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 2023

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2023:

- The Group's revenue was RMB9,735.2 million, representing an increase of 0.6% as compared to the same period last year;
- The Group's gross profit was RMB6,359.3 million, representing a decrease of 2.7% as compared to the same period last year;
- The Group's profit for the period was RMB1,618.7 million, representing a decrease of 28.8% as compared to the same period last year;
- Basic earnings per share of the Company amounted to RMB0.19; and
- Diluted earnings per share of the Company amounted to RMB0.19.

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**" or "**We**") for the six months ended 30 June 2023 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	*4*	**9,735,225**	9,672,823
Cost of sales		**(3,375,959)**	(3,136,198)
Gross profit		**6,359,266**	6,536,625
Other income and gains, net	*4*	**869,592**	758,774
Selling and distribution expenses		**(3,459,932)**	(3,142,167)
Administrative expenses		**(757,542)**	(656,680)
Other expenses		**(43,078)**	(56,586)
Finance costs	*7*	**(27,347)**	(12,024)
Share of loss of an associate		**(9,657)**	(7,814)
Impairment losses on property, plant and equipment and right-of-use assets	*6*	**(85,925)**	–
Changes in fair value less costs to sell of biological assets		**(410,329)**	(185,380)
PROFIT BEFORE TAX	*5*	**2,435,048**	3,234,748
Income tax expense	*8*	**(816,366)**	(962,692)
PROFIT FOR THE PERIOD		**1,618,682**	2,272,056
Attributable to:			
Owners of the parent		**1,695,913**	2,255,887
Non-controlling interests		**(77,231)**	16,169
		1,618,682	2,272,056
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (expressed in RMB per share)	*10*	**0.19**	0.25
Diluted (expressed in RMB per share)	*10*	**0.19**	0.25

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**1,618,682**	2,272,056
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**129,130**	71,855
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,747,812**	2,343,911
Attributable to:		
Owners of the parent	**1,826,755**	2,328,439
Non-controlling interests	**(78,943)**	15,472
	1,747,812	2,343,911

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**9,536,426**	9,500,435
Investment properties		**89,416**	109,812
Right-of-use assets		**414,633**	408,696
Goodwill		**112,402**	112,402
Intangible assets		**17,424**	18,514
Investment in a joint venture		**4,926**	4,578
Investment in an associate		**96,167**	105,824
Financial asset at fair value through other comprehensive income		**1,800**	1,800
Deposits		**133,184**	319,776
Biological assets		**2,200,092**	2,025,292
Deferred tax assets		**482,299**	438,963
Long-term bank deposits		**340,000**	240,000
Total non-current assets		**13,428,769**	13,286,092
CURRENT ASSETS			
Inventories		**2,017,970**	1,994,166
Trade and bills receivables	*11*	**524,007**	430,651
Prepayments, deposits and other receivables		**799,562**	506,691
Due from a related company		**–**	185,824
Structured deposits		**7,052,324**	9,746,305
Restricted cash		**21,713**	30,108
Cash and cash equivalents		**11,128,231**	9,335,936
Total current assets		**21,543,807**	22,229,681
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,696,385**	1,773,848
Other payables and accruals		**4,340,770**	4,704,704
Interest-bearing bank and other borrowings		**467,006**	446,636
Lease liabilities		**60,548**	66,742
Tax payable		**190,819**	467,759
Total current liabilities		**6,755,528**	7,459,689
NET CURRENT ASSETS		**14,788,279**	14,769,992
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,217,048**	28,056,084

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**885,784**	861,994
Other payables and accruals	**620,152**	627,962
Deferred tax liabilities	**788,843**	965,312
Lease liabilities	**91,477**	125,873
Total non-current liabilities	**2,386,256**	2,581,141
Net assets	**25,830,792**	25,474,943
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1**	1
Reserves	**24,420,790**	23,985,998
	24,420,791	23,985,999
Non-controlling interests	**1,410,001**	1,488,944
Total equity	**25,830,792**	25,474,943

NOTES

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information:

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any significant impact on the financial position or performance of the Group upon initial application.

(d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Six months ended 30 June 2023

	Raw milk *RMB'000* (Unaudited)	Dairy products and nutritional supplements products *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue			
Sales to external customers	23,309	9,711,916	9,735,225
Intersegment sales	1,058,572	–	1,058,572
	1,081,881	9,711,916	10,793,797
Reconciliation:			
Elimination of intersegment sales			(1,058,572)
Revenue			9,735,225
Segment results	(266,021)	2,561,633	2,295,612
Reconciliation:			
Elimination of intersegment results			11,744
Bank interest income			112,069
Other interest income			49,613
Share of loss of an associate			(9,657)
Finance costs (other than interest on lease liabilities)			(24,333)
Profit before tax			2,435,048
Segment assets	6,854,503	8,979,304	15,833,807
Reconciliation:			
Corporate and other unallocated assets			19,138,769
Total assets			34,972,576
Segment liabilities	1,919,269	4,890,063	6,809,332
Reconciliation:			
Corporate and other unallocated liabilities			2,332,452
Total liabilities			9,141,784

	Raw milk *RMB'000* (Unaudited)	Dairy products and nutritional supplements products *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Six months ended 30 June 2022			
Segment revenue			
Sales to external customers	150,819	9,522,004	9,672,823
Intersegment sales	858,216	–	858,216
	1,009,035	9,522,004	10,531,039
Reconciliation:			
Elimination of intersegment sales			(858,216)
Revenue			9,672,823
Segment results	46,975	3,039,961	3,086,936
Reconciliation:			
Elimination of intersegment results			23,558
Bank interest income			59,551
Other interest income			81,069
Share of loss of an associate			(7,814)
Finance costs (other than interest on lease liabilities)			(8,552)
Profit before tax			3,234,748
As at 31 December 2022 (audited)			
Segment assets	7,232,299	8,432,136	15,664,435
Reconciliation:			
Corporate and other unallocated assets			19,851,338
Total assets			35,515,773
Segment liabilities	2,016,638	5,282,491	7,299,129
Reconciliation:			
Corporate and other unallocated liabilities			2,741,701
Total liabilities			10,040,830

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**9,629,346**	9,573,781
United States of America	**105,879**	99,042
	9,735,225	9,672,823

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

(b) Non-current assets

	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**10,794,398**	10,879,929
United States of America	**60,514**	61,670
Canada	**1,749,758**	1,663,730
	12,604,670	12,605,329

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**9,735,225**	9,672,823

Revenue from contracts with customers

(i) Disaggregated revenue information

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods		
Sales of goods	**9,735,225**	9,672,823
Geographical markets		
Mainland China	**9,629,346**	9,573,781
United States of America	**105,879**	99,042
Total revenue from contracts with customers	**9,735,225**	9,672,823
Timing of revenue recognition		
Goods transferred at a point in time	**9,735,225**	9,672,823

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

		Six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Other income			
Bank interest income		**112,069**	59,551
Other interest income		**49,613**	81,069
Government grants related to			
– Assets	*(i)*	**21,371**	27,241
– Income	*(ii)*	**517,622**	474,853
Others		**18,352**	13,786
		719,027	656,500
Gains, net			
Fair value gains on structured deposits		**148,817**	102,274
Others		**1,748**	–
		150,565	102,274
		869,592	758,774

Notes:

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

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

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**2,551,174**	2,399,291
Breeding costs to produce	**618,343**	533,997
Production costs of raw milk	**206,442**	202,910
Cost of sales	**3,375,959**	3,136,198
Depreciation of property, plant and equipment	**309,261**	263,636
Less: Capitalised in biological assets	**(49,858)**	(51,162)
Depreciation recognised in the interim condensed consolidated statement of profit or loss	**259,403**	212,474
Depreciation of right-of-use assets	**14,766**	13,249
Rent expense – short term leases	**4,151**	2,517
Interest expense on lease liabilities	**3,014**	3,472
Reversal of write-down of inventories to net realisable value	**(28,541)**	(26,531)
Reversal of impairment of trade receivables	**(3,781)**	–
Foreign exchange differences, net	**(179)**	19,114

6. IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period, an impairment loss of RMB85,925,000 was recognised for property, plant and equipment and right-of-use assets as a result of the loss of a subsidiary of the Group incurred during the period. The recoverable amount was nil which has been determined at the level of the cash-generating unit based on a value-in-use calculation using cash flow projections. The recoverable amount was based on valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers. The cash-generating unit mainly consisted of property, plant and equipment and right-of-use assets allocated to the subsidiary. The discount rate applied to the cash flow projections is 14%.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans	**18,715**	4,529
Other loans	**11,843**	7,702
Lease liabilities	**3,014**	3,472
Total interest expense on financial liabilities not at fair value through profit or loss	**33,572**	15,703
Less: Interest capitalised	**(6,225)**	(3,679)
	27,347	12,024

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 2022: 25%) during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	**774,604**	828,253
Current – elsewhere		
Charge for the period	**5,815**	–
Deferred	**35,947**	134,439
Total tax charge for the period	**816,366**	962,692

9. DIVIDEND

During the six months ended 30 June 2023, the Company declared a final dividend of HK$0.1721 per ordinary share, equivalent to a total of approximately RMB1.42 billion for the year ended 31 December 2022 to its shareholders. During the six months ended 30 June 2022, the Company declared a final dividend of HK$0.1733 per ordinary share, equivalent to a total of approximately RMB1.32 billion for the year ended 31 December 2021 to its shareholders.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK$0.1349 per ordinary share for the six months ended 30 June 2023, amounting to a total of approximately RMB1.12 billion. For the year ended 31 December 2022, the Company also declared an interim dividend of HK$0.1131 per ordinary share for the six months ended 30 June 2022, amounting to a total of approximately RMB0.9 billion.

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

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

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options into ordinary shares under the share option schemes.

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	**1,695,913**	2,255,887

	Number of shares	
	30 June 2023	30 June 2022
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**9,068,251,704**	8,899,932,667
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	166,405,466
	9,068,251,704	9,066,338,133

11. TRADE AND BILLS RECEIVABLES

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Trade receivables	**505,289**	427,792
Bills receivable	**22,779**	10,701
	528,068	438,493
Impairment	**(4,061)**	(7,842)
	524,007	430,651

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

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

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Within 1 month	**454,465**	186,406
1 to 2 months	**26,000**	136,654
2 to 3 months	**30,272**	68,671
Over 3 months	**13,270**	38,920
	524,007	430,651

12. TRADE AND BILLS PAYABLES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade and bills payables	**1,696,385**	1,773,848

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

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**1,583,551**	1,728,024
3 to 6 months	**65,577**	17,524
Over 6 months	**47,257**	28,300
	1,696,385	1,773,848

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 has been one of the most populous countries and one of the fastest growing infant milk formula markets in the world. With continued urbanization and the rise in the number of women in the workplace, an increasing number of mothers in China have grown to realize the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to the National Bureau of Statistics, China's birth rate dropped from 12.95‰ in 2016 to 6.77‰ in 2022, with number of newborns declining to approximately 9.6 million in 2022. According to Frost & Sullivan, an industry consulting firm, the number of children aging from zero to three decreased accordingly from approximately 50.9 million in 2016 to approximately 32.0 million in 2022, with a compound annual growth rate ("**CAGR**") of -7.4%. Despite the decline from 2017 to 2022, the decline in the number of newborns is expected to slow from 2023 to 2027, thanks to the supportive measures for the three-child policy. Due to factors listed below, China's infant milk formula market in terms of retail sales value is expected to remain stable.

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

- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics, China's per capita annual disposable income in 2022 reached RMB36,883, with a CAGR of 7.3% from 2017 to 2022. Such increase will in turn increase the consumption momentum of China's high-end infant milk formula products.

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

- 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 On 22 February 2021, a series of national safety standards on infant food and infant milk formula were released by the State Healthcare Commission, such as National Standard for Infant Formula Food Safety (GB10765-2021) (食品安全國家標準嬰兒配方食品) and National Standard for Larger Infant Formula Food Safety (GB 10766-2021) (食品安全國家標準較大嬰兒配方食品). After a transition period of two years, those standards were implemented on 22 February 2023. The new national safety standards have made stricter provisions on areas such as protein, carbohydrate, microelement, which is conducive to the innovation of leading infant milk formula enterprises and the further development of infant milk formula industry.

  - o On 20 July 2021, the State Council issued the Decision on Optimizing Birth Policy to Promote Long-term Balanced Development of Population (關於優化生育政策促進人口長期均衡發展的決定), proposing the implementation of the three-child policy and supporting measures to slow down the decline of birth rate. Later, the National Healthcare Security Administration issued the Notice on Supporting Maternity Insurance under the Three-Child Policy (關於做好支持三孩政策生育保險工作的通知), and the National People's Congress Standing Committee voted to pass the decision on amending the Law of Population and Family Planning, advocating on age-appropriate marriage and childbirth, which promotes childbirths. During the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in March 2022, the government reported the detailed implementation plan of the three-child policy, such as increasing maternity subsidies and medical security, adjustment of personal income tax on the care for children under three years old, and development of commonly affordable childcare services.

  - o On 12 November 2021, the State Administration for Market Regulation published the Announcement of the State Administration for Market Regulation on the Further Regulation of Labels and Identification of Infant Milk Formula Product (市場監管總局關於進一步規範嬰幼兒配方乳粉產品標籤標識的公告) (the "**SAMR Announcement**"), which made further stipulations on the characteristics, such as the label's main display layout, content claim, pattern, and feeding suggestion form. In addition, it is stipulated that if the product name refers to certain animal origin, all the milk protein raw materials in the product should come from such animal species. For compound ingredients in product ingredient list (excluding compound food additives), the original ingredients must be specified. From the date of the SAMR Announcement, the registration application for the infant formula products shall be carried out according to the stipulations contained therein. With effect from 22 February 2023, labels and markings on manufactured products shall comply with the requirements of the SAMR Announcement. Products manufactured prior to this date can be sold until the expiration of their shelf life.

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 developed formulas, with the aim of achieving an optimal balance of key ingredients for Chinese babies based on their biological constitution. The Group offers a diversified portfolio of products which caters to a wide range of customer bases at different prices. In addition to super-premium and premium series, the Group also offers a portfolio of well-known brands including the regular infant milk formula series as well as other products such as dairy products for adults and students.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 2,800 offline customers with more than 94,000 retail points of sale as at 30 June 2023. The Group's offline customers are distributors who sell its products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 77.8% of its total revenue from dairy products for the six months ended 30 June 2023.

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 2023, the Group had 11 production facilities to manufacture its products with a designed annual production capacity of approximately 327,000 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs.

Marketing

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

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. During the six months ended 30 June 2023, approximately 480,000 face-to-face seminars were held in total. The number of new customers we acquired exceeded 1,120,000;

- Maximize online interactivity with consumers; and

- Targeted and result-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 Corporation ("**Vitamin World USA**"). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated 55 specialty stores across the United States of America (the "**United States**"), mostly in malls and outlet centres, and employed 216 people as at 30 June 2023. The Group also sells such products through its own website of Vitamin World USA, and e-commerce platforms. Our revenue generated from nutritional supplement products in the United States was RMB105.9 million, accounting for 1.1% of the Group's total revenue for the six months ended 30 June 2023.

Operating Results and Analysis

The table below sets forth the Group's interim condensed consolidated statement of profit or loss and consolidated statement of comprehensive income in amounts and as a percentage of the Group's total revenue for the periods indicated, together with changes (expressed in percentages) from 2022 to 2023.

	For the six months ended 30 June				**Percentage Changed**
	2023		2022		
	(In thousands of RMB, except percentages) (Unaudited)				
Revenue	**9,735,225**	**100%**	9,672,823	100%	0.6%
Cost of sales	**(3,375,959)**	**(34.7)%**	(3,136,198)	(32.4)%	7.6%
Gross profit	**6,359,266**	**65.3%**	6,536,625	67.6%	(2.7)%
Other income and gains, net	**869,592**	**8.9%**	758,774	7.8%	14.6%
Selling and distribution expenses	**(3,459,932)**	**(35.5)%**	(3,142,167)	(32.5)%	10.1%
Administrative expenses	**(757,542)**	**(7.8)%**	(656,680)	(6.8)%	15.4%
Other expenses	**(43,078)**	**(0.4)%**	(56,586)	(0.6)%	(23.9)%
Finance costs	**(27,347)**	**(0.3)%**	(12,024)	(0.1)%	127.4%
Share of loss of an associate	**(9,657)**	**(0.1)%**	(7,814)	(0.1)%	23.6%
Impairment losses on property, plant and equipment and right-of-use assets	**(85,925)**	**(0.9)%**	–	–	–
Changes in fair value less costs to sell of biological assets	**(410,329)**	**(4.2)%**	(185,380)	(1.9)%	121.3%
Profit before tax	**2,435,048**	**25.0%**	3,234,748	33.4%	(24.7)%
Income tax expense	**(816,366)**	**(8.4)%**	(962,692)	(9.9)%	(15.2)%
Profit for the period	**1,618,682**	**16.6%**	2,272,056	23.5%	(28.8)%

	For the six months ended 30 June				Percentage Changed
	2023		2022		
	(In thousands of RMB, except percentages) (Unaudited)				
Other comprehensive income					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**129,130**	**1.3%**	71,855	0.7%	79.7%
Total comprehensive income for the period	**1,747,812**	**17.9%**	2,343,911	24.2%	(25.4)%

Revenue

The Group's revenue increased by 0.6% from RMB9,672.8 million for the six months ended 30 June 2022 to RMB9,735.2 million for the six months ended 30 June 2023, which is comparable for the same period last year.

Cost of Sales

The Group's cost of sales increased by 7.6% from RMB3,136.2 million for the six months ended 30 June 2022 to RMB3,376.0 million for the six months ended 30 June 2023, primarily due to the impact of product mix change of the Group.

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by 2.7% from RMB6,536.6 million for the six months ended 30 June 2022 to RMB6,359.3 million for the six months ended 30 June 2023.

The Group's gross profit margin decreased from 67.6% for the six months ended 30 June 2022 to 65.3% for the six months ended 30 June 2023, primarily due to a decrease in revenue from Classic Astrobaby products.

Other Income and Gains, Net

Other income and gains, net increased by 14.6% from RMB758.8 million for the six months ended 30 June 2022 to RMB869.6 million for the six months ended 30 June 2023, primarily due to (i) an increase in government grants, and (ii) an increase in interest income.

Selling and Distribution Expenses

Selling and distribution expenses increased by 10.1% from RMB3,142.2 million for the six months ended 30 June 2022 to RMB3,459.9 million for the six months ended 30 June 2023, primarily due to an increase in the expenses of offline activities and promotional activities.

Administrative Expenses

Administrative expenses increased by 15.4% from RMB656.7 million for the six months ended 30 June 2022 to RMB757.5 million for the six months ended 30 June 2023, primarily due to an increase in research and development costs.

Other Expenses

Other expenses decreased by 23.9% from RMB56.6 million for the six months ended 30 June 2022 to RMB43.1 million for the six months ended 30 June 2023, primarily due to a decrease in loss of disposal of property, plant and equipment.

Finance Costs

Finance costs increased by 127.4% from RMB12.0 million for the six months ended 30 June 2022 to RMB27.3 million for the six months ended 30 June 2023, primarily due to an increase of the interest-bearing borrowings of YuanShengTai Dairy Farm Limited ("**YST**").

Profit before Tax

As a result of the foregoing, the Group's profit before tax decreased by 24.7% from RMB3,234.7 million for the six months ended 30 June 2022 to RMB2,435.0 million for the six months ended 30 June 2023.

Income Tax Expense

Our income tax expense decreased by 15.2% from RMB962.7 million for the six months ended 30 June 2022 to RMB816.4 million for the six months ended 30 June 2023 as a result of a decrease in our profit before tax for the six months ended 30 June 2023.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 29.8% for the six months ended 30 June 2022 and 33.5% for the six months ended 30 June 2023.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by 28.8% from RMB2,272.1 million for the six months ended 30 June 2022 to RMB1,618.7 million for the six months ended 30 June 2023.

Liquidity and Capital Resources

For the six months ended 30 June 2023, 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 2023, the Group had cash and cash equivalents of RMB11,128.2 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which were 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 30 June 2023, the Group's interest-bearing bank and other borrowings were approximately RMB1,352.8 million.

Capital Structure

As at 30 June 2023, the Group had net assets of RMB25,830.8 million, comprising current assets of RMB21,543.8 million, non-current assets of RMB13,428.8 million, current liabilities of RMB6,755.5 million and non-current liabilities of RMB2,386.3 million.

The Group's gearing ratio was calculated by net debt divided by the capital. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and cash equivalents. Total capital is calculated as equity holders' funds (i.e, total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The Group's gearing ratio was (0.33) as at 31 December 2022 and (0.40) as at 30 June 2023.

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 2023, 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 operation of the overseas plant in Canada, which was made in Canadian dollars. During the six months ended 30 June 2023, 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 2023, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

Pledge of the Group's Assets

As at 30 June 2023, the total pledged group assets amounted to approximately RMB1,686.3 million, representing an increase of RMB72.2 million as compared to the beginning of 2023.

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 of the Company dated 30 October 2019 (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 2023, the Group did not have any significant contingent liabilities.

Subsequent Events

The Group has no material subsequent events after 30 June 2023 as of the date of this announcement.

Future Prospects

In close alignment with market changes and consumer demands, the Company will extract the active nutrient essence from the golden milk source at north latitude 47 degrees and innovate the more sophisticated "fresh-keeping" technology, thus continuing to lead the industry innovation, with the creation of a new-generation infant milk formula which is "Fresh, Extracted and Active Nutrition, More Suitable for Chinese Babies" as the driving force, and with a focus on the first 1,000 days of the life based on Chinese breast milk. Based on this, the Company will expand its business to cover four business segments, namely pregnant women and infants, children and students, healthy food, nutrition and health, and build a family of functional products covering the age cycle from birth to growth and from adulthood to longevity, so that each consumer of the Company's products will become healthier.

With firm strategic direction and investment, the Company will continuously build strong and core capacities, namely the front-end industrial chain capacity with unique resource endowment at north latitude 47 degrees, the back-end industrial chain capacity with online and offline integration, the brand capacity to lead the attitude of consumers, the nutrition technology capacity to lead industry innovation, and the digital technology capacity for independent evolution, thus building a high barrier to competition. The Company will also persist in and innovate the green and circular development model, actively support rural revitalization, assume social responsibilities, and consolidate the "industry chain for common prosperity" to achieve higher quality sustainable development.

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 "**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 (the "**Listing Rules**") 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 Reporting Period.

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman and Chief Executive Officer of the Company are both 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 has 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 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 in the code provision C.1.3 of the CG Code.

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

During the Reporting Period, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's securities.

On 10 February 2023, a total number of 15,155,000 shares of the Company (the "**Shares**") repurchased in 2022 was cancelled and the total number of Shares in issue as at 30 June 2023 was 9,068,251,704.

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 Reporting Period, there was no change in the intended use of net proceeds as disclosed in the Prospectus.

As at 30 June 2023, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK$1,887.3 million being used for the payment of offshore debts; (ii) HK$327.7 million being used for the expansion of Vitamin World USA operations; (iii) HK$655.0 million being used for the working capital and general corporate purposes; (iv) HK$1,310.9 million being used for merger and acquisition; (v) HK$80.6 million being used for funding the operation of the Group's Kingston plant; and (vi) HK$34.9 million being used for marketing initiatives. 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$0.1349 per Share for the six months ending 30 June 2023 (the "**2023 Interim Dividend**") with an aggregate amount of approximately HK$1,223,021,059 (equalling approximately RMB1,122,598,800) to the Shareholders whose names are listed on the Company's register of members as at 13 September 2023. The 2023 Interim Dividend is based on (i) our dividend policy set out in the Prospectus of intending to distribute no less than 30% of our net profit for each financial year, and (ii) an approximately additional 30% of our profit for the six months ended 30 June 2023, totaling approximately 60% of our profit for the six months ended 30 June 2023 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. For the avoidance of doubt, such profit for the six months ended 30 June 2023 does not include the loss of YST. The 2023 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 22 September 2023.

In order to ascertain the Shareholders' entitlement to the 2023 Interim Dividend, the register of members of the Company will be closed from 12 September 2023 to 13 September 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for the 2023 Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged 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 11 September 2023.

We intend to maintain our dividend policy of distributing no less than 30% of our total net profit each financial year to the 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 Listing Rules. 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 2023.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 has 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 2023 interim report to the shareholders.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 2023 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, 28 August 2023

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