 million in 2019 to RMB231.1 million in 2020, primarily due to (i) expenses incurred as a result of donations made during the COVID-19 pandemic and (ii) an increase in impairment of right-of-use assets related to the operation of Vitamin World USA.

Finance Costs

Our finance costs decreased by 31.0% from RMB72.7 million in 2019 to RMB50.2 million in 2020, primarily due to a decrease in our interest-bearing borrowings.

Changes in fair value less costs to sell of biological assets

We recorded a loss from the changes in fair value less costs to sell of biological assets of RMB12.4 million in 2020 after our acquisition of 71.26% of the issued shares in YST during the year. The loss was primarily due to a decrease of the fair value of milkable cows as a result of an increase in feeding cost.

Gain on bargain purchase

We recorded gain on bargain purchase of RMB1,729.6 million in 2020 due to our acquisition of 71.26% of the issued shares in YST. The recognition of gain on bargain purchase was because the shareholders of YST agreed to accept a consideration that is lower than the fair value of net identifiable assets acquired as the low trading liquidity of the YST shares could make it difficult for shareholders of YST to divest scalable on-market disposals without adversely affecting the price of the YST shares.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 74.2% from RMB5,682.7 million in 2019 to RMB9,900.5 million in 2020.

Income Tax Expense

Our income tax expense increased by 40.9% from RMB1,748.1 million in 2019 to RMB2,463.9 million in 2020 as a result of an increase in our profit before tax in 2020.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 30.8% in 2019 and 24.9% in 2020.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 89.0% from RMB3,934.6 million in 2019 to RMB7,436.6 million in 2020. In particular, RMB1,729.6 million out of the profit for the year of RMB7,436.6 million in 2020 was attributable to gain on bargain purchase due to the acquisition of 71.26% of issued shares in YST.

Non-IFRSs Measure: Adjusted Profit for the Year

To supplement our consolidated financial statements, which are presented in accordance with IFRSs, we also use adjusted profit for the year as an additional financial measure, which is not required by, or presented in accordance with, IFRSs. We believe such non-IFRSs measure facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items (i) relating to the acquisition of YST and (ii) which our management considers non-indicative of our operating performance. We believe these measures provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as they help our management. However, our presentation of adjusted profit for the year may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRSs measure has limitations as an analytical tool, and should not be considered in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRSs.

The following table reconciles our adjusted profit for the years presented to the most directly comparable financial measures calculated and presented in accordance with IFRSs, which is profit for the year:

	Year ended 31 December	
	2020	2019
	(In thousands of RMB)	
Profit for the year	**7,436,632**	3,934,577
Adjusted for:		
Profit from YST	**(905)**	–
Gain on bargain purchase	**(1,729,552)**	–
Changes in fair value less costs to sell of biological assets	**12,374**	–
Donations	**131,883**	21,484
Equity-settled share option expenses	**110,162**	123,597
Exchange loss/(gain)	**84,773**	(8,109)
Adjusted profit for the year	**6,045,367**	4,071,549

Future Business Targets

Based on the Group's leading position in China's infant milk formula market as well as the Group's current business plan for introducing future pipeline products to the market, the Group's management has set a sales target in the amount of RMB35 billion for 2023 and a compound annual growth rate of 15% for the Group's sales from 2024 to 2028.

The abovementioned sales targets are preliminary in nature and are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. As such, investors are advised to exercise caution when dealing in the Company's shares and investors are advised to seek professional advice from professional or financial advisers if in doubt.

In order to achieve the abovementioned sales targets, the Company adopted the share option scheme on 22 June 2020, to attract and retain personnel and stakeholders that are valuable to the development of the Company and promote the success of the Company's business. For more details, please refer to the circular dated 5 June 2020 and the announcement dated 22 June 2020 of the Company.

Liquidity and Capital Resources

In 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 31 December 2020, the Group had cash and cash equivalents of RMB10,058.8 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

Net Proceeds from the Global Offering

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

Bank and Other Borrowings

As at 31 December 2020, the Group's interest-bearing bank and other borrowings were approximately RMB1,180.5 million.

Capital Structure

As at 31 December 2020, the Group had net assets of RMB19,185.5 million, comprising current assets of RMB18,544.4 million, non-current assets of RMB9,778.4 million, current liabilities of RMB7,107.4 million and non-current liabilities of RMB2,029.9 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 changed from (0.49) as at 31 December 2019 to (0.50) as at 31 December 2020.

Cash Flow

The Group's net cash flows from operating activities was RMB7,748.0 million in 2020, as compared with RMB5,180.5 million in 2019. The Group's net cash flows used in investing activities was RMB3,786.5 million in 2020, as compared with RMB5,514.9 million in 2019. The Group's net cash flows used in financing activities was RMB2,542.8 million in 2020, as compared with net cash flows from financing activities of RMB4,123.0 million in 2019.

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 year ended 31 December 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 year ended 31 December 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.

Capital Expenditure and Commitments

For the year ended 31 December 2020, the capital expenditures incurred by the Group was approximately RMB821.8 million, primarily attributable to purchase of property, plant and equipment. As at 31 December 2020, the capital commitments of the Company was approximately RMB243.2 million, primarily attributable to construction and purchases of items of property, plant and equipment.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in "— Acquisition of YST", during the year ended 31 December 2020, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

Pledge of the Group's Assets

As at 31 December 2020, the total pledged group assets amounted to approximately RMB1,751.1 million, representing a decrease of RMB3,674.1 million as compared with 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 31 December 2020, the Group did not have any material contingent liabilities.

Subsequent Events

On 2 February 2021, the Company has granted a total of 37,250,000 share options to subscribe for a total of 37,250,000 ordinary shares of the Company to 184 eligible participants under the share option scheme adopted by the Company on 22 June 2020, subject to the acceptance of such grantees. For more details, please refer to the announcement dated 2 February 2021 of the Company.

To enable the Group (through Heilongjiang Feihe E-Commerce Co., Limited ("**Feihe E-Commerce**")) to tap into the businesses in the PRC which are currently subject to foreign investment restrictions, on 2 March 2021, the Group went through a series of restructuring steps which included (i) the connected transaction between Heilongjiang Feihe Dairy Co., Limited ("**Feihe HLJ**"), Mr. Leng Youbin ("**Mr. Leng**"), Mr. Liu Hua ("**Mr. Liu**"), and Mr. Cai Fang Liang ("**Mr. Cai**") in relation to the disposal of 100% equity interests in Feihe E-Commerce, and (ii) the contractual arrangements between Feihe HLJ, Feihe E-Commerce, Mr. Leng, Mr. Liu, and Mr. Cai. For more details, please refer to the announcement dated 2 March 2021 of the Company.

Future Prospects

Facing the future full of challenges and opportunities, we will strive to prepare ourselves for the new journey by implementing the new development concept, making plans for a new development pattern, adhering to the original intention, laying a solid foundation for development, focusing on the principal business, and constantly improving the quality of our products and services. We will build Feihe Research Institute with more innovative and leading capacity, build a higher-level scientific research platform, carry out in-depth research and exploration on nutrition and health in the whole life cycle, and solidly promote basic research on fields including breast milk, infant growth and development, nutrition and health in China. We will invest more resources in agriculture, animal husbandry and industry, promote technological innovation, effectively reduce cost, improve quality and efficiency, and further enhance the ability to independently control the functional raw materials. We will also actively embrace new technologies, new development directions and new business models, and accelerate the realization of comprehensive digital transformation of industrial clusters.

Feihe is not only a leading infant formula manufacturer, but also an infant nutrition expert that respects life and the cause of conscience. With our industry leadership fueled by constant innovation, and our competition and cooperation mode that strengthens the industry chain, we will continue to promote the high-quality and sustainable development of the Company, strive to build a world-renowned Chinese dairy enterprise brand, and fulfil the responsibility of "protecting the food safety of Chinese babies and taking care of the physical and mental health of mothers and infants" with strength and actions.

OTHER INFORMATION

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 for the year ended 31 December 2020 (the "**Reporting Period**").

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, who has in-depth industry experience and knowledge about the operation and management of the business of the Company. Mr. Leng is the founder of the Group and has been operating and managing the Group. He is responsible for the overall development strategies and business plans of the Group. The Board is of the view that given that Mr. Leng had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 Reporting Period. The Board has also established the "Code of Conduct for Securities Transactions for Relevant Employees" on terms no less exacting than the Model Code to regulate dealings by relevant employees who are likely to be in possession of inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 13 November 2019 and the net proceeds raised from the Global Offering were approximately HK$6,554.7 million. During the year ended 31 December 2020, there was no change in the intended use of net proceeds as disclosed in the prospectus of the Company (the "**Prospectus**").

In 2020, the Company utilized the net proceeds from the Global Offering for the following purpose: (i) HK$989.6 million being used for the payment of offshore debts; (ii) HK$60.5 million being used for the expansion of Vitamin World USA operations; (iii) HK$611.6 million being used for the working capital and general corporate purposes; and (iv) HK$1,310.9 million being used for merger and acquisition. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

AUDIT COMMITTEE

The Company has established the audit committee under the Board (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 annual results for the year ended 31 December 2020.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary announcement.

DIVIDEND

The Board resolved to recommend a final dividend of HK$0.1586 per Share for the year ended 31 December 2020 (the "**2020 Final Dividend**") with an aggregate amount of approximately HK$1,416,838,727 (equalling approximately RMB1,185,775,000) to shareholders of the Company (the "**Shareholders**") whose names are listed on the Company's register of members as at 26 May 2021, subject to the approval by the Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"). The 2020 Final Dividend is based on (i) our dividend policy set out in the Prospectus of intending to distribute no less than 30% of our net profit for each financial year, and (ii) an approximately additional 10% of our profit for the year of 2020, totalling approximately 40% of our profit for the year of 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[(1)]. The 2020 Final Dividend will be declared and paid in Hong Kong dollars. Once the relevant resolution is passed at the AGM, the 2020 Final Dividend is expected to be paid on or around 10 June 2021. The Company also paid an interim dividend of HK$0.1375 per Share with an aggregate amount of approximately HK$1,228,334,250 (equalling approximately RMB1,101,476,800) in September 2020.

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

[(1)] When calculating such percentages, the gain on bargain purchase of RMB1,729.6 million resulting from the acquisition of YST was excluded from our profit for the year of 2020.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The AGM will be held on 18 May 2021, for considering, among other things, the 2020 Final Dividend. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules in due course. In order to ascertain Shareholders' entitlement to attend and vote at the AGM and to the proposed 2020 Final Dividend, the register of members of the Company will be closed from 13 May 2021 to 18 May 2021 (both days inclusive) and from 25 May 2021 to 26 May 2021 (both days inclusive) respectively, during which periods no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, 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 12 May 2021. Shareholders whose names appear on the register of members of the Company on 18 May 2021 will be entitled to attend and vote at the AGM.

In order to qualify for the 2020 Final Dividend (subject to the approval by Shareholders at the AGM), 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 at the above-mentioned address for registration no later than 4:30 p.m. on 24 May 2021. The 2020 Final Dividend will be paid to the Shareholders whose names are listed on the Company's register of members as at 26 May 2021.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKEXnews website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.feihe.com. The 2020 annual report 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, the PRC, 18 March 2021

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.