

飞鹤

中國飛鶴有限公司

China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6186

2021 INTERIM REPORT





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LENG Youbin (*Chairman & Chief Executive Officer*)
Mr. LIU Hua
Mr. CAI Fangliang
Ms. Judy Fong-Yee TU

Non-executive Directors

Mr. GAO Yu
Mr. Kingsley Kwok King CHAN
Mr. CHEUNG Kwok Wah

Independent Non-executive Directors

Ms. LIU Jinping
Mr. SONG Jianwu
Mr. FAN Yonghong
Mr. Jacques Maurice LAFORGE

AUDIT COMMITTEE

Mr. FAN Yonghong (*Chairman*)
Mr. GAO Yu
Mr. Jacques Maurice LAFORGE

REMUNERATION COMMITTEE

Ms. LIU Jinping (*Chairman*)
Mr. LIU Hua
Mr. Jacques Maurice LAFORGE

NOMINATION COMMITTEE

Mr. LENG Youbin (*Chairman*)
Ms. LIU Jinping
Mr. SONG Jianwu

JOINT COMPANY SECRETARIES

Ms. Judy Fong-Yee TU
Ms. CHAN Wai Ling

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

AUTHORISED REPRESENTATIVES

Mr. LIU Hua
Ms. Judy Fong-Yee TU

PRINCIPAL BANK

China Construction Bank Corporation
Qiqihar Branch
No.267, Yongan Avenue
Longsha District
Qiqihar
Heilongjiang
PRC

REGISTERED OFFICE

Maricorp Services Ltd.
PO Box 2075 George Town
Grand Cayman KY1-1105
Cayman Islands

CORPORATE HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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10 Jiuxianqiao Road
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Maricorp Services Ltd.
PO Box 2075 George Town
Grand Cayman KY1-1105
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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INVESTOR RELATIONS CONTACT

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CORPORATE WEBSITE

www.feihe.com

STOCK CODE

6186

Financial Highlights

Key Financial Data

The table below sets out our financial highlights for the six months ended 30 June 2021.

	For the six months ended 30 June		
	2021	2020	Percentage changed
	(In thousands of RMB)		
	(Unaudited)	(Unaudited)	
Revenue	11,543,762	8,706,593	32.6%
Gross profit	8,457,088	6,176,215	36.9%
Profit for the period	3,765,254	2,753,131	36.8%
Earnings per share attributable to ordinary equity holders of the parent (RMB):			
– Basic	0.42	0.31	35.5%
– Diluted	0.41	0.30	36.7%

Management Discussion and Analysis

INDUSTRY OVERVIEW

China is the world's most populous country and one of the fastest growing infant milk formula markets in the world. With continued urbanization and the rise in the number of women in the workplace, an increasing number of mothers in China have grown to accept the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to a report by Frost & Sullivan, an industry consulting firm, due to China's declining birth rate, China's infant milk formula market in terms of retail sales volume began to decline in 2019, and is expected to fall to 764,900 tonnes by 2025, representing a CAGR of -4.1% from 2020. However, 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. The growth in consumer demand for infant milk formula products will drive the production and sales of China's infant milk formula products, which could in turn better satisfy consumers' diversified and unique consumption needs.
- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products, particularly super-premium products, is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics' 2020 Statistical Report on National Economic and Social Development, China's total economic volume in 2020 reached RMB101.6 trillion, with a per capita GDP of RMB72,447 (USD\$10,500, converted at the average exchange rate of the year), which will in turn increase the consumption momentum of China's high-end infant milk formula products.
- Increasing urbanization and rising disposable income. The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products. 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.

Management Discussion and Analysis

- Favorable industry policies implemented by the PRC government:
 - The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder (嬰幼兒配方乳粉產品配方註冊管理辦法) (issued in June 2016 and became effective on 1 January 2018) limit each registered infant milk formula product manufacturer to the registration of up to three product series, resulting in a higher market concentration which would benefit major infant milk formula market players to achieve a strong presence in small cities and rural areas in China.
 - 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.
 - On 28 July 2021, the State Administration for Market Regulation published the Notice of the public solicitation for opinions on the Announcement of the State Administration for Market Regulation on the Further Regulation of Labels and Identification of Infant Milk Formula Product (Draft for Comment) (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(徵求意見稿)), 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. Furthermore, companies not in compliance with the above stipulations are required to rectify within 6 months upon the issuance of the announcement.

BUSINESS OVERVIEW

Dairy Products

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

Management Discussion and Analysis

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 2,000 offline customers with more than 110,000 retail points of sale as at 30 June 2021. 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 86.5% of its total revenue from dairy products for the six months ended 30 June 2021.

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 2021, the Group had eight production facilities to manufacture its products with a designed annual production capacity of approximately 260,000 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. In anticipation of the Group's continued robust growth and increasing demand for its products, the Group has completed the expansion of one of its existing production facilities (our Longjiang plant) and is constructing one new production facility (our Harbin plant).

Marketing

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

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. In the six months ended 30 June 2021, more than 400,000 face-to-face seminars were held in total, which include more than 9,000 online face-to-face seminars and 390,000 offline face-to-face seminars. The number of new customers we acquired exceeded 800,000;
- Maximize online interactivity with consumers; and
- Targeted and results-driven exposure on media.

Vitamin World USA

The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA. Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated more than 60 specialty stores across the United States, mostly in malls and outlet centres, and employed 255 people as at 30 June 2021. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms. Revenue generated from nutritional supplement products was RMB110.4 million, accounting for 1.0% of the Group's total revenue for the six months ended 30 June 2021.

Management Discussion and Analysis

OPERATING RESULTS AND ANALYSIS

The Six Months Ended 30 June 2021 Compared to Six Months Ended 30 June 2020

The table below sets forth Group's interim condensed consolidated statement of profit or loss and consolidated statement of comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the periods indicated, together with changes (expressed in percentages) from 2020 to 2021.

	For the six months ended 30 June				Percentage Changed
	2021		2020		
	(In thousands of RMB, except percentages)				
	(Unaudited)				
Revenue	11,543,762	100%	8,706,593	100%	32.6%
Cost of sales	(3,086,674)	(26.7)%	(2,530,378)	(29.1)%	22.0%
Gross profit	8,457,088	73.3%	6,176,215	70.9%	36.9%
Other income and gains, net	900,999	7.8%	763,038	8.8%	18.1%
Selling and distribution expenses	(3,334,938)	(28.9)%	(2,196,836)	(25.2)%	51.8%
Administrative expenses	(604,553)	(5.3)%	(526,765)	(6.1)%	14.8%
Other expenses	(38,164)	(0.3)%	(219,444)	(2.5)%	(82.6)%
Finance costs	(14,562)	(0.2)%	(26,544)	(0.3)%	(45.1)%
Share of loss of an associate	(3,740)	0%	(347)	0%	977.8%
Changes in fair value less costs to sell of biological assets	(81,077)	(0.7)%	–	–	N/A
Profit before tax	5,281,053	45.7%	3,969,317	45.6%	33.0%
Income tax expense	(1,515,799)	(13.1)%	(1,216,186)	(14.0)%	24.6%
Profit for the period	3,765,254	32.6%	2,753,131	31.6%	36.8%
Other comprehensive income					
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations	61,042	0.5%	107,202	1.2%	(43.1)%
Total comprehensive income for the period	3,826,296	33.1%	2,860,333	32.8%	33.8%

Management Discussion and Analysis

Revenue

The Group's revenue increased by 32.6% from RMB8,706.6 million for the six months ended 30 June 2020 to RMB11,543.8 million for the six months ended 30 June 2021, primarily due to an increase in revenue generated from Astrobaby product, organic product, product series containing lactoferrin and children's milk formula product. The decrease in the revenue from nutritional supplement products during the same periods was primarily due to the store closures resulting from the COVID-19 pandemic in the United States.

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

	For the six months ended 30 June				Period-on-Period Change
	2021		2020		
	(In thousands of RMB, except percentages)				
	(Unaudited)				
Infant milk formula products ¹	11,054,996	95.8%	8,315,001	95.5%	33.0%
Other dairy products ²	344,234	3.0%	205,279	2.4%	67.7%
Nutritional supplement products	144,532	1.2%	186,313	2.1%	(22.4)%
Total revenue	11,543,762	100%	8,706,593	100.0%	32.6%

1. Our infant milk formula products include infant milk formula products and children milk powder products.

2. Our other dairy products include adult milk powder, liquid milk, adult goat milk powder, rice powder supplement products and other related products, among others.

Cost of Sales

The Group's cost of sales increased by 22.0% from RMB2,530.4 million for the six months ended 30 June 2020 to RMB3,086.7 million for the six months ended 30 June 2021, primarily due to the increased sales volume of the Group's products.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 36.9% from RMB6,176.2 million for the six months ended 30 June 2020 to RMB8,457.1 million for the six months ended 30 June 2021.

The Group's gross profit margin increased from 70.9% for the six months ended 30 June 2020 to 73.3% for the six months ended 30 June 2021, primarily due to the acquisition of YuanShengTai Dairy Farm Limited ("YST") which resulted in the direct reflection of YST's gross profit in the gross profit of the Group.

Management Discussion and Analysis

Other Income and Gains, Net

Other income and gains, net increased by 18.1% from RMB763.0 million for the six months ended 30 June 2020 to RMB901.0 million for the six months ended 30 June 2021, primarily due to (i) an increase in government grants, and (ii) an increase in bank interest income and fair value gain on structured deposits.

Selling and Distribution Expenses

Selling and distribution expenses increased by 51.8% from RMB2,196.8 million for the six months ended 30 June 2020 to RMB3,334.9 million for the six months ended 30 June 2021, primarily due to (i) an increase in advertising and promotional expenses, and (ii) an increase in consumer service fees.

Administrative Expenses

Administrative expenses increased by 14.8% from RMB526.8 million for the six months ended 30 June 2020 to RMB604.6 million for the six months ended 30 June 2021, primarily due to (i) an increase in staff costs, and (ii) an increase in research and development costs.

Other Expenses

Other expenses significantly decreased from RMB219.4 million for the six months ended 30 June 2020 to RMB38.2 million for the six months ended 30 June 2021, primarily due to the decrease in donations.

Finance Costs

Finance costs decreased by 45.1% from RMB26.5 million for the six months ended 30 June 2020 to RMB14.6 million for the six months ended 30 June 2021, primarily due to a decrease in the Group's interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 33.0% from RMB3,969.3 million for the six months ended 30 June 2020 to RMB5,281.1 million for the six months ended 30 June 2021.

Income Tax Expenses

Our income tax expense increased by 24.6% from RMB1,216.2 million for the six months ended 30 June 2020 to RMB1,515.8 million for the six months ended 30 June 2021 as a result of an increase in our profit before tax for the six months ended 30 June 2021.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 30.6% for the six months ended 30 June 2020 and 28.7% for the six months ended 30 June 2021.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 36.8% from RMB2,753.1 million for the six months ended 30 June 2020 to RMB3,765.3 million for the six months ended 30 June 2021.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

In the six months ended 30 June 2021, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from 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 2021, the Group had cash and cash equivalents of RMB9,148.6 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

Net Proceeds from the Global Offering

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

Bank and Other Borrowings

As at 30 June 2021, the Group’s interest-bearing bank and other borrowings were approximately RMB898.2 million, of which RMB303.0 million are repayable within one year and the remaining balances are repayable within two to five years. Approximately 0.6% of the Group’s interest-bearing bank and other borrowings were bearing interest at fixed rate. RMB5.3 million and RMB892.9 million of such borrowings, were denominated in US dollars and Canadian dollars, respectively.

CAPITAL STRUCTURE

As at 30 June 2021, the Group had net assets of RMB21,626.1 million, comprising current assets of RMB18,779.7 million, non-current assets of RMB10,835.8 million, current liabilities of RMB5,788.9 million and non-current liabilities of RMB2,200.5 million.

The Group’s gearing ratio was calculated by net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances, time deposits, restricted cash and pledged deposits. Total capital is calculated as equity holders’ funds (i.e. total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The Group’s gearing ratio decreased from (0.50) as at 31 December 2020 to (0.45) as at 30 June 2021.

Management Discussion and Analysis

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 2021, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which was made in Canadian dollars. During the six months ended 30 June 2021, 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 2021, 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 2021, the Group's total pledged assets amounted to approximately RMB1,764.2 million, representing an increase of RMB13.1 million as compared to the beginning of 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any contingent liabilities.

Management Discussion and Analysis

FUTURE PROSPECTS

Persisting in the innovation in breast milk and full-cycle nutrition and health related research in China

Driven by scientific and technological innovation and the newly established Feihe Research Institute, Feihe will continue to deepen its cooperation with the world's top scientific research institutions led by Peking University and Harvard University, and comprehensively enhance its basic research, applied research, product research and consumer research to further build a high-level nutrition and health research platform that leads the research of breast milk in China and covers the whole life cycle and more population. Feihe will make efforts to implement the “double chain integration” strategic system to combine the development of the industry chain and the innovation chain, thus forming an efficient synergy between integrated industrial clusters and high-level scientific research and innovation. With academician workstations and post-doctoral scientific research workstations, we will introduce high-level technicians and build a technological innovation system that integrates production, academics and research, so as to promote the continuous transformation of scientific research achievements into high-quality products.

Feihe will rely on cutting-edge life science research applied technologies for deep processing of dairy products, focus on the breast milk research in China, expand the research on the physique and health of Chinese people at different stages, reserve cutting-edge innovative raw materials such as human milk oligosaccharides, maternal and infant probiotics, functional proteins and functional fats, so as to further secure raw materials that are essential to the simulation of breast milk. With intensive and meticulous efforts and continuous investment in scientific research, Feihe will strive to create innovative products that are more suitable for the physique of Chinese people. Feihe is committed to realising its vision of “Managing the Lifelong Health of Human Beings” and becoming the most trusted and respected family nutrition expert.

Embracing the digital age and promoting the digital and intelligent transformation and upgrade

In the future, Feihe will further promote the “comprehensively digital” transformation, realize the deep connection and integration of supply chain, production end and consumption; fully empower the industrial cluster integrating agriculture, animal husbandry and industry; break information transmission barriers among businesses, processes and systems; eliminate information isolated islands, realize highly integrated production management and automation; and completely form a positive feedback loop of production, supply chain and consumption. We will cooperate with entities in the upstream and downstream parts of the industrial chain, and continuously build a middle platform of core data, deeply integrate and tap the value of data, steadily promote the application of intelligent algorithms, and improve the capabilities of the corporate digital and intelligent system that entails consistency, agility, prediction, feedback and bi-directionality. Meanwhile, Feihe will further identify the business differences between our plants in terms of production, continuously promote the launch of the intelligent manufacturing system, control the whole process control of the production for each can of milk powder, thereby improving production efficiency and product quality. We will continuously build a fresh and agile supply system, and optimize our warehousing and logistics network, inventory management and turnover efficiency, so as to deliver the promise of providing “fresher” milk powder.

In terms of the consumer end, our digital and intelligent upgrade will provide users with more targeted products and customized services, which will in turn support product research and development and service innovation, thus providing a better consumption experience to consumers.

Management Discussion and Analysis

Strengthening value proposition and creating a strong brand image

Feihe will adhere to its sustainable development principle of “more suitable”, implement the core values of “users first, practical style, win-win outcome, and continuous improvement”, and make efforts to become the most trusted and respected family nutrition expert. Feihe will always comply with national policies, comprehensively enhance the social value of the brand, continuously create an excellent leading brand, and lead and unite more people with high potential. Meanwhile, Feihe will comprehensively establish a strategic position for its brand, continuously strengthen its IP branding, form a barrier in integrated marketing, and build an image of a professional and authoritative family nutrition expert.

Feihe will stay true to its original vision of serving mothers and infants. Feihe will continuously promote “May 28” as Babies’ Day in China, to encourage higher quality company for babies. Feihe will continuously upgrade its three major intelligent platforms, the star mother association (星媽會), high-quality selection for star mothers (星媽優選) and intelligent nutrition consultant (智慧營養顧問), so as to provide high-quality content and services for more consumers of products for infants and mothers, and enable them to fully enjoy the convenience of science and technology. Feihe will firmly adhere to the philosophy of customer first, take consumers as the core of brand building, tap and research into the needs and insights of consumers in first-and second-tier cities. Feihe will fully attract the attention of mainstream young users, pay attention to and continuously improve user experience, and provide high-end and targeted services. Feihe will continuously progress and strive to build a world-renowned brand of a Chinese dairy enterprise with its innovation spirit.

Fulfilling the social responsibility of a domestic dairy enterprise

In the future, Feihe will thoroughly implement and incorporate the rural revitalization strategy of China. With the advantages of the whole industrial cluster, Feihe will continuously promote the joint development of the upstream and downstream partners in the industrial ecological chain, so as to contribute to driving local economic development and increasing the employment and income of the people. Feihe will actively respond to the national goals of “peaking of carbon emissions” and “carbon neutrality”, firmly carry out green, low-carbon, high-quality and sustainable development with priority to ecological protection. Feihe will continuously build an industrial model of ecological cycle. We will use digital and intelligent transformation achievements for green production and green manufacturing, and construct more “green feedlots” and “green factories”, so as to provide consumers with more “green products”. Feihe will always concern about the health of mothers and infants, continuously carry out social welfare and charity activities, actively support the strategy of “Healthy China”, and show its home and country sensation of “One Home in the World Sharing Weal and Woe” with actions, and convey the corporate spirit of “Doing our Best to Contribute to the Society”.

Facing the new opportunities and challenges arising out of the new situation and the pandemic of the century, Feihe will thoroughly implement the new national strategies and policies, establish new development philosophies, make new development arrangements, focus on our principal business, strengthen innovation-driven development, comprehensively supplement, enhance and extend the industry chain. With continuously improved products and services, Feihe will carry out the corporate mission of “bring joy and health to families” and strive to be the most trusted and respected family nutrition expert.

Other Information and Corporate Governance

SUBSEQUENT EVENTS

On 15 July 2021, the Company granted a total of 8,193,800 share options to subscribe for a total of 8,193,800 ordinary shares of the Company to 202 eligible participants under the share option scheme adopted by the Company on 22 June 2020, subject to the acceptance of such grantees. For details, please refer to the announcement of the Company dated 15 July 2021. None of the grantees was a Director, chief executive or substantial Shareholder of the Company or any of their respective associate (as defined in the Listing Rules).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognizes the importance of maintaining and promoting sound corporate governance. The principles of the Company's corporate governance are to promote effective internal control measures, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to the Company and its Shareholders. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save as disclosed below, the Board is of the view that the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2021.

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

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

The Company has adopted the Model Code as the code of conduct regarding directors' dealings in the securities of the Company.

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2021.

The Board has also established the "Code of Conduct for Securities Transaction 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 unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code.

Other Information and Corporate Governance

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

(i) Interest in Shares/derivative shares of the Company

Name of Director/ Chief Executive	Nature of interest	Capacity	Long position/ Short position	Number of Shares/ derivative shares	Approximate Percentage of shareholding in the Company ⁽¹⁾
Leng Youbin ("Mr. Leng")	Corporate interest	Interest of controlled corporation	Long	587,516,458 ⁽²⁾	6.59%
	Other interest	Founder of a discretionary trust	Long	3,869,911,881 ⁽³⁾	43.40%
Liu Hua	Corporate interest	Interest of controlled corporation	Long	587,516,458 ⁽⁴⁾	6.59%
	Other interest	Founder of a discretionary trust	Long	345,681,920 ⁽⁵⁾	3.88%
Cai Fangliang	Corporate interest	Interest of controlled corporation	Long	101,647,734 ⁽⁶⁾	1.14%
Judy Fong-Yee Tu	Other interest	Founder of a discretionary trust	Long	23,717,804 ⁽⁷⁾	0.27%

Notes:

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 30 June 2021 (i.e. 8,917,239,000 Shares).

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- (2) 587,516,458 Shares were held by Mr. Leng through his controlled corporation – Dasheng Limited. 33.33% of the equity interests in Dasheng Limited were held directly by Mr. Leng. Mr. Leng was deemed to be interested in the 397,325,754 Shares and Pre-IPO Share Options to subscribe for 190,190,704 Shares held by Dasheng Limited by virtue of the SFO.
- (3) 3,869,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object. Mr. Leng was deemed to be interested in 3,869,911,881 Shares held by Garland Glory Limited by virtue of the SFO. On 19 August 2021, Mr. Leng acquired in aggregate 20,000,000 additional Shares on the open market through Garland Glory Limited. After that, Mr. Leng was deemed to be interested in 3,889,911,881 Shares held by Garland Glory Limited by virtue of the SFO.
- (4) 587,516,458 Shares were held by Mr. Liu Hua through his controlled corporation – Dasheng Limited. 33.33% of the equity interests in Dasheng Limited were held directly by Mr. Liu Hua. Mr. Liu was deemed to be interested in the 397,325,754 Shares and Pre-IPO Share Options to subscribe for 190,190,704 Shares held by Dasheng Limited by virtue of the SFO.
- (5) 345,681,920 Shares were held by Harneys Trustees Limited as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu Hua as the settlor and the only discretionary object. Mr. Liu was deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited by virtue of the SFO.
- (6) 101,647,734 Shares were held by Mr. Cai Fangliang through his controlled corporation – Adroit Shipping Limited. Adroit Shipping Limited is directly wholly owned by Mr. Cai Fangliang.
- (7) 23,717,804 Shares were held by the J.T. Living Trust, which was established by Ms. Judy Fong-Yee Tu as the settlor and the only discretionary object. Ms. Judy Fong-Yee Tu was deemed to be interested in the 23,717,804 Shares by virtue of the SFO.

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(ii) Interest in associated corporations

Name of Director/ Chief Executive	Nature of interest	Capacity	Associated corporation	Number of ordinary shares	Percentage of shareholding in the associated corporation
Cai Fanliang	Beneficial interest	Beneficial owner	Jilin Green Energy Ecological Livestock Co., Limited ⁽¹⁾	N/A ⁽²⁾	7.66%

Notes:

- (1) Jilin Green Energy Ecological Livestock Co., Limited is held as to 40% by the Company and therefore is an associated corporation of the Company under the SFO.
- (2) Jilin Green Energy Ecological Livestock Co., Limited is a limited liability company incorporated in the PRC and does not issue any shares.

Save as disclosed above, as at 30 June 2021, none of the Directors or the chief executive of the Company have an interest in the Shares or debentures of the Company or any interests in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which: (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange. As at 30 June 2021, neither the Directors nor chief executive of the Company have any short position in either the Shares or in the debentures of the Company, or in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO).

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INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2021, the following persons (other than the Directors and chief executive of the Company) had interest or short positions in the Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which will be required, pursuant to Section 336 of the SFO, to be recorded in the register kept by the Company:

Name of shareholder	Nature of interest	Long position/ Short position	Number of Shares/ derivative shares	Percentage of ⁽¹⁾ shareholding in the Company
Mr. Leng Youbin ("Mr. Leng")	Interest in a controlled corporation and founder of a discretionary trust	Long	4,457,428,339 ⁽²⁾	49.99%
Harneys Trustees Limited	Trustee of a trust	Long	4,441,740,357 ⁽³⁾	49.81%
LYB International Holding Limited	Interest in a controlled corporation	Long	3,869,911,881 ⁽³⁾	43.40%
Garland Glory Holdings Limited	Beneficial owner	Long	3,869,911,881 ⁽³⁾	43.40%
Morgan Stanley	Interest in a controlled corporation	Long Short	712,756,958(L) ⁽⁵⁾⁽⁶⁾ 9,159,762(S)	7.99% 0.10%
MS Holdings Incorporated	Interest in a controlled corporation	Long	693,066,860 ⁽⁵⁾	7.77%
Morgan Stanley Private Equity Asia III, Inc.	Interest in a controlled corporation	Long	693,066,860 ⁽⁵⁾	7.77%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in a controlled corporation	Long	693,066,860 ⁽⁵⁾	7.77%
North Haven Private Equity Asia III, L.P. (NH LP)	Interest in a controlled corporation	Long	693,066,860 ⁽⁵⁾	7.77%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd (MSPEA III)	Interest in a controlled corporation	Long	693,066,860 ⁽⁵⁾	7.77%
North Haven Private Equity Asia IMF Holding Limited (NHPEA)	Beneficial owner	Long	693,066,860 ⁽⁵⁾	7.77%
Mr. Liu Hua	Interest in a controlled corporation and founder of a discretionary trust	Long	933,198,378 ⁽⁷⁾	10.47%
Mr. Liu Shenghui	Interest in a controlled corporation and founder of a discretionary trust	Long	813,663,014 ⁽⁸⁾	9.12%
Dasheng Limited	Beneficial owner	Long	587,516,458 ⁽⁴⁾	6.59%

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Notes:

- (1) The percentage has been computed based on the total number of Shares of the Company in issue as at 30 June 2021 (i.e. 8,917,239,000 Shares).
- (2) 4,457,428,339 Shares include 3,869,911,881 Shares held by Harneys Trustees Limited as trustee (as described in note (3a) below) and 587,516,458 Shares through Mr. Leng's controlled corporation – Dasheng Limited (as described in note (4) below).
- (3) Harneys Trustees Limited is deemed to be interested in 4,441,740,357 Shares in aggregate by virtue of the SFO:
 - (a) 3,869,911,881 Shares were held by Harneys Trustees Limited as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited, which in turn holds the entire issued share capital of Garland Glory Holdings Limited. Leng Family Trust is a discretionary trust established by Mr. Leng as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 3,869,911,881 Shares directly held by Garland Glory Holdings Limited;
 - (b) 345,681,920 Shares were held by Harneys Trustees Limited, the trustee of LH Family Trust, in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited. LH Family Trust is a discretionary trust established by Mr. Liu Hua as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 345,681,920 Shares directly held by LH Financial Holding Limited; and
 - (c) 226,146,556 Shares were held by Harneys Trustees Limited, the trustee of Liu Family Trust, in its capacity as trustee holds the entire issued share capital of LSH International Holding Limited, which in turn holds the entire issued share capital of LSH Investment Holding Limited. Liu Family Trust is a discretionary trust established by Mr. Liu Shenghui as the settlor and the only discretionary object. Accordingly, Harneys Trustees Limited is deemed to be interested in 226,146,556 Shares directly held by LSH Investment Holding Limited.
- (4) Dasheng Limited holds 397,325,754 Shares and has been granted Pre-IPO Share Options to subscribe for 190,190,704 Shares. Each of Mr. Leng, Mr. Liu Hua and Mr. Liu Shenghui holds one-third of the equity interest in Dasheng Limited and is therefore deemed to be interested in the Shares and Pre-IPO Share Options directly held by Dasheng Limited.
- (5) Each of MSPEA III, NH LP, Morgan Stanley Private Equity Asia III, L.L.C., Morgan Stanley Private Equity Asia III, Inc., MS Holdings Incorporated and Morgan Stanley is deemed to be interested in the 693,066,860 Shares held by NHPEA. By virtue of the SFO:
 - (a) MSPEA III is the sole shareholder of NHPEA. The controlling shareholder of MSPEA III is NH LP which holds 92.13% equity interest in MSPEA III.
 - (b) The general partner of NH LP is Morgan Stanley Private Equity Asia III, L.L.C., whereby Morgan Stanley Private Equity Asia III, L.L.C. is also the general partner of Morgan Stanley Private Equity Asia Employee Investors III, L.P., which holds the remaining 7.87% equity interest in MSPEA III.
 - (c) The managing member of Morgan Stanley Private Equity Asia III, L.L.C. is Morgan Stanley Private Equity Asia III, Inc., a wholly owned subsidiary of MS Holdings Incorporated which is in turn a wholly owned subsidiary of Morgan Stanley.

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- (6) The long position in respect of 712,756,958 Shares includes 693,066,860 Shares held by NHPEA as described in note (5) above and 11,329,459 Shares held by Morgan Stanley & Co. International plc, an indirectly wholly owned subsidiary of Morgan Stanley, and 8,032,000 Shares held by Morgan Stanley & Co. LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 135,000 Shares held by Parametric Portfolio Associates LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 97,168 Shares held by Morgan Stanley Capital Services LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 59,661 Shares held by Morgan Stanley Europe SE, an indirectly wholly owned subsidiary of Morgan Stanley, and 34,000 Shares held by Prime Dealer Services Corp., an indirectly wholly owned subsidiary of Morgan Stanley, and 1,810 Shares held by Morgan Stanley Smith Barney LLC, an indirectly wholly owned subsidiary of Morgan Stanley, and 1,000 Shares held by E*TRADE Securities LLC, an indirectly wholly owned subsidiary of Morgan Stanley.
- (7) 933,198,378 Shares include 345,681,920 Shares held by Harneys Trustees Limited as trustee (as described in note (3b) above) and 587,516,458 Shares through Mr. Liu Hua's controlled corporation – Dasheng Limited (as described in note (4) above).
- (8) 813,663,014 Shares include 226,146,556 Shares held by Harneys Trustees Limited as trustee (as described in note (3c) above) and 587,516,458 Shares through Mr. Liu Shenghui's controlled corporation – Dasheng Limited (as described in note (4) above).
- (9) The letter "L" denotes the person's long position and the letter "S" denotes the person's short position in such Shares.

Save as disclosed above, as at 30 June 2021, no other person (other than the Directors and chief executive of the Company) had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

EMPLOYEES AND REMUNERATION

As at 30 June 2021, the Group had 7,924 full-time employees (YST: 1,689), the majority of whom are based in China.

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

As at 30 June 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

Other Information and Corporate Governance

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

During the Reporting Period, the Company exercised its powers under the general mandate to repurchase the Shares granted by the Shareholders of the Company to the Board, which shall expire on the conclusion of the next annual general meeting of the Company (the “**Share Repurchase Plan**”), and repurchased a total of 16,101,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK\$306.2 million. All of these repurchased Shares were subsequently cancelled. The total number of Shares of the Company in issue as at 30 June 2021 is 8,917,239,000. Details of the repurchase of Shares are summarized as follows:

Date of repurchases	Number of Shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
9 June 2021	8,601,000	19.60	19.20
10 June 2021	2,500,000	19.26	19.20
16 June 2021	2,000,000	19.00	18.88
21 June 2021	3,000,000	17.70	17.22
	16,101,000		

The Board considers that the then trading price of the Shares did not reflect their intrinsic value and the business prospects as perceived by investors. The Share Repurchase Plan reflects the confidence of the Board and the management team in the current and long-term business outlook and growth of the Company, driven by the Company's market leading position. The Board considers that the Share Repurchase Plan is in the best interest of the Company and its Shareholders as a whole.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

Other Information and Corporate Governance

USE OF NET PROCEEDS FROM INITIAL PUBLIC 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. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

The following table sets forth a breakdown of the utilization of the net proceeds as at 30 June 2021.

Intended use of proceeds	Initial intended allocation (HK\$ million)	Utilized amount for the year ended 31 December 2020 (HK\$ million)	Unutilized amount as at 31 December 2020 (HK\$ million)	Utilized amount for the six months ended 30 June 2021 (HK\$ million)	Unutilized amount as at 30 June 2021 (HK\$ million)	Expected timeline for utilizing the remaining proceeds
Repayment of offshore debts	2,621.9	(1,164.7)	1,457.2	(198.9)	1,258.3	Before 31 December 2023
Potential merger and acquisition opportunities	1,310.9	(1,310.9)	-	-	-	-
Operation of the Company's Kingston Plant	655.5	-	655.5	(31.9)	623.6	Before 31 December 2023
Research and development activities of overseas infant milk formula and nutritional supplement products	655.5	-	655.5	-	655.5	Before 31 December 2023
Expansion of Vitamin World USA operations	327.7	(99.7)	228.0	(70.8)	157.2	Before 31 December 2023
Marketing initiatives	327.7	-	327.7	-	327.7	Before 31 December 2023
Working capital and general corporate purposes	655.5	(655.0)	0.5	-	0.5	Before 31 December 2023
	6,554.7	(3,230.3)	3,324.4	(301.6)	3,022.8	

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to recommend an interim dividend of HK\$0.2973 per Share for the six months ended 30 June 2021 (the "2021 Interim Dividend") with an aggregate amount of approximately HK\$2,651,095,000 (equalling approximately RMB2,206,506,000) to Shareholders whose names are listed on the Company's register of members as at 3 September 2021. The 2021 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 2021, totaling approximately 60% of our profit for the six months ended 30 June 2021 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 18 August 2021⁽¹⁾. The 2021 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 14 September 2021.

In order to ascertain Shareholders' entitlement to the proposed 2021 Interim Dividend, the register of members of the Company will be closed from 2 September 2021 to 3 September 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 2021 Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 1 September 2021.

(1): When calculating such percentages, the profit of YST was excluded from our profit for the six months ended 30 June 2021.

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

AUDIT COMMITTEE

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

The financial information for the six months ended 30 June 2021 set out in this interim report is unaudited. The audit committee of the Company 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 2021 and this interim report.

PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme on 14 October 2019 and a summary of the principal terms of the Pre-IPO Share Option Scheme is set out as below.

Purposes

The purposes of the Pre-IPO Share Option Scheme are to: (i) replace the DIF Share Option Schemes; (ii) attract and retain the best available personnel for positions of substantial responsibility; (iii) provide additional incentive to the Directors and employees of the Group (the "**Employee(s)**," together with the Directors, the "**Service Providers**"); and (iv) promote the success of the business of the Group.

Pre-IPO Participants

A grant of the Pre-IPO Share Option under the Pre-IPO Share Option Scheme (the "**Pre-IPO Award**") may be made to the Service Providers selected by the Board (including any committee of Directors or of other individuals appointed by the Board or by the compensation committee of the Board satisfying relevant requirements of applicable laws) of the Company (the "**Pre-IPO Administrator**"). A holder of an outstanding Pre-IPO Award will be a participant (the "**Pre-IPO Participant**") under the Pre-IPO Share Option Scheme. For the avoidance of doubt, Pre-IPO Awards may be granted to any holder of the outstanding DIF Share Options, who is a company wholly owned, directly or indirectly, by (i) one or more Service Providers or (ii) any trusts, if all of the beneficiaries consist only of the Service Providers (in the case of a discretionary trust, all discretionary objects consist only of the Service Providers).

Maximum Number of Shares in Respect of Which Pre-IPO Awards May Be Granted

The maximum number of the Shares that may be subject to Pre-IPO Awards and issued under the Pre-IPO Share Option Scheme is 190,190,704, representing approximately 2.13% of the total number of the issued shares of the Company as at the date of this interim report.

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Grant of Options

Subject to the terms and provisions of the Pre-IPO Share Option Scheme, the Pre-IPO Administrator may grant Pre-IPO Share Options in such amounts as the Pre-IPO Administrator, in its sole discretion, will determine; provided that, no Pre-IPO Share Option authorized by the Pre-IPO Share Option Scheme shall be granted upon and following the Listing.

The date of grant of an Pre-IPO Award will be, for all purposes, the date on which the Pre-IPO Administrator makes the determination granting such Pre-IPO Award, or such other later date as is determined by the Pre-IPO Administrator. Notice of the determination will be provided to each Pre-IPO Participant within a reasonable time after the date of such grant.

Exercise Price

The per Share exercise price for the Shares to be issued pursuant to the exercise of the Pre-IPO Share Option shall be determined by the Pre-IPO Administrator, provided that such exercise price shall be no less than one hundred percent of the fair market value (the “**Fair Market Value**”) per Share on the date of grant. For the avoidance of doubt, for the per Share exercise price for the Shares to be issued upon the exercise of the Pre-IPO Share Option granted in order to replace the existing DIF Share Options as of the date of adoption of the Pre-IPO Share Option Scheme, the relevant Fair Market Value per Share shall be with reference to that of the respective date of grant of such outstanding DIF Share Options.

Duration of Pre-IPO Share Option Scheme

Unless sooner terminated in accordance with the terms of the Pre-IPO Share Option Scheme, it will continue in effect for a term of seven years from the effective date. The term of each Pre-IPO Share Option will be stated in the Award Agreement and will be no more than five years from the date of grant thereof.

Time of Vesting and Exercise of Pre-IPO Share Options

Any Pre-IPO Share Option granted will be exercisable according to the terms of the Pre-IPO Share Option Scheme and at such times and under such conditions as determined by the Pre-IPO Administrator and set forth in the Award Agreement. A Pre-IPO Share Option may not be exercised for a fraction of a Share.

In respect of any particular Pre-IPO Share Option, the exercise period shall commence on the later of:

- (1) the business day immediately following the expiry of six months from the Listing Date, or
- (2) where the exercise of such Pre-IPO Share Option is subject to any performance target being met, the date of such performance target being proved (to the reasonable satisfaction of the Pre-IPO Administrator) to have been met.

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Details of the Pre-IPO Share Options Granted under the Pre-IPO Share Option Scheme

All the Pre-IPO Share Options representing 190,190,704 Shares were granted to Dasheng Limited on 14 October 2019 under the Pre-IPO Share Option Scheme with a term of five years. Dasheng Limited is not required to pay for the grant of any Pre-IPO Share Option. As at 30 June 2021, Mr. LENG Youbin, Mr. LIU Hua and Mr. LIU Shenghui each hold one-third equity interests in Dasheng Limited. Details of the outstanding Pre-IPO Share Options are set out below:

Name of Grantee	Position held in the Group	Date of Grant	Number of Shares represented by outstanding Pre-IPO Options upon Listing	Number of Shares represented by outstanding Pre-IPO Options as at the end of the Reporting Period	Exercise price	Approximately percentage of the issued Shares of the Company as at the end of the Reporting Period
Dasheng Limited	N/A	14 October 2019	190,190,704	190,190,704	USD0.1416	2.13%

Pre-IPO Share Options granted to Dasheng Limited has vested and become exercisable with respect to 43% on 31 December 2019, and the remaining 57% has vested and become exercisable on 31 December 2020 as the performance target for the applicable fiscal year has been met.

During the Reporting Period, no option was granted under the Pre-IPO Share Option Scheme, and none of the options granted under the Pre-IPO Share Option Scheme had been exercised, cancelled or lapsed.

Further details of the Pre-IPO Share Option Scheme are set out in appendix IV to the Prospectus.

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2020 SHARE OPTION SCHEME

The Company adopted the 2020 Share Option Scheme on 22 June 2020 and a summary of the principal terms of the 2020 Share Option Scheme is set out as below.

Purposes

The purposes of the 2020 Share Option Scheme are (i) to attract and retain skilled and experienced personnel for positions of substantial responsibility, (ii) to provide additional incentive to directors of the Company and its Subsidiaries, key employees and other stakeholders of the Group, and (iii) to promote the success of the Company's business.

Participants

Participants include:

- (a) any Eligible Employee;
- (b) any director (including executive director, non-executive director and independent non-executive director) of the Company or the Subsidiaries; and
- (c) any consultant, adviser, agent, business partner, joint venture partner, service provider, contractor of the Company or the Subsidiaries.

The basis of eligibility of any of the class of Participants to the grant of any 2020 Share Options shall be determined by the Board from time to time.

Maximum Number of Shares in Respect of Which Awards May Be Granted

The maximum number of the Shares that may be subject to awards and issued under the 2020 Share Option Scheme is 134,000,100, representing 1.5% of the total number of the issued shares of the Company as at the date of this interim report.

Maximum Entitlement of Each Participant under the 2020 Share Option Scheme

The total number of Shares issued and to be issued upon exercise of the 2020 Share Options granted to each eligible Participant (including exercised, cancelled and outstanding 2020 Share Options) in any 12-month period shall not exceed 1% of the Shares in issue.

Other Information and Corporate Governance

Grant of 2020 Share Options

On and subject to the terms of the 2020 Share Option Scheme and the Listing Rules, the Board shall be entitled at any time within ten (10) years after 22 June 2020 to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an 2020 Share Option to subscribe for such number of Shares as the Board may determine at the Subscription Price (the “Offer”).

An Offer shall be made to a Participant by an Offer Letter in such form as the Board may from time to time determine requiring the Participant to undertake to hold the 2020 Share Option on the terms on which it is to be granted and to be bound by the terms of the 2020 Share Option Scheme and any other terms and conditions as contained in the Offer Letter and shall remain open for acceptance by the Participant concerned for such time to be determined by the Board, provided that no such Offer shall be open for acceptance after the expiry of ten (10) years after 22 June 2020 or after the 2020 Share Option Scheme has been terminated in accordance with the terms hereof or after the Participant to whom the Offer is made has ceased to be a Participant. The Offer Letter shall specify the terms on which the 2020 Share Option is to be granted.

An Offer shall be deemed to have been accepted and the 2020 Share Option to which such Offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Grantee, together with the payment of HK\$1.00 to the Company as the consideration for the grant thereof is received by the Company. Such payment shall in no circumstances be refundable. Once accepted, the 2020 Share Option is granted as from the Offer Date.

Exercise of Options

A 2020 Share Option may, subject to the terms and conditions upon which such 2020 Share Option is granted, be exercised in whole or in part in the manner as set out below by the Grantee (or, as the case may be, his or her legal personal representative(s)) giving notice in writing to the Company stating that the 2020 Share Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Subscription Price for the Shares in respect of which the notice is given. The aggregate Subscription Price shall be paid by cash, cheque or any other means deemed acceptable by the Board. Any exercise of a 2020 Share Option by a Grantee shall be subject to the applicable laws, regulations, rules and requirements of any relevant country or jurisdiction. Within ten (10) business days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate of the auditors or the independent financial adviser retained by the Company, the Company shall allot and issue, and shall instruct the Share Registrar to issue, the relevant Shares to the Grantee (or his or her legal personal representative(s)) credited as fully paid and issue to the Grantee (or his or her legal personal representative(s)) a share certificate in respect of the Shares so allotted. Subject to the terms and conditions upon which such 2020 Share Option was granted and any restrictions applicable under the Listing Rules, an 2020 Share Option may be exercised by the Grantee (or their legal personal representatives) at any time during the Option Period, provided that it satisfies the requirements as set out in the supplemental circular of the Company dated 5 June 2020.

Other Information and Corporate Governance

Subscription Price

The Subscription Price shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant 2020 Share Option (and shall be stated in the Offer Letter), but in any case the Subscription Price shall not be less than the higher of:

- (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day;
- (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant; and
- (c) the nominal value of a Share.

Duration of the 2020 Share Option Scheme

The 2020 Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on 22 June 2020. After the expiry of the ten (10) year period, no further Options will be offered or granted but in all other aspects the provisions of the 2020 Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any 2020 Share Option granted prior thereto. 2020 Share Options granted hereunder shall continue to be exercisable subject to the terms of the 2020 Share Option Scheme and in accordance with their terms of grant after the end of the ten (10) year period of the 2020 Share Option Scheme until the end of the Option Period.

Movements of the share options granted under the 2020 Share Option Scheme during the six months ended 30 June 2021 are as follows:

Date of grant	Date of expiry	Vesting period	Exercise price (HK\$)	Closing price of immediately before the date of grant	Number of underlying ordinary shares comprised in the options outstanding at 1 January 2021	Number of underlying ordinary shares comprised in the options granted during the six months ended 30 June 2021	Number of underlying ordinary shares comprised in the options lapsed or cancelled during the six months ended 30 June 2021	Number of underlying ordinary shares comprised in the options exercised during the six months ended 30 June 2021	Number of underlying ordinary shares comprised in the options outstanding at 30 June 2021
2 February 2021	1 February 2031	2 February 2022 to 2 February 2026	23.80	23.10	-	37,250,000	-	-	37,250,000

Other Information and Corporate Governance

The fair value of the share options granted during the six months ended 30 June 2021 under the 2020 Share Option Scheme was HK\$358,206,000. Save as disclosed above, during the Reporting Period, no share option has been granted under the 2020 Share Option Scheme, and none of the share options under the 2020 Share Option Scheme had been exercised, cancelled nor lapsed.

Further details of the 2020 Share Option Scheme are set out in the supplemental circular of the Company dated 5 June 2020.

CHANGE OF DIRECTORS' INFORMATION

During the Reporting Period and as at the Latest Practicable Date, there was no change in the information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Independent Review Report



To the board of directors of China Feihe Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 56, which comprises the condensed consolidated statement of financial position of China Feihe Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

27/F, One Taikoo Place

979 King’s Road

Quarry Bay, Hong Kong

18 August 2021

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	4	11,543,762	8,706,593
Cost of sales		(3,086,674)	(2,530,378)
Gross profit		8,457,088	6,176,215
Other income and gains, net	4	900,999	763,038
Selling and distribution expenses		(3,334,938)	(2,196,836)
Administrative expenses		(604,553)	(526,765)
Other expenses	6	(38,164)	(219,444)
Finance costs	7	(14,562)	(26,544)
Share of loss of an associate		(3,740)	(347)
Changes in fair value less costs to sell of biological assets		(81,077)	–
PROFIT BEFORE TAX	5	5,281,053	3,969,317
Income tax expense	8	(1,515,799)	(1,216,186)
PROFIT FOR THE PERIOD		3,765,254	2,753,131
Attributable to:			
Owners of the parent		3,740,086	2,753,131
Non-controlling interests		25,168	–
		3,765,254	2,753,131
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic (expressed in RMB per share)	10	0.42	0.31
Diluted (expressed in RMB per share)	10	0.41	0.30

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	3,765,254	2,753,131
OTHER COMPREHENSIVE INCOME		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	61,042	107,202
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	3,826,296	2,860,333
Attributable to:		
Owners of the parent	3,801,158	2,860,333
Non-controlling interests	25,138	–
	3,826,296	2,860,333

Interim Condensed Consolidated Statement of Financial Position

30 June 2021

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	7,462,965	7,197,272
Investment properties		83,925	78,134
Right-of-use assets		350,131	366,219
Goodwill		47,976	47,976
Intangible assets		84	89
Investment in a joint venture		6,301	6,301
Investment in an associate		133,219	136,959
Financial asset at fair value through other comprehensive income		1,800	1,800
Deposits for purchases of items of property, plant and equipment		103,679	126,070
Biological assets	12	1,539,100	1,441,941
Deferred tax assets		406,650	375,682
Long-term bank deposits		700,000	–
Total non-current assets		10,835,830	9,778,443
CURRENT ASSETS			
Inventories	13	1,621,732	1,284,472
Trade and bills receivables	14	350,905	288,808
Prepayments, deposits and other receivables		532,124	556,972
Due from a director	19(a)	80	80
Structured deposits		7,100,933	6,331,376
Restricted cash		25,301	23,920
Cash and cash equivalents		9,148,611	10,058,767
Total current assets		18,779,686	18,544,395
CURRENT LIABILITIES			
Trade and bills payables	15	1,385,296	1,132,941
Other payables and accruals	16	3,312,578	4,517,720
Interest-bearing bank and other borrowings		302,955	448,254
Lease liabilities		71,491	98,331
Tax payable		716,555	910,123
Total current liabilities		5,788,875	7,107,369
NET CURRENT ASSETS		12,990,811	11,437,026
TOTAL ASSETS LESS CURRENT LIABILITIES		23,826,641	21,215,469

Interim Condensed Consolidated Statement of Financial Position

30 June 2021

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		595,291	732,217
Other payables	16	497,813	374,259
Deferred tax liabilities		987,835	784,212
Lease liabilities		119,580	139,256
Total non-current liabilities		2,200,519	2,029,944
Net assets		21,626,122	19,185,525
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	1	1
Reserves		20,162,567	17,747,108
		20,162,568	17,747,109
Non-controlling interests		1,463,554	1,438,416
Total equity		21,626,122	19,185,525

LIU Hua
Director

Judy Fong-Yee TU
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Attributable to owners of the parent											
	Notes	Share			Capital			Share			Non-	
		Issued	premium	contribution	Reserve	Share	Exchange	Retained	Other	controlling	Total	
		capital	account	reserve	funds	option	fluctuation	profits	reserves			Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020	1	6,550,237	80,346	577,436	121,074	(75,458)	5,901,079	(125,137)	13,029,578	-	13,029,578	
Profit for the period	-	-	-	-	-	-	2,753,131	-	2,753,131	-	2,753,131	
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	107,202	-	-	107,202	-	107,202	
Total comprehensive income for the period	-	-	-	-	-	107,202	2,753,131	-	2,860,333	-	2,860,333	
Final 2019 dividend declared	9	-	-	-	-	-	(1,583,148)	-	(1,583,148)	-	(1,583,148)	
Equity-settled share option arrangements	-	-	-	-	56,168	-	-	-	56,168	-	56,168	
At 30 June 2020 (unaudited)	1	6,550,237*	80,346*	577,436*	177,242*	31,744*	7,071,062*	(125,137)*	14,362,931	-	14,362,931	
At 1 January 2021	1	6,550,237	80,346	713,473	231,236	(220,336)	10,517,289	(125,137)	17,747,109	1,438,416	19,185,525	
Profit for the period	-	-	-	-	-	-	3,740,086	-	3,740,086	25,168	3,765,254	
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	61,072	-	-	61,072	(30)	61,042	
Total comprehensive income for the period	-	-	-	-	-	61,072	3,740,086	-	3,801,158	25,138	3,826,296	
Final 2020 dividend declared	9	-	-	-	-	-	(1,185,775)	-	(1,185,775)	-	(1,185,775)	
Shares repurchased	17(i)	(255,220)	-	-	-	-	-	-	(255,220)	-	(255,220)	
Equity-settled share option arrangements	-	-	-	-	55,296	-	-	-	55,296	-	55,296	
At 30 June 2021 (unaudited)	1	6,295,017*	80,346*	713,473*	286,532*	(159,264)*	13,071,600*	(125,137)*	20,162,568	1,463,554	21,626,122	

* These reserve accounts comprise the consolidated reserves of RMB20,162,567,000 (30 June 2020: RMB14,362,930,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,281,053	3,969,317
Adjustments for:			
Finance costs	7	14,562	26,544
Interest income	4	(177,053)	(170,384)
Impairment of items of property, plant and equipment	6	–	3,970
Impairment of right-of-use assets	6	3,362	59,506
Depreciation of property, plant and equipment	5	194,980	74,507
Depreciation of investment properties	6	6,018	–
Depreciation of right-of-use assets	5	12,812	29,364
Amortisation of intangible assets		5	3
Loss on disposal of items of property, plant and equipment, net	6	7,849	6,119
Fair value gains on structured deposits	4	(86,100)	(17,414)
Changes in fair value less costs to sell of biological assets		81,077	–
Write-down/(reversal of write-down) of			
inventories to net realisable value	5	(14,485)	6,834
Impairment/(reversal of impairment) of trade receivables, net	5	(9,803)	17,102
Reversal of impairment of other receivables, net		–	(1,050)
Gain on termination of leases	4	(11,540)	–
Gain on lease modification		(11,874)	–
Covid-19-related rent concessions from lessors		(4,637)	–
Amortisation of deferred income	4	(13,188)	(1,834)
Share of loss of an associate		3,740	347
Equity-settled share option expense		55,296	56,168
		5,332,074	4,059,099
Increase in inventories		(322,847)	(265,182)
Increase in trade and bills receivables		(52,315)	(103,197)
Decrease/(increase) in prepayments, deposits and other receivables		33,078	(17,659)
Increase in trade and bills payables		251,746	241,527
Decrease in other payables and accruals		(1,201,239)	(341,120)
Cash generated from operations		4,040,497	3,573,468
Interest received		168,933	184,501
Interest paid		(14,279)	(38,327)
Income taxes paid		(1,536,712)	(1,078,584)
Net cash flows from operating activities		2,658,439	2,641,058

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
	<i>Notes</i>	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment and right-of-use assets	(408,930)	(308,462)
Proceeds from disposal of items of property, plant and equipment and right-of-use assets	25,511	12,476
Additions to biological assets	(235,190)	–
Proceeds from disposal of biological assets	88,665	–
Purchases of structured deposits	(6,814,833)	(5,054,365)
Proceeds from redemption of structured deposits	6,131,376	5,990,391
Placement of restricted cash	(25,298)	(294,580)
Withdrawal of restricted cash	23,917	343,434
Investment in a joint venture	–	(6,673)
Receipt of government grants	132,018	76,743
Deposits paid for purchases of items of property, plant and equipment	(75,083)	(53,461)
Placement of time deposits with original maturity of more than three months when acquired	(2,248,037)	(2,894,025)
Withdrawal of time deposits with original maturity of more than three months when acquired	1,774,030	1,634,862
Net cash flows used in investing activities	(1,631,854)	(553,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	–	150,000
Repayment of bank and other loans	(288,275)	(3,654,056)
Repurchase of shares	(255,220)	–
Dividend paid	(1,185,775)	–
Placement of pledged bank deposits	–	(873,000)
Release of pledged bank deposits	–	4,202,716
Principal portion of lease payments	(20,419)	(9,703)
Net cash flows used in financing activities	(1,749,689)	(184,043)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(723,104)	1,903,355
Cash and cash equivalents at beginning of period	5,912,195	4,666,585
Effect of foreign exchange rate changes, net	39,554	43,385
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,228,645	6,613,325
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,873,912	10,611,071
Less: Long-term bank deposits	(700,000)	–
Less: Restricted cash	(25,301)	(27,724)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	9,148,611	10,583,347
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(3,919,966)	(3,970,022)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	5,228,645	6,613,325

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The interim condensed consolidated financial 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 2020.

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 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) (which include all IFRSs, IASs and Interpretations) for the first time for the current period’s financial information:

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16
Amendment to IFRS 16

Interest Rate Benchmark Reform – Phase 2

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

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

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

The Group had interest-bearing borrowing denominated in foreign currency based on the Canadian Dollar Offered Rate (“CDOR”) as at 30 June 2021. Since the interest rate of the borrowing was not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rate of the borrowing is replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of this borrowing when the “economically equivalent” criterion is met.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

3. OPERATING SEGMENT INFORMATION

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, 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, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, financial asset at fair value through other comprehensive income, 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.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2021

	Dairy products and nutritional supplements		Total RMB'000 (Unaudited)
	Raw milk RMB'000 (Unaudited)	products RMB'000 (Unaudited)	
Segment revenue			
Sales to external customers	22,158	11,521,604	11,543,762
Intersegment sales	815,281	–	815,281
	837,439	11,521,604	12,359,043
<i>Reconciliation:</i>			
Elimination of intersegment sales			(815,281)
Revenue			11,543,762
Segment results	80,986	5,037,731	5,118,717
<i>Reconciliation:</i>			
Elimination of intersegment results			(283)
Bank interest income			83,181
Other interest income			93,872
Share of loss of an associate			(3,740)
Finance costs (other than interest on lease liabilities)			(10,694)
Profit before tax			5,281,053
Segment assets	4,892,340	8,130,888	13,023,228
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(138,983)
Corporate and other unallocated assets			16,731,271
Total assets			29,615,516
Segment liabilities	857,543	4,668,198	5,525,741
<i>Reconciliation:</i>			
Elimination of intersegment payables			(138,983)
Corporate and other unallocated liabilities			2,602,636
Total liabilities			7,989,394

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

3. OPERATING SEGMENT INFORMATION (continued)

During the six months ended 30 June 2020, the Group principally focused on the production and sale of dairy products and sale of nutritional supplements. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focused on the operating results of the Group as a whole as the Group's resources were integrated and no discrete operating segment information was available. Accordingly, no operating segment information was presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Mainland China	11,433,395	8,542,270
United States of America	110,367	164,323
	11,543,762	8,706,593

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

(b) Non-current assets

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
	Mainland China	7,848,923
United States of America	84,491	97,799
Canada	1,793,966	1,786,457
	9,727,380	9,400,961

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

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue from contracts with customers	11,543,762	8,706,593

Revenue from contracts with customers

(i) Disaggregated revenue information

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Type of goods		
Sales of goods	11,543,762	8,706,593
Geographical markets		
Mainland China	11,433,395	8,542,270
United States of America	110,367	164,323
Total revenue from contracts with customers	11,543,762	8,706,593
Timing of revenue recognition		
Goods transferred at a point in time	11,543,762	8,706,593

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

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

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Other income			
Bank interest income		83,181	69,494
Other interest income		93,872	100,890
Government grants related to			
– Assets	(i)	13,188	1,834
– Income	(ii)	593,184	550,954
Others		19,934	14,927
		803,359	738,099
Gains, net			
Fair value gains on structured deposits		86,100	17,414
Foreign exchange gain, net		–	7,525
Gain on termination of leases		11,540	–
		97,640	24,939
Total other income and gains, net		900,999	763,038

Notes:

- (i) The Group received government grants in respect of the construction and acquisition of property, plant and equipment. These government grants are recorded initially at fair value as deferred income, which are amortised to match the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives.
- (ii) Various government grants have been received by the Group's subsidiaries operated in Heilongjiang and Jilin Provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to the Interim Condensed Consolidated Financial Information

30 June 2021

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold	2,478,198	2,530,378
Breeding costs to produce	436,084	–
Production costs of raw milk	172,392	–
Cost of sales	3,086,674	2,530,378
Depreciation of property, plant and equipment	226,691	74,507
Less: Capitalised in biological assets	(31,711)	–
Depreciation recognised in the interim condensed consolidated statement of profit or loss	194,980	74,507
Depreciation of right-of-use assets	12,812	29,364
Rent expense – short term leases	2,107	3,148
Interest expense on lease liabilities	3,868	3,330
Write-down/(reversal of write-down) of inventories to net realisable value	(14,485)	6,834
Impairment/(reversal of impairment) of trade receivables, net	(9,803)	17,102
Foreign exchange differences, net	7,157	(7,525)

6. OTHER EXPENSES

An analysis of other expenses is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost on disposal of cow-waste	11,248	–
Depreciation of investment properties	6,018	–
Impairment of right-of-use assets	3,362	59,506
Impairment of items of property, plant and equipment	–	3,970
Loss on disposal of items of property, plant and equipment, net	7,849	6,119
Impairment of trade receivables	–	17,102
Loss on disposal of old packaging materials	1,609	507
Donations	7,851	131,441
Others	227	799
Total	38,164	219,444

Notes to the Interim Condensed Consolidated Financial Information

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on:		
Bank loans	369	38,513
Other loans	10,325	20,177
Lease liabilities	3,868	3,330
Total interest expense on financial liabilities not at fair value through profit or loss	14,562	62,020
Less: Interest capitalised	–	(35,476)
	14,562	26,544

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 2020: 25%) during the period.

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

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (six months ended 30 June 2020: 16.5%) during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current – PRC		
Charge for the period	1,343,144	1,130,966
Deferred	172,655	85,220
Total tax charge for the period	1,515,799	1,216,186

Notes to the Interim Condensed Consolidated Financial Information

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9. DIVIDEND

During the six months ended 30 June 2021, the Company declared a final dividend of HK\$0.1586 per ordinary share, equivalent to a total of approximately RMB1.19 billion for the year ended 31 December 2020 to its shareholders. During the six months ended 30 June 2020, the Company declared a final dividend of HK\$0.1943 per ordinary share, equivalent to a total of approximately RMB1.58 billion for the year ended 31 December 2019 to its shareholders.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK\$0.2973 per ordinary share for the six months ended 30 June 2021, amounting to a total of approximately RMB2.21 billion. For the year ended 31 December 2020, the Company also declared an interim dividend of HK\$0.1375 per ordinary share for the six months ended 30 June 2020, amounting to a total of approximately RMB1.10 billion.

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

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

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2021 and 2020 is based on the profit for the period attributable to owners of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options into ordinary shares under the share option schemes.

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Earnings:		
Profit for the period attributable to owners of the parent	3,740,086	2,753,131

	Number of shares	
	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	8,931,673,028	8,933,340,000
Effect of dilution – weighted average number of ordinary shares: Share options	180,433,211	168,768,972
	9,112,106,239	9,102,108,972

Notes to the Interim Condensed Consolidated Financial Information

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11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment of RMB408,110,000 (six months ended 30 June 2020: RMB299,700,000).

Assets with a net book value of RMB33,360,000 were disposed of by the Group during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB18,595,000), resulting in a loss on disposal of RMB7,849,000 (six months ended 30 June 2020: RMB6,119,000).

During the six months ended 30 June 2020, an impairment loss of RMB3,970,000 was recognised.

At 30 June 2021, certain of the Group's plant and machinery and construction in progress with an aggregate net carrying amount of approximately RMB1,764,184,000 (31 December 2020: RMB1,757,101,000) were pledged to secure a loan borrowed from a third party.

12. BIOLOGICAL ASSETS

(a) Nature of activities

Dairy cows owned by the Group are primarily held to produce milk.

The quantity of dairy cows owned by the Group as at 30 June 2021 and 31 December 2020 is shown below. The Group's dairy cows contain heifers and calves and milkable cows. Heifers and calves held as at 30 June 2021 and 31 December 2020 were dairy cows that have not had their first calves.

	30 June 2021 (Unaudited) Heads	31 December 2020 (Audited) Heads
Dairy cows		
Milkable cows	35,057	35,128
Heifers and calves	37,264	34,270
Total dairy cows	72,321	69,398

The Group is exposed to fair value risks arising from changes in price of the dairy products. The Group does not anticipate that the price of the dairy products will decline significantly in the foreseeable future and the Directors are of the view that there are no available derivative or other contracts which the Group can enter into to manage the risk of a decline in the price of the dairy products.

In general, the heifers are inseminated with semen when they reached approximately 16 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins. A milkable cow is typically milked for approximately 305 days before an approximately 60 days' dry period.

When a heifer begins to produce milk, it would be transferred to the category of milkable cows based on the estimated fair value on the date of transfer. The sale of dairy cows is not one of the Group's principal activities and the proceeds are not included as revenue.

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12. BIOLOGICAL ASSETS (continued)

(b) Value of dairy cows

The value of dairy cows at the end of the reporting period was:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Dairy cows	1,539,100	1,441,941

	Heifers and calves RMB'000	Milkable cows RMB'000	Total RMB'000
Balance as at 1 January 2020	–	–	–
Acquisition of a subsidiary	528,490	894,500	1,422,990
Increase due to raising (feeding costs and others)	42,922	–	42,922
Transfer in/(out)	(22,912)	22,912	–
Decrease due to sales	(4,907)	(6,690)	(11,597)
Loss arising from changes in fair value less costs to sell	(637)	(11,737)	(12,374)
Balance as at 31 December 2020 (audited) and 1 January 2021	542,956	898,985	1,441,941
Increase due to raising (feeding costs and others)	266,901	–	266,901
Transfer in/(out)	(196,513)	196,513	–
Decrease due to sales	(25,518)	(63,147)	(88,665)
Gain/(loss) arising from changes in fair value less costs to sell	18,914	(99,991)	(81,077)
Balance as at 30 June 2021 (unaudited)	606,740	932,360	1,539,100

Notes to the Interim Condensed Consolidated Financial Information

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12. BIOLOGICAL ASSETS (continued)

(c) Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's biological assets:

	Fair value measurement using significant unobservable inputs (Level 3) RMB'000
As at 30 June 2021 (unaudited)	1,539,100
As at 31 December 2020 (audited)	1,441,941

13. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Feed	150,589	295,003
Raw materials	583,735	440,705
Work in progress	148,508	22,874
Finished goods	716,848	504,285
Others	22,052	21,605
	1,621,732	1,284,472

Notes to the Interim Condensed Consolidated Financial Information

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14. TRADE AND BILLS RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	299,376	224,307
Bills receivable	62,767	85,542
	362,143	309,849
Impairment	(11,238)	(21,041)
	350,905	288,808

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	243,046	251,382
1 to 2 months	87,661	14,044
2 to 3 months	10,769	13,603
Over 3 months	9,429	9,779
	350,905	288,808

Notes to the Interim Condensed Consolidated Financial Information

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15. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade and bills payables	1,385,296	1,132,941

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within three months	1,316,852	1,086,328
Three to six months	36,729	23,433
Over six months	31,715	23,180
	1,385,296	1,132,941

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Deferred income	527,495	407,285
Other payables	1,113,944	1,448,432
Accruals	1,669,816	1,231,213
Contract liabilities	499,136	1,805,049
	3,810,391	4,891,979
Non-current portion	(497,813)	(374,259)
Current portion	3,312,578	4,517,720

Notes to the Interim Condensed Consolidated Financial Information

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17. SHARE CAPITAL

	Note	Number of shares		RMB'000	
		30 June 2021	31 December 2020	30 June 2021	31 December 2020
Authorised					
At the beginning and end of the period/year		2,000,000,000,000	2,000,000,000,000	303	303
Issued and paid-up					
At the beginning of the period/year		8,933,340,000	8,933,340,000	1	1
Share repurchased	(i)	(16,101,000)	-	-	-
At the end of the period/year		8,917,239,000	8,933,340,000	1	1

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

Note:

- (i) For the six months ended 30 June 2021, the Company repurchased 16,101,000 ordinary shares on the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$306,234,000 (equivalent to approximately RMB255,220,000). All of these repurchased shares were cancelled during the six months ended 30 June 2021 and the premium paid on the repurchase of these shares of RMB255,220,000 has been charged to the share premium account.

18. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	494,782	304,234

Notes to the Interim Condensed Consolidated Financial Information

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19. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in this interim condensed consolidated financial information, the Group had the following transactions with related parties during the period:

(a) Outstanding balances with related parties

The amount due from a director included in the Group's current assets is unsecured, interest-free and repayable on demand.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Salaries and allowance	20,130	21,123
Pension scheme contributions	109	117
Equity-settled share option scheme	–	56,168
Total compensation paid/payable to key management personnel	20,239	77,408

Notes to the Interim Condensed Consolidated Financial Information

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20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets				
Financial asset at fair value through other comprehensive income	1,800	1,800	1,800	1,800
Structured deposits	7,100,933	6,331,376	7,100,933	6,331,376
Financial liabilities				
Interest-bearing bank and other borrowings	898,246	1,180,471	888,580	1,180,370

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amount due from a director, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2021 were assessed to be insignificant.

The fair values of the structured deposits are determined in accordance with discounted cash flow analysis. The fair values of financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

Notes to the Interim Condensed Consolidated Financial Information

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20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2021 (unaudited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	7,100,933	-	7,100,933
At 31 December 2020 (audited)				
Financial asset at fair value through other comprehensive income	-	-	1,800	1,800
Structured deposits	-	6,331,376	-	6,331,376

The Group did not have any financial liabilities measured at fair value as at 30 June 2021 (31 December 2020: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and financial liabilities (year ended 31 December 2020: Nil).

The fair value of the financial asset at fair value through other comprehensive income was estimated using the market approach, with an unobservable input as the price-to-book ratio of comparable companies. A 20% (31 December 2020: 20%) increase/decrease in the price-to-book ratio of comparable companies would result in an increase/decrease in fair value by approximately RMB360,000 (31 December 2020: RMB360,000).

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20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2021 (unaudited)				
Interest-bearing bank and other borrowings	-	888,580	-	888,580
At 31 December 2020 (audited)				
Interest-bearing bank and other borrowings	-	1,180,370	-	1,180,370

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 August 2021.

Definitions



“Audit Committee”	the audit committee under the Board
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CG Code”	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“China” or “PRC”	the People’s Republic of China, and for the purposes of this interim report for geographical reference only (unless otherwise indicated), excluding Taiwan, Macau and Hong Kong
“Company,” “us,” or “we”	China Feihe Limited (中國飛鶴有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 26 October 2012, whose Shares are listed on the main board of the Stock Exchange
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands
“DIF Holding”	Diamond Infant Formula Holding Limited, an exempted company incorporated in the Cayman Islands with limited liability on 24 October 2012
“DIF Share Option(s)”	option(s) granted under the DIF Share Option Schemes to subscribe for DIF Ordinary Shares
“DIF Share Option Schemes”	collectively, the First DIF Share Option Scheme and the Second DIF Share Option Scheme
“Director(s)”	director(s) of the Company
“Eligible Employee”	any employee (whether full time or part time) of the Group
“First DIF Share Option Scheme”	the first pre-IPO share option scheme adopted by DIF Holding on 18 December 2013
“Global Offering”	the offer of the Shares for subscription as described in the section headed “Structure of the Global Offering” in the Prospectus



Definitions

“Grantee”	any Participant who accepts the offer of the grant of any Option in accordance with the terms of the Scheme or (where the context so permits) any person entitled to any such Option in consequence of the death or incapacitation of the original Grantee, or the legal personal representative of such person
“Group” or “we” or “our” or “us”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency for Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards, which include all International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations issued by the International Accounting Standards Board (IASB)
“Kingston Plant”	the planned production facility to be constructed in the city of Kingston, Ontario, Canada
“Latest Practicable Date”	9 September 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this interim report prior to its publication
“Listing”	the listing of the Shares on the main board of the Stock Exchange
“Listing Date”	13 November 2019, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Memorandum and Articles of Association”	the amended and restated memorandum of association and articles of association of our Company, conditionally adopted on 14 October 2019 with effect from the Listing Date, and as amended from time to time
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Nomination Committee”	the nomination committee under the Board

Definitions

“Offer Date”	the date on which such 2020 Share Option is offered to a Participant under the 2020 Share Option Scheme
“Offer Letter”	the letter by which an offer to grant an Option is made to a Participant
“Option Period”	the period to be determined and notified by the Board to each Grantee at the time of making an offer of any 2020 Share Option, which shall not be longer than ten (10) years from the date of grant of the 2020 Share Option
“Pre-IPO Share Option”	the pre-IPO share option(s) granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 14 October 2019
“Prospectus”	the prospectus of the Company dated 30 October 2019 in connection with the Hong Kong public offering of the Company
“Remuneration Committee”	the remuneration committee under the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reporting Period”	the period commencing from 1 January 2021 and ended on 30 June 2021
“Second DIF Share Option Scheme”	the second pre-IPO share option scheme adopted by DIF Holding on 1 January 2017
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of US\$0.000000025 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares upon the exercise of a 2020 Share Option granted under the 2020 Share Option Scheme



Definitions

“Subsidiaries”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) of the Company, whether incorporated in Hong Kong or elsewhere, and “Subsidiaries” shall be construed accordingly
“United States” or “U.S.”	the United States of America and its territories
“US\$” or “USD”	the lawful currency of the United States
“Vitamin World USA”	Vitamin World USA Corporation, a corporation incorporated in the State of Delaware, the United States on 13 December 2017 and a wholly-owned subsidiary of the Company
“YST”	YuanShengTai Dairy Farm Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1431)
“%”	per cent.
“2020 Share Option”	an option to subscribe for Shares granted pursuant to the 2020 Share Option Scheme
“2020 Share Option Scheme”	the share option scheme adopted by the Company on 22 June 2020