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 2024

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2024:

- The Group's revenue was RMB10,094.9 million, representing an increase of 3.7% as compared to the same period last year;
- The Group's gross profit was RMB6,852.5 million, representing an increase of 7.8% as compared to the same period last year;
- The Group's profit for the period was RMB1,911.5 million, representing an increase of 18.1% as compared to the same period last year;
- Basic earnings per share of the Company amounted to RMB0.21; and
- Diluted earnings per share of the Company amounted to RMB0.21.

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**", "**We**" or "**Feihe**") for the six months ended 30 June 2024 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

		Six months ended 30 June	
		2024	2023
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**10,094,947**	9,735,225
Cost of sales		**(3,242,492)**	(3,375,959)
Gross profit		**6,852,455**	6,359,266
Other income and gains, net	*4*	**862,259**	869,592
Selling and distribution expenses		**(3,535,374)**	(3,459,932)
Administrative expenses		**(738,708)**	(757,542)
Other expenses		**(41,311)**	(43,078)
Finance costs	*7*	**(26,236)**	(27,347)
Share of losses of associates		**(6,739)**	(9,657)
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		**(336,911)**	(410,329)
PROFIT BEFORE TAX	*5*	**3,029,435**	2,435,048
Income tax expense	*8*	**(1,117,984)**	(816,366)
PROFIT FOR THE PERIOD		**1,911,451**	1,618,682
Attributable to:			
Owners of the parent		**1,875,011**	1,695,913
Non-controlling interests		**36,440**	(77,231)
		1,911,451	1,618,682
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (expressed in RMB per share)	*10*	**0.21**	0.19
Diluted (expressed in RMB per share)	*10*	**0.21**	0.19

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**1,911,451**	1,618,682
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of group companies	**(24,752)**	129,130
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,886,699**	1,747,812
Attributable to:		
Owners of the parent	**1,849,752**	1,826,755
Non-controlling interests	**36,947**	(78,943)
	1,886,699	1,747,812

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

	Notes	**30 June 2024 RMB'000 (Unaudited)**	31 December 2023 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**9,443,554**	9,494,034
Investment properties		**45,190**	211,741
Right-of-use assets		**366,560**	395,097
Goodwill		**112,402**	112,402
Intangible assets		**15,244**	16,334
Investment in a joint venture		**3,308**	3,338
Investments in associates		**110,261**	99,866
Financial asset at fair value through other comprehensive income		**1,800**	1,800
Deposits		**127,886**	110,873
Biological assets		**2,304,520**	2,252,706
Deferred tax assets		**382,475**	402,216
Long-term bank deposits		**300,000**	540,000
Total non-current assets		**13,213,200**	13,640,407
CURRENT ASSETS			
Inventories		**2,139,247**	2,258,059
Trade and bills receivables	*11*	**308,472**	431,184
Prepayments, deposits and other receivables		**854,264**	694,959
Structured deposits		**9,405,533**	8,670,910
Restricted cash		**20,972**	58,218
Cash and cash equivalents		**9,667,497**	10,440,941
Total current assets		**22,395,985**	22,554,271
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,642,060**	1,838,223
Other payables and accruals		**4,268,066**	4,660,948
Interest-bearing bank and other borrowings		**510,909**	504,914
Lease liabilities		**28,807**	87,402
Tax payable		**262,775**	290,743
Total current liabilities		**6,712,617**	7,382,230
NET CURRENT ASSETS		**15,683,368**	15,172,041
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,896,568**	28,812,448

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Other payables and accruals	**659,928**	620,756
Interest-bearing bank and other borrowings	**756,896**	872,836
Deferred tax liabilities	**383,970**	813,250
Lease liabilities	**52,067**	171,260
Total non-current liabilities	**1,852,861**	2,478,102
Net assets	**27,043,707**	26,334,346
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**1**	1
Reserves	**25,617,272**	24,944,858
	25,617,273	24,944,859
Non-controlling interests	**1,426,434**	1,389,487
Total equity	**27,043,707**	26,334,346

NOTES

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 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 2023.

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 2023, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information:

Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "**2022 Amendments**")
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*

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

(a) Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of IFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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 losses of associates 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 2024 (unaudited)

	Raw milk *RMB'000* (Unaudited)	Dairy products and nutritional supplements products *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue			
Sales to external customers	**38,685**	**10,056,262**	**10,094,947**
Intersegment sales	**1,166,091**	**–**	**1,166,091**
	1,204,776	**10,056,262**	**11,261,038**
Reconciliation:			
Elimination of intersegment sales			**(1,166,091)**
Revenue			**10,094,947**
Segment results	**129,208**	**2,894,421**	**3,023,629**
Reconciliation:			
Elimination of intersegment results			**(142,259)**
Bank interest income			**138,364**
Other interest income			**40,708**
Share of losses of associates			**(6,739)**
Finance costs (other than interest on lease liabilities)			**(24,268)**
Profit before tax			**3,029,435**
Segment assets	**6,901,272**	**8,820,691**	**15,721,963**
Reconciliation:			
Corporate and other unallocated assets			**19,887,222**
Total assets			**35,609,185**
Segment liabilities	**1,868,236**	**4,782,692**	**6,650,928**
Reconciliation:			
Corporate and other unallocated liabilities			**1,914,550**
Total liabilities			**8,565,478**

Six months ended 30 June 2023 (unaudited)

	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
As at 31 December 2023 (audited)			
Segment assets	7,374,703	8,593,488	15,968,191
Reconciliation:			
Corporate and other unallocated assets			20,226,487
Total assets			36,194,678
Segment liabilities	2,232,003	5,146,586	7,378,589
Reconciliation:			
Corporate and other unallocated liabilities			2,481,743
Total liabilities			9,860,332

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Chinese Mainland	**9,987,364**	9,629,346
United States of America	**81,305**	105,879
Canada	**26,278**	–
	10,094,947	9,735,225

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

(b) Non-current assets

	30 June	31 December
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Chinese Mainland	**10,862,114**	10,971,859
United States of America	**37,427**	42,901
Canada	**1,629,384**	1,681,631
	12,528,925	12,696,391

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	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**10,094,947**	9,735,225

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods		
Sales of goods	**10,094,947**	9,735,225
Geographical markets		
Chinese Mainland	**9,987,364**	9,629,346
United States of America	**81,305**	105,879
Canada	**26,278**	–
	10,094,947	9,735,225
Timing of revenue recognition		
Goods transferred at a point in time	**10,094,947**	9,735,225

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

		Six months ended 30 June	
		2024	2023
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Other income			
Bank interest income		**138,364**	112,069
Other interest income		**40,708**	49,613
Government grants related to			
– Assets	*(i)*	**35,126**	21,371
– Income	*(ii)*	**401,255**	517,622
Others		**69,160**	18,352
		684,613	719,027
Gains, net			
Fair value gains on structured deposits		**139,955**	148,817
Gain on disposal of a subsidiary		**19,078**	–
Foreign exchange differences, net		**17,352**	179
Others		**1,261**	1,569
		177,646	150,565
		862,259	869,592

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 Chinese Mainland. 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	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**2,483,448**	2,551,174
Breeding costs to produce	**556,981**	618,343
Production costs of raw milk	**202,063**	206,442
Cost of sales	**3,242,492**	3,375,959
Depreciation of property, plant and equipment	**351,116**	309,261
Less: Capitalised in biological assets	**(52,439)**	(49,858)
Depreciation recognised in the interim condensed consolidated statement of profit or loss	**298,677**	259,403
Depreciation of right-of-use assets	**12,775**	14,766
Rent expense – short term leases	**1,667**	4,151
Interest expense on lease liabilities	**1,968**	3,014
Write-down/(reversal of write-down) of inventories to net realisable value	**15,740**	(28,541)
Reversal of impairment of trade receivables	**(169)**	(3,781)
Gain on disposal of a subsidiary	**(19,078)**	–
Foreign exchange differences, net	**(17,352)**	(179)

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

During the six months ended 30 June 2023, 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. The recoverable amount was nil which had 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 was 14%.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans	**26,907**	18,715
Other loans	**9**	11,843
Lease liabilities	**1,968**	3,014
Total interest expense on financial liabilities not at fair value through profit or loss	**28,884**	33,572
Less: Interest capitalised	**(2,648)**	(6,225)
	26,236	27,347

8. INCOME TAX

Taxes on profits assessable in Chinese Mainland have been calculated at the applicable PRC corporate income tax ("**CIT**") rate of 25% (six months ended 30 June 2023: 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	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	**969,775**	774,604
Current – elsewhere		
Charge for the period	**5,868**	5,815
Withholding tax	**553,700**	260,000
	1,529,343	1,040,419
Deferred	**(411,359)**	(224,053)
Total tax charge for the period	**1,117,984**	816,366

9. DIVIDEND

During the six months ended 30 June 2024, the Company declared a final dividend of HK$0.1484 per ordinary share, equivalent to a total of approximately RMB1.25 billion for the year ended 31 December 2023 to its shareholders. 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.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK$0.1632 per ordinary share for the six months ended 30 June 2024, amounting to a total of approximately RMB1.35 billion. For the year ended 31 December 2023, the Company also 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.

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

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

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2024.

The computation of diluted earnings per share does not assume the exercise of the Company's share options for the six months ended 30 June 2023 because the exercise price of those share options was higher than the average market price of the Company's share during that period.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to ordinary equity holders of the parent	**1,875,011**	1,695,913

	Number of shares	
	30 June 2024	30 June 2023
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share calculation	**9,048,107,529**	9,068,251,704

11. TRADE AND BILLS RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	**278,301**	423,743
Bills receivable	**38,805**	16,244
	317,106	439,987
Impairment	**(8,634)**	(8,803)
	308,472	431,184

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 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 1 month	**208,792**	231,086
1 to 2 months	**47,165**	144,011
2 to 3 months	**19,457**	30,321
Over 3 months	**33,058**	25,766
	308,472	431,184

12. TRADE AND BILLS PAYABLES

	30 June 2024	31 December 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade and bills payables	**1,642,060**	1,838,223

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 2024	31 December 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**1,505,086**	1,730,387
3 to 6 months	**92,624**	68,854
Over 6 months	**44,350**	38,982
	1,642,060	1,838,223

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. 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 10.94‰ in 2018 to 6.39‰ in 2023, with number of newborns declining to approximately 9.0 million in 2023. According to Frost & Sullivan, an industry consulting firm, the number of children aging from zero to three decreased accordingly from approximately 50.1 million in 2018 to approximately 28.5 million in 2023. Despite the decline from 2018 to 2023, 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 the 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 2023 reached RMB39,218, with a compound annual growth rate of 6.8% from 2018 to 2023. 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 industrial 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 marriage and childbearing at an appropriate age, which promotes childbirths. During the National People's Congress and the Chinese People's Political Consultative Conference 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 the age of three, 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.

- o On 10 July 2023, the State Administration for Market Regulation published the Amendment to the Measures for the Administration of Formula Registration of Infant Milk Formula Product (《嬰幼兒配方乳粉產品配方註冊管理辦法》), which further tightens the registration conditions of infant milk formula products and ensures the quality and food safety of infant milk formula products. The Amendment came into force on October 1, 2023.

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 80,000 retail points of sale as at 30 June 2024. 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 76.8% of its total revenue from dairy products for the six months ended 30 June 2024.

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 Improvement

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 30 June 2024, the Group had 11 production facilities to manufacture its products with the designed annual production capacity exceeding 363,000 tonnes in total primarily as a result of increased production capacity for liquid milk production facility. The Group obtained its first license for infant formula production in Canada in April 2024. The Group regularly upgrades 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 "Wise Babies Opt For Feihe" (聰明寶寶喝飛鶴) 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 2024, approximately 460,000 face-to-face seminars were held in total. The number of new customers we acquired exceeded 1,430,000;

- 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 40 specialty stores across the United States of America (the "**United States**"), mostly in malls and outlet centres, and employed 191 people as at 30 June 2024. 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 was RMB81.3 million, accounting for 0.8% of the Group's total revenue for the six months ended 30 June 2024.

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 2023 to 2024.

	For the six months ended 30 June				**Percentage Changed**
	2024		2023		
	(In thousands of RMB, except percentages) (Unaudited)				
Revenue	**10,094,947**	**100%**	9,735,225	100%	3.7%
Cost of sales	**(3,242,492)**	**(32.1)%**	(3,375,959)	(34.7)%	(4.0)%
Gross profit	**6,852,455**	**67.9%**	6,359,266	65.3%	7.8%
Other income and gains, net	**862,259**	**8.5%**	869,592	8.9%	(0.8)%
Selling and distribution expenses	**(3,535,374)**	**(35.0)%**	(3,459,932)	(35.5)%	2.2%
Administrative expenses	**(738,708)**	**(7.3)%**	(757,542)	(7.8)%	(2.5)%
Other expenses	**(41,311)**	**(0.4)%**	(43,078)	(0.4)%	(4.1)%
Finance costs	**(26,236)**	**(0.3)%**	(27,347)	(0.3)%	(4.1)%
Share of losses of associates	**(6,739)**	**(0.1)%**	(9,657)	(0.1)%	(30.2)%
Impairment losses on property, plant and equipment and right-of-use assets	**–**	**–**	(85,925)	(0.9)%	(100)%
Changes in fair value less costs to sell of biological assets	**(336,911)**	**(3.3)%**	(410,329)	(4.2)%	(17.9)%
Profit before tax	**3,029,435**	**30.0%**	2,435,048	25.0%	24.4%
Income tax expense	**(1,117,984)**	**(11.1)%**	(816,366)	(8.4)%	36.9%
Profit for the period	**1,911,451**	**18.9%**	1,618,682	16.6%	18.1%

	For the six months ended 30 June				Percentage Changed
	2024		2023		
	(In thousands of RMB, except percentages) (Unaudited)				
Other comprehensive (loss)/income					
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of financial statements of group companies	**(24,752)**	**(0.2)%**	129,130	1.3%	(119.2)%
Total comprehensive income for the period	**1,886,699**	**18.7%**	1,747,812	17.9%	7.9%

Revenue

The Group's revenue increased slightly by 3.7% from RMB9,735.2 million for the six months ended 30 June 2023 to RMB10,094.9 million for the six months ended 30 June 2024.

Cost of Sales

The Group's cost of sales decreased by 4.0% from RMB3,376.0 million for the six months ended 30 June 2023 to RMB3,242.5 million for the six months ended 30 June 2024, primarily due to the decrease of raw materials prices.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 7.8% from RMB6,359.3 million for the six months ended 30 June 2023 to RMB6,852.5 million for the six months ended 30 June 2024.

The Group's gross profit margin increased from 65.3% for the six months ended 30 June 2023 to 67.9% for the six months ended 30 June 2024, primarily due to an increase in revenue from Astrobaby products series.

Other Income and Gains, Net

Other income and gains, net decreased by 0.8% from RMB869.6 million for the six months ended 30 June 2023 to RMB862.3 million for the six months ended 30 June 2024, primarily due to a decrease in government grants.

Selling and Distribution Expenses

Selling and distribution expenses increased by 2.2% from RMB3,459.9 million for the six months ended 30 June 2023 to RMB3,535.4 million for the six months ended 30 June 2024, primarily due to an increase in the expenses of online activities and promotional activities.

Administrative Expenses

Administrative expenses decreased by 2.5% from RMB757.5 million for the six months ended 30 June 2023 to RMB738.7 million for the six months ended 30 June 2024, primarily due to a decrease in research and development costs.

Other Expenses

Other expenses decreased by 4.1% from RMB43.1 million for the six months ended 30 June 2023 to RMB41.3 million for the six months ended 30 June 2024, primarily due to a decrease in loss of disposal of old packaging materials.

Finance Costs

Finance costs decreased by 4.1% from RMB27.3 million for the six months ended 30 June 2023 to RMB26.2 million for the six months ended 30 June 2024, primarily due to a decrease of the interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 24.4% from RMB2,435.0 million for the six months ended 30 June 2023 to RMB3,029.4 million for the six months ended 30 June 2024.

Income Tax Expense

Our income tax expense increased by 36.9% from RMB816.4 million for the six months ended 30 June 2023 to RMB1,118.0 million for the six months ended 30 June 2024 as a result of an increase in our profit before tax for the six months ended 30 June 2024.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 33.5% for the six months ended 30 June 2023 and 36.9% for the six months ended 30 June 2024.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 18.1% from RMB1,618.7 million for the six months ended 30 June 2023 to RMB1,911.5 million for the six months ended 30 June 2024.

Liquidity and Capital Resources

For the six months ended 30 June 2024, 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 2024, the Group had cash and cash equivalents of RMB9,667.5 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" of this announcement.

Bank and Other Borrowings

As at 30 June 2024, the Group's interest-bearing bank and other borrowings were approximately RMB1,267.8 million.

Capital Structure

As at 30 June 2024, the Group had net assets of RMB27,043.7 million, comprising current assets of RMB22,396.0 million, non-current assets of RMB13,213.2 million, current liabilities of RMB6,712.6 million and non-current liabilities of RMB1,852.9 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 (0.36) as at 31 December 2023 and (0.33) as at 30 June 2024.

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 2024, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to (i) our bank loans denominated in U.S. dollars; and (ii) our operation of the overseas plant in Canada, which was made in Canadian dollars. During the six months ended 30 June 2024, 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 2024, 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 2024, the total pledged group assets amounted to approximately RMB416.3 million, representing a decrease of RMB2.6 million as compared to the beginning of 2024.

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 2024, the Group did not have any significant contingent liabilities.

Subsequent Events

The Group has no material subsequent events after 30 June 2024 as of the date of this announcement.

Future Prospects

The Group will continue to drive innovation, keeping up with market developments and closely following consumer needs. We are committed to advancing our "Brain Development Strategy" through offering tailored professional nutritional solutions for every stage of life, from infancy to the senior years, thereby bringing health and well-being to people through science and care. Meanwhile, we will constantly innovate and optimize our product portfolio to enhance consumer confidence, support the continued growth of the Chinese dairy industry, and create new opportunities for expansion and build core competitiveness, aiming to write a brilliant chapter for Feihe.

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 C1 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 set out in Part 2 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 AND EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 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 of the Company as referred in the code provision C.1.3 of the CG Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's listed securities (including the sale of treasury shares (as defined in the Listing Rules)). As at the end of the Reporting Period, the Company did not hold any treasury shares (whether held or deposited in the Central Clearing and Settlement System, or otherwise).

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 2024, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK$2,413.6 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$143.9 million being used for funding the operation of the Group's Kingston plant; and (vi) HK$121.0 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$0.1632 per share of the Company for the six months ended 30 June 2024 (the "**2024 Interim Dividend**") with an aggregate amount of approximately HK$1,479,775,478 (equalling approximately RMB1,352,852,176) to the Shareholders whose names are listed on the Company's register of members as at 13 September 2024 (except for the holders of treasury shares, if any). The 2024 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 40% of our profit for the six months ended 30 June 2024, totaling approximately 70% of our profit for the six months ended 30 June 2024 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 2024 does not include the profit/loss of YuanShengTai Dairy Farm Limited. The 2024 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 30 September 2024.

In order to ascertain the Shareholders' entitlement to the 2024 Interim Dividend, the register of members of the Company will be closed from 12 September 2024 to 13 September 2024 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the 2024 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 2024.

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 2024.

The unaudited interim condensed consolidated financial information of the Group for the six months ended 30 June 2024 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 2024 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 2024 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the Shareholders, if necessary, 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 2024

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.