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China Feihe Limited

中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6186)

**ANNOUNCEMENT OF THE ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019 AND TRADING UPDATE**

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019:

- The Group's total revenue was RMB13,721.5 million, representing an increase of 32.0% as compared to last year.
- The Group's gross profit was RMB9,609.6 million, representing an increase of 36.9% as compared to last year.
- The Group's profit for the year was RMB3,934.6 million, representing an increase of 75.5% as compared to last year.
- Basic earnings per share of the Company amounted to RMB0.48 (2018: RMB0.28).
- Diluted earnings per share of the Company amounted to RMB0.48 (2018: RMB0.28).
- The Board has proposed to declare final dividend of HK\$0.1943 per share of the Company.

The board of directors (the “**Board**”) of China Feihe Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019, together with the comparative amounts.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	4	13,721,509	10,391,917
Cost of sales		<u>(4,111,918)</u>	<u>(3,372,827)</u>
Gross profit		9,609,591	7,019,090
Other income and gains, net	4	976,789	555,835
Selling and distribution expenses		(3,847,985)	(3,661,314)
Administrative expenses		(913,226)	(580,289)
Other expenses		(69,800)	(86,076)
Finance costs		<u>(72,693)</u>	<u>(58,675)</u>
Profit before tax	5	5,682,676	3,188,571
Income tax expense	6	<u>(1,748,099)</u>	<u>(946,317)</u>
Profit for the year attributable to owners of the parent		<u>3,934,577</u>	<u>2,242,254</u>
Earnings per share attributable to ordinary equity holders of the parent	8		
Basic (expressed in RMB per share)		<u>0.48</u>	<u>0.28</u>
Diluted (expressed in RMB per share)		<u>0.48</u>	<u>0.28</u>

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year	<u>3,934,577</u>	<u>2,242,254</u>
Other comprehensive loss		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>(30,187)</u>	<u>(46,191)</u>
Total comprehensive income for the year attributable to owners of the parent	<u>3,904,390</u>	<u>2,196,063</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,971,218	2,554,681
Right-of-use assets		377,261	306,446
Goodwill		47,976	47,976
Intangible assets		39	43
Investment in an associate		142,530	142,530
Financial asset at fair value through other comprehensive income		1,800	1,800
Deposits for purchases of items of property, plant and equipment		153,947	147,894
Deferred tax assets		208,686	208,340
Long-term bank deposits		–	150,000
Pledged deposits		811,715	1,003,000
Total non-current assets		5,715,172	4,562,710
CURRENT ASSETS			
Inventories		686,094	660,066
Trade and bills receivables	9	314,353	512,837
Prepayments, deposits and other receivables		571,112	567,197
Due from a director		80	80
Due from a related company		–	750
Structured deposits		5,390,191	1,183,741
Pledged deposits		2,872,699	663,000
Restricted cash		76,578	66,218
Cash and cash equivalents		7,377,470	3,640,836
Total current assets		17,288,577	7,294,725
CURRENT LIABILITIES			
Trade and bills payables	10	1,041,547	833,383
Other payables and accruals		2,631,160	2,477,542
Interest-bearing bank and other borrowings		3,094,214	1,083,267
Lease liabilities		57,145	59,070
Tax payable		614,434	406,972
Total current liabilities		7,438,500	4,860,234
NET CURRENT ASSETS		9,850,077	2,434,491
TOTAL ASSETS LESS CURRENT LIABILITIES		15,565,249	6,997,201

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	1,716,064	657,302
Other payables	133,929	57,102
Deferred tax liabilities	557,192	360,512
Lease liabilities	128,486	134,801
Total non-current liabilities	2,535,671	1,209,717
Net assets	13,029,578	5,787,484
EQUITY		
Equity attributable to owners of the parent		
Share capital	1	1
Reserves	13,029,577	5,787,483
Total equity	13,029,578	5,787,484

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. The shares of the Company (the “**Share(s)**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13 November 2019 (the “**Listing Date**”). During the year, the Company’s subsidiaries were engaged in the production and sale of dairy products and sale of nutritional supplements.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	13,162,917	9,751,392
United States of America	558,592	640,525
	<u>13,721,509</u>	<u>10,391,917</u>

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	2,681,452	1,994,447
United States of America	209,660	226,947
Canada	1,801,859	978,176
	<u>4,692,971</u>	<u>3,199,570</u>

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

Information about major customers

There was no single external customer of the Group that individually accounted for 10% or more of the Group's total revenue during the year (2018: Nil).

4. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of revenue is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sales of goods	<u>13,721,509</u>	<u>10,391,917</u>

(i) Disaggregated revenue information

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Type of goods		
Sales of goods	<u>13,721,509</u>	<u>10,391,917</u>
Geographical markets		
Mainland China	13,162,917	9,751,392
United States of America	<u>558,592</u>	<u>640,525</u>
Total revenue from contracts with customers	<u>13,721,509</u>	<u>10,391,917</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>13,721,509</u>	<u>10,391,917</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of goods	<u>577,525</u>	<u>394,075</u>

(ii) **Performance obligations**

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

Sale of dairy products

The performance obligation is satisfied upon delivery of products. The Group has a policy of requiring payment in advance from customers for sales of products, 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.

Sale of nutritional supplements

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

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

	Note	2019 RMB'000	2018 RMB'000
Other income			
Bank interest income		87,659	38,698
Other interest income		75,341	51,521
Government grants related to			
– Assets		1,674	17,363
– Income	(i)	723,641	394,533
Reversal of impairment of other receivable		1,172	–
Others		38,302	12,652
		<u>927,789</u>	<u>514,767</u>
Gains, net			
Fair value gains on structured deposits		40,192	7,741
Gain on bargain purchase		–	33,327
Others		8,808	–
		<u>49,000</u>	<u>41,068</u>
Total other income and gains, net		<u>976,789</u>	<u>555,835</u>

Note:

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

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cost of inventories sold*	4,111,918	3,372,827
Depreciation of property, plant and equipment	110,889	95,464
Depreciation of right-of-use assets	70,248	66,432
Rent expense – short term leases	7,920	7,103
Interest expense on lease liabilities	8,872	9,135
Amortisation of intangible assets	4	1
Research and development costs	171,070	108,889
Auditors' remuneration	4,700	1,800
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	524,015	310,899
Pension scheme contributions (defined contribution schemes)	69,075	61,366
Equity-settled share option expense	–	225
	<u>593,090</u>	<u>372,490</u>
Write-down of inventories to net realisable value	336	20,657
Impairment of trade receivables, net	640	1,819
Impairment of other receivables, net	15,683	–
Loss on disposal of items of property, plant and equipment, net	<u>13,696</u>	<u>3,377</u>

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

6. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2018: 25%) during the year.

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2018: 16.5%) during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current – PRC		
Charge for the year	1,552,742	905,732
Deferred	<u>195,357</u>	<u>40,585</u>
Total tax charge for the year	<u>1,748,099</u>	<u>946,317</u>

7. DIVIDEND

On 14 October 2019, the Company declared a special dividend of HK\$3 billion to its shareholders.

The proposed final dividend of HK\$0.1943 per ordinary share, equivalent to an aggregate of approximately RMB1,573,830,800, for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM").

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

The calculation of the basic earnings per share amounts is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the share subdivision on 14 October 2019 on the assumption that the share subdivision had been in effect on 1 January 2018.

The calculation of the diluted earnings per share amount for the year ended 31 December 2019 is based on the profit for the year attributable to owners of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options as at 31 December 2019 into ordinary shares under the share option scheme.

During the year ended 31 December 2018, diluted earnings per share equaled the basic earnings per share as there were no potential dilutive ordinary shares in issue for that year.

	2019 RMB'000	2018 RMB'000
Earnings:		
Profit for the year attributable to owners of the parent	<u>3,934,577</u>	<u>2,242,254</u>
	Number of shares	
	2019	2018
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	8,157,480,329	8,040,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>18,122,990</u>	<u>–</u>
	<u>8,175,603,319</u>	<u>8,040,000,000</u>

9. TRADE AND BILLS RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	214,350	443,180
Bills receivables	109,598	78,612
	<u>323,948</u>	<u>521,792</u>
Impairment	(9,595)	(8,955)
	<u>314,353</u>	<u>512,837</u>

The Group has a policy of requiring payment in advance from customers for sales of products (other than cash and credit card sales), except for some major customers, 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 month	222,434	387,315
1 to 2 months	21,924	54,921
2 to 3 months	55,245	42,614
Over 3 months	14,750	27,987
	<u>314,353</u>	<u>512,837</u>

10. TRADE AND BILLS PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade and bills payables	1,041,547	833,383

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within three months	1,018,656	811,091
Three to six months	9,211	14,998
Over six months	13,680	7,294
	<u>1,041,547</u>	<u>833,383</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

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

- Growth in consumers' confidence in the quality of and preference for China's infant milk formula products. With the enhancement in the quality management regime of China's dairy industry and the increased competitiveness of Chinese dairy brands, consumers' confidence in and consumption preference for China's infant milk formula products continued to increase. The growth in consumer demand for infant milk formula products will drive the production and sales of China's infant milk formula products, which could in turn better satisfy consumers' diversified and unique consumption needs.
- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products, particularly super-premium products, is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics' 2019 Statistical Report on National Economic and Social Development, China's total economic volume in 2019 is close to RMB100 trillion, with a per capita GDP of RMB70,892, exceeding USD\$10,000 (converted at the average exchange rate for the year), which will in turn increase the consumption momentum of China's high-end infant milk formula products.
- Increasing urbanization and rising disposable income. The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products, especially high-end products. Lower-tier cities as well as rural areas in China are becoming wealthier and more urbanized, and families in such regions are increasingly able to afford higher-quality infant milk formula products. In general, these regions have larger populations and therefore higher potential for consumption growth.

- Favorable industry policies by the PRC government:
 - o The National Development and Reform Commission of China unveiled the Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) in May 2019, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.
 - o The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder (嬰幼兒配方乳粉產品配方註冊管理辦法) (issued in June 2016 and became effective on 1 January 2018) limit each registered infant milk formula product manufacturer to the registration of up to three product series, resulting in a higher market concentration which would benefit major infant milk formula market players with a strong presence in small cities and rural areas in China.
- Low level of exclusive breastfeeding rate. The rate of infants that are fed exclusively with breast milk for the first six months after birth was 29% in 2018. The increasing resemblance of infant milk formula to breast milk, availability of infant milk formula and inconvenience of breastfeeding for working mothers are among the primary factors that have influenced a mother's choice of whether or not to breastfeed her baby. With China's continued economic growth and urbanization process, breastfeeding rates are forecasted to remain at low levels, creating more demand for infant milk formula products.

Business Overview

Our Dairy Products

The Group's infant milk formula products are designed to closely simulate the composition of the breast milk of Chinese mothers through in-house research and development formulations, with the aim of achieving an optimal balance of key ingredients for Chinese babies based on their biological physique. The Group 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.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 1,800 offline customers with more than 109,000 retail points of sale as at 31 December 2019. The Group's offline customers are distributors who sell our products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 91.3% of its total revenue from dairy products for the year ended 31 December 2019.

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

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 31 December 2019, the Group had six production facilities to manufacture its products with a designed annual production capacity of 126,800 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. In anticipation of the Group's continued robust growth and increasing demand for its products, the Group is expanding two of its existing production facilities and constructing two new production facilities.

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 2019, more than 500,000 face-to-face seminars were held in total;
- Maximize online interactivity with consumers; and
- Targeted and results-driven exposure on media.

Vitamin World USA

While focusing on the principal business of production and sales of infant milk formula products, the Group has been actively seeking opportunities to diversify its businesses. The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA ("**Vitamin World USA**"). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated more than 120 specialty stores across the United States, mostly in malls and outlet centres, and employed over 600 people as at 31 December 2019. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms, such as Amazon, Tmall Global and JD.hk. Revenue generated from nutritional supplement products was RMB578 million, accounting for 4.2% of the Group's total revenue for the year ended 31 December 2019.

Operating Results and Analysis

The table below sets forth the Group's consolidated statement of profit or loss and other comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the years indicated, together with changes (expressed in percentages) from 2018 to 2019.

	Year Ended 31 December				Year-on-Year Change
	2019		2018		
	<i>(In thousands of RMB, except percentages)</i>				
Revenue	13,721,509	100.0%	10,391,917	100.0%	32.0%
Cost of sales	(4,111,918)	(30.0)%	(3,372,827)	(32.5)%	21.9%
Gross profit	9,609,591	70.0%	7,019,090	67.5%	36.9%
Other income and gains, net	976,789	7.1%	555,835	5.3%	75.7%
Selling and distribution expenses	(3,847,985)	(28.0)%	(3,661,314)	(35.2)%	5.1%
Administrative expenses	(913,226)	(6.7)%	(580,289)	(5.6)%	57.4%
Other expenses	(69,800)	(0.5)%	(86,076)	(0.8)%	(18.9)%
Finance costs	(72,693)	(0.5)%	(58,675)	(0.6)%	23.9%
Profit before tax	5,682,676	41.4%	3,188,571	30.6%	78.2%
Income tax expense	(1,748,099)	(12.7)%	(946,317)	(9.1)%	84.7%
Profit for the year	3,934,577	28.7%	2,242,254	21.5%	75.5%
Other comprehensive loss					
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	(30,187)	(0.2)%	(46,191)	(0.4)%	(34.6)%
Total comprehensive income for the year	3,904,390	28.5%	2,196,063	21.1%	77.8%

Revenue

The Group's revenue increased by 32.0% from RMB10,391.9 million in 2018 to RMB13,721.5 million in 2019, primarily due to (i) an increase in revenue generated from the high-end infant formula product series primarily attributable to the increase in revenue from Super-premium Astrobaby and Super-premium Organic Zhenzhi product series, (ii) an increase in revenue generated from regular infant milk formula product series primarily attributable to the enhanced recognition of the Group's brand, and (iii) an increase in revenue generated from other dairy products, primarily from the increase in revenue from adult milk powder. The slight decrease in revenue from nutritional supplement products from 2018 to 2019 was primarily because the Group was in the process of integrating the sales and product resources of Vitamin World USA.

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

	Year Ended 31 December				Year-on-Year Change
	2019		2018		
	<i>(In thousands of RMB, except percentages)</i>				
High-end infant milk formula product series	9,411,461	68.6%	6,657,636	64.1%	41.4%
Regular infant milk formula product series	3,126,654	22.8%	2,541,562	24.4%	23.0%
Other dairy products*	605,169	4.4%	550,383	5.3%	10.0%
Nutritional supplement products	578,225	4.2%	642,336	6.2%	(10.0)%
Total revenue	13,721,509	100.0%	10,391,917	100.0%	32.0%

* Our other dairy products include adult milk powder, liquid milk, goat milk infant formula, and a small amount of soybean powder, among others.

Cost of Sales

The Group's cost of sales increased by 21.9% from RMB3,372.8 million in 2018 to RMB4,111.9 million in 2019, primarily due to an increase in the costs of raw materials such as fresh milk, packaging materials and others in 2019, which was primarily caused by the higher sales volume of the Group's dairy products.

Gross Profit and Gross Profit Margin

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

	Year Ended 31 December				Year-on-Year Change in Gross Profit
	2019		2018		
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	
	<i>(In thousands of RMB, except percentages)</i>				
High-end infant milk formula product series	7,141,009	75.9%	5,091,127	76.5%	40.3%
Regular infant milk formula product series	1,939,586	62.0%	1,593,051	62.7%	21.8%
Other dairy products	210,240	34.7%	104,275	18.9%	101.6%
Nutritional supplement products	318,756	55.1%	230,637	35.9%	38.2%
Gross profit	9,609,591	70.0%	7,019,090	67.5%	36.9%

As a result of the foregoing, the Group's gross profit increased by 36.9% from RMB7,019.1 million in 2018 to RMB9,609.6 million in 2019.

The Group's gross profit margin increased from 67.5% in 2018 to 70.0% in 2019, primarily due to the Group's high-end infant milk formula product series, which had a relatively high gross profit margin among its products, accounted for an increased portion of sales in 2019.

Other Income and Gains, Net

Our other income and gains, net increased by 75.7% from RMB555.8 million in 2018 to RMB976.8 million in 2019, primarily due to (i) an increase in bank interest income and (ii) an increase in government grants.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 5.1% from RMB3,661.3 million in 2018 to RMB3,848.0 million in 2019, primarily due to (i) an increase in costs in relation to promotional activities and (ii) an increase in staff costs in relation to sales and distribution.

Administrative Expenses

Our administrative expenses increased by 57.4% from RMB580.3 million in 2018 to RMB913.2 million in 2019, primarily due to (i) an increase in staff costs and (ii) the recognition of IPO expenses for 2019.

Other Expenses

Our other expenses decreased by 18.9% from RMB86.1 million in 2018 to RMB69.8 million in 2019, primarily because of the donation of medical equipment to public hospitals, which was announced in 2017 and made in 2018, with no such donation in 2019.

Finance Costs

Our finance costs increased by 23.9% from RMB58.7 million in 2018 to RMB72.7 million in 2019, primarily due to an increase in our interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 78.2% from RMB3,188.6 million in 2018 to RMB5,682.7 million in 2019.

Income Tax Expense

Our income tax expense increased by 84.7% from RMB946.3 million in 2018 to RMB1,748.1 million in 2019 as a result of an increase in our profit before tax in 2019.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 29.7% in 2018 and 30.8% in 2019.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 75.5% from RMB2,242.3 million in 2018 to RMB3,934.6 million in 2019.

Liquidity and Capital Resources

In 2019, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from the global offering of the Company (the “**Global Offering**”). The Group monitors its bank balances on a daily basis and conduct monthly reviews of our cash flows. We also prepare a monthly cash flow plan and forecast, which is submitted for approval by our Chief Financial Officer and Vice President of Finance Department, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs. In addition, we also used cash to purchase wealth management products. The underlying financial assets of the wealth management products generally are a basket of assets with a combination of money market instruments such as money market funds, interbank lending and time deposits, debt, bonds and other assets such as assets in insurance, trust fund plans and letters of credit. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment.

Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents of RMB7,377.5 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

Net Proceeds from the Global Offering

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

Bank and Other Borrowings

As at 31 December 2019, the Group’s interest-bearing bank and other borrowings were approximately RMB4,810.3 million.

Capital Structure

As at 31 December 2019, the Group had net assets of RMB13,029.6 million, comprising current assets of RMB17,288.6 million, non-current assets of RMB5,715.2 million, current liabilities of RMB7,438.5 million and non-current liabilities of RMB2,535.7 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 0.65 as at 31 December 2018 to 0.49 as at 31 December 2019.

Cash Flow

The Group's net cash flows from operating activities was RMB5,180.5 million in 2019, as compared with RMB3,121.2 million in 2018. The Group's net cash flows used in investing activities was RMB5,514.9 million in 2019, as compared with RMB3,272.4 million in 2018. The Group's net cash flows from financing activities was RMB4,123.0 million in 2019, as compared with net cash flows used in financing activities of RMB509.0 million.

Interest Rate Risk and Exchange Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the year ended 31 December 2019, 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, Hong Kong dollars and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which is made in Canadian dollars. During the year ended 31 December 2019, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

Capital Expenditure and Commitments

For the year ended 31 December 2019, the capital expenditures incurred by the Group was approximately RMB1,441.9 million, primarily attributable to purchase of property, plant and equipment and right-of-use assets. As at 31 December 2019, the capital commitments of the Company was approximately RMB690.8 million, primarily attributable to construction and purchases of items of property, plant and equipment.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

Pledge of the Group's Assets

The Group's pledged assets primarily represent construction in progress of RMB1,777.8 million and pledged deposits of RMB3,684.4 million. As at 31 December 2019, the total pledged group assets amounted to approximately RMB5,462.2 million, representing an increase of RMB3,796.2 million as compared to the beginning of 2019.

Future Plans for Material Investments or Capital Assets

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

Contingent Liabilities

As at 31 December 2019, the Group did not have any contingent liabilities.

Subsequent Events

Since December 2019, a new strain of coronavirus has surfaced in Hubei Province and quickly spread across China (the "**Epidemic**"). China has taken a number of emergency public health measures (including travel restrictions, extension of the Chinese New Year holidays and other work-related restrictions) to curb the spread of the Epidemic. As a result, China's economy in the first quarter of 2020 has been negatively affected to some extent. The Group has been paying close attention and has responded swiftly to the development of the Epidemic by quickly establishing a special task force to minimize the impact of the Epidemic on the Group's production, logistics and sales. Meanwhile, the Group was also active in fulfilling its commitment to corporate and social responsibilities.

- **Fulfilling Social Responsibilities**

Soon after the outbreak of the Epidemic, the Group donated RMB100 million to the Chinese Red Cross Foundation to establish the "Chinese Red Cross Foundation – Feihe Anti-COVID-19 Fund", which supported the medical workers as well as the purchase of materials and the construction of new hospitals. The Group then donated a further RMB100 million of nutritious foods to care for the medical workers, pregnant ladies and expectant mothers affected by the Epidemic. Such efforts reflected the Group's commitment to corporate and social responsibilities and earned praise and recognition from the public.

- **Production**

The Group actively organised its employees to work safely and legally. After the outbreak of the Epidemic, all of the Group's factories continued to operate in order to fully satisfy the market demand. For the first two months of 2020, the products produced by the Group's factories increased by 40% as compared to the same period in 2019.

- **Supply of Raw Materials**

The main raw material of the Group's products is fresh milk. The Group's fresh milk is primarily sourced from Heilongjiang province, which is far away from Hubei province, the center of the Epidemic. The Group has entered into a long-term strategic cooperation agreement with its major fresh milk supplier YuanShengTai Dairy Farm Limited to ensure the priority in obtaining sufficient high-quality fresh milk. The Group's consumption of raw milk for the first two months of 2020 increased by more than 40% compared to the same period in 2019. For other raw materials, such as demineralised whey powder, skimmed milk powder and lactose, the Group has also entered into long-term strategic agreements with suppliers to ensure its priority in obtaining the supplies. During the period, the Group has increased the order quantity, arranged shipment in advance and adjusted transportation methods to ensure the supply of raw materials. The stock of raw materials is currently sufficient.

- **Logistics and Distribution**

The Group's logistics department has built a network covering China through the cooperation with multiple logistics companies, enabling it to mobilize various resources to ensure prompt delivery in the Epidemic. Leveraging the strong ability of its team and its channel control capabilities, the Group has mobilized all personnel at its points of sale and distributor partner stores to provide consumers with safe and contactless doorstep delivery services. In February 2020, the Group's product delivery rate reached 98%.

- **Online Marketing Activities**

Soon after the outbreak of the Epidemic, the Group switched its consumer education activities from offline to online. The Group's marketing team continuously interacted and communicated with consumers through WeChat groups, initiated online live broadcasting in the industry, and invited experts to give public lectures to consumers. The number of online activities is more than twice that of offline activities in the same period. From the beginning of February 2020 to 15 March 2020, there were approximately 90,000 online interactive activities, covering more than 2.1 million consumers. The successful transition to online live broadcasting and community marketing has made these marketing initiatives the new marketing strengths of the Group.

- **Considerate Customer Service**

During the Epidemic, the Group's customer service employees remained at their post, handling over 50,000 inbound calls via the customer service hotline and over 100,000 online inquiries, which achieved a customer satisfaction rate of 99.3%. At the same time, it offers Star Mom Class (星媽課堂), Daily Star Parenting (每日星育兒) and other programs, so as to provide professional advice that benefits mothers and infants during the Epidemic.

In conclusion, in the first quarter of 2020, the business operations of the Group, including raw material supply, production, logistics and distribution and sales, only experienced limited negative impact from the Epidemic. The Group's revenue continued to grow rapidly in the first two months of 2020 despite the outbreak of the Epidemic. The Group currently estimates that the revenue growth in the first quarter of 2020 will be no less than 30% and would not be significantly affected by the Epidemic. In addition, the infant milk formula products of the Group have constant and robust demand from consumers. Hence, the Group is confident in its business development in 2020.

Future Prospects

In the future, we will maintain our efforts and focus on our principal business to further develop infant milk formula products. We will leverage our research and development efforts at the Group's Dairy Engineering Academician Workstation and the Feihe Industry Chain Innovation Centre for Infant Milk Formula, maintain our passion for research and innovation, enhance our control over functional raw materials, and consolidate our industrial foundations, so as to lead the sustainable development of the Company with new technologies and products. Meanwhile, we will continue to improve ourselves and ride on the changes in intelligence and big data, and empower industrial innovations to create and promote an intelligent dairy industry ecosystem with intelligent manufacturing and logistics. We will make it our responsibility to provide high-quality products and strive to become the most trusted and respected infant nutrition expert, and bring hope and happiness to families by providing the freshest infant milk formula products that are more suitable for Chinese babies.

OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Save as disclosed below, the Board is of the view that the Company has complied with the applicable code provisions of the CG Code during the period commencing from the date of listing of the Company on the Main Board of the Stock Exchange and ended on 31 December 2019 (the "**Reporting Period**").

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period. The Board has also established written guidelines 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

As at 31 December 2019, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK\$175.1 million being used for the payment of offshore debts; (ii) HK\$39.2 million being used for the expansion of Vitamin World USA operations; and (iii) HK\$43.4 million being used for the working capital and general corporate purposes. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

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 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 annual results for the year ended 31 December 2019.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary announcement.

FINAL DIVIDEND

The Board resolved to recommend a final dividend of HK\$0.1943 (tax inclusive) per Share for the year ended 31 December 2019 (the **"2019 Final Dividend"**) with an aggregate amount of approximately HK\$1,735,747,962 (equalling approximately RMB1,573,830,800) to shareholders of the Company (the **"Shareholders"**) whose names are listed on the Company's register of members as at 30 June 2020, subject to the approval by the Shareholders at the forthcoming annual general meeting of the Company (the **"AGM"**). The 2019 Final Dividend is based on our dividend policy set out in the Prospectus, of intending to distribute no less than 30% plus an additional 10%, for a total of 40% of our profit for the year of 2019 in RMB denomination being converted into Hong Kong dollar denomination based on the average central parity rate of RMB to Hong Kong dollar as announced by the People's Bank of China for the five business days prior to the date of this announcement. The 2019 Final Dividend will be declared and paid in Hong Kong dollars. Once the relevant resolution is passed at the AGM, the 2019 Final Dividend is expected to be paid on or around 16 July 2019.

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.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The AGM will be held on 22 June 2020, for considering, among other things, the 2019 Final Dividend. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules in due course. In order to ascertain Shareholders' entitlement to attend and vote at the AGM and to the proposed 2019 Final Dividend, the register of members of the Company will be closed from 17 June 2020 to 22 June 2020 (both days inclusive) and from 29 June 2020 to 30 June 2020 (both days inclusive) respectively, during which periods no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 June 2020. Shareholders whose names appear on the register of members of the Company on 22 June 2020 will be entitled to attend and vote at the AGM.

In order to qualify for the 2019 Final Dividend (subject to the approval by Shareholders at the AGM), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration no later than 4:30 p.m. on 26 June 2020. The 2019 Final Dividend will be paid to the Shareholders whose names are listed on the Company's register of members as at 30 June 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the HKEXnews website of the Stock Exchange at <http://www.hkexnews.hk> and on the website of the Company at www.feihe.com. The 2019 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders in due course and will be published on the websites of the Company and the Stock Exchange.

By order of the Board
China Feihe Limited
LENG Youbin
Chairman

Beijing, the PRC, 23 March 2020

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