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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)**

## **CLARIFICATION ANNOUNCEMENT**

We refer to the announcement made by China Feihe Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 8 July 2020 (the “**Announcement**”). As disclosed in the Announcement, the board of directors of the Company (the “**Board**”) noted that Blue Orca Capital published a report on 8 July 2020 (the “**Report**”) which included certain allegations (the “**Relevant Allegations**”) in respect of, among other things, the Company’s financial performance.

The Company also refers to the prospectus of the Company dated 30 October 2019 (the “**Prospectus**”). Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the Prospectus.

The Board hereby clarifies that the Relevant Allegations in the Report are groundless or untrue statements. The Board would like to highlight that:

1. **Logistics Company and Revenue Recognition:** Kedong Ruixinda Logistics Co., Ltd. (“**Ruixinda**”) is one of the Company’s logistics services providers. For the years ended 31 December 2017, 2018 and 2019, the expenses of logistics services provided to the Company by Ruixinda accounted for 29.0%, 22.6% and 19.2% of the Company’s total logistics expenses. For the years ended 31 December 2017, 2018 and 2019, expenses in relation to logistics services between the Company’s plant warehouses and regional warehouses, including the Company’s regional warehouses in Harbin, Zhengzhou, Suzhou, Xi’an, Chengdu and Tianjin, accounted for 96.6%, 97.8% and 97.9% of the expenses of logistics services provided to the Company by Ruixinda, and the expenses in relation to logistics services between the Company’s plant warehouses and distributors accounted for 3.4%, 2.2% and 2.1% of the expenses of logistics services provided to the Company by Ruixinda. The Company recognizes revenue only for products directly delivered to distributors upon passing such products to logistics services providers. The products shipped between the Company’s plant warehouses and regional warehouses are internal transfers from which no revenue is recognized.

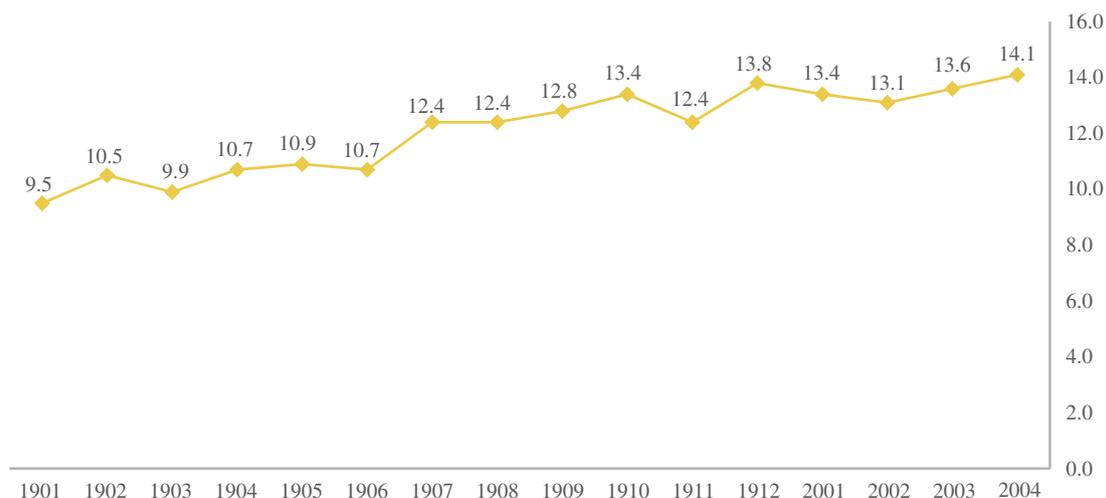
According to information that is publicly available, Qu Dong holds 100% equity interest in Ruixinda, Xie Dehe is Ruixinda's executive director and general managing. The Company confirms that Qu Dong, Xie Dehe and Ruixinda are independent third parties of the Company, and the Company does not have any other relationships with Qu Dong, Xie Dehe and Ruixinda apart from the ordinary operations in relation to logistics.

According to information that is publicly available, from October 2015 to the date of this announcement, Xie Dehe holds 100% equity interest in Qiqihar Jinhe YuanShengTai Tourism Farm Co., Ltd. ("**Jinhe**"), and is the legal representative and director of Jinhe. The Company confirms that Jinhe is an independent third party of the Company. Zhu Tianlong is an employee of the Company's subsidiary. Although Zhu Tianlong is a supervisor of Jinhe, he does not have any equity interest in Jinhe. In addition, Zhu Tianlong is neither an employee nor a shareholder of Ruixinda, and does not have any other relationships with Ruixinda apart from the ordinary operations in relation to Logistics.

2. **Industry Information:** (1) data from Nielsen: the Company believes that the data from Nielsen can reflect the development trend and competitive landscape of the industry, but such data may not be reflective of the Company's actual results of operations; (2) data from the Ministry of Commerce of China: The Company did not report data in relation to its operations to the Ministry of Commerce of China ("**MOC**"). The alleged MOC data in the Report provides no clear link or source, which casts doubts on the credibility of such data; (3) data from Frost & Sullivan: Frost & Sullivan ("**Sullivan**") was the independent industry consultant and prepared the industry report for the Company's listing application to the Stock Exchange. The difference of the retail sales value of the China's infant milk formula market from 2014 to 2016 estimated by Sullivan between the listing application materials in 2017 and the Prospectus in 2019 was mainly due to the change of statistical caliber of the National Bureau of Statistics of China ("**NBS**") after 2017. In preparing the listing application materials in 2017, the retail sales volume of infant milk formula were derived from the multiplication of the amount of milk powder purchased per capita by urban/rural residents, the number of urban/rural residents and the proportion of infant milk formula in overall milk powder purchases. Among them, the amount of milk powder purchased per capita by urban/rural residents was obtained from the NBS. When preparing the Prospectus, the amount of milk powder purchased per capita by urban/rural residents could no longer be obtained from the NBS. Thus, the retail sales volume of infant milk formula were derived from the production volume plus the import volume of infant milk formula product minus the export volume of infant milk formula. The data of production volume of infant milk formula was obtained from the NBS and interviews with the Dairy Association of China (中國奶業協會), and the data of import and export volume of infant milk formula were obtained from the General Administration of Customs of China.

In addition, according to the report (the “Nielsen Report”) on the Chinese infant milk formula market from January 2019 to April 2020 issued by Guangzhou Nielsen Market Research Co., Ltd. which was not commissioned by the Company, the changes of market share of Feihe are set out as below:

**FEIHE’S MARKET SHARE (ONLINE+OFFLINE)**  
**Infant Milk Formula | online+offline national total | Feihe | Value share | 1901-2004**



*Data Source: Nielsen Retail Index. The data covers Hyper market, Super market, Mini market, CVS, Grocery, Baby stores and E-Commerce.*

3. **Operating Expenses:** As at 30 June 2019, the Group had a total number of 5,422 full-time employees. The Group and the full-time employees of the Group have entered into employment contracts pursuant to the relevant laws and regulations. The more than 50,000 staff alleged in the Report should have included all the marketing service personnel from the Group’s distributors and retailers.

In 2018, the Group mainly carried out TV advertising through CCTV Channel 1. In 2019, the Group reduced the advertising in the CCTV Channel 1 and increased the advertising in the CCTV Channel 9 and 14. The aforesaid adjustment helped the Company to control the cost of TV advertising as the unit time advertising expenses of different channels vary significantly. In addition to TV advertising, the Group also comprehensively used various media and channels for advertising to achieve better advertising effects. Therefore, TV advertising costs should not be used as the basis for calculating the Group’s overall advertising costs. In addition, based on the Group’s leading position in the infant milk formula industry, the Group has strong bargaining power in negotiations with advertising service providers. As advertising service providers are willing to offer considerable discounts to the Group, the Group is able to enhance the advertising of the Group’s brand and products while effectively managing its advertising costs.

The Group's labor and advertising related expenses have been duly recorded in accordance with the requirements of applicable accounting standards. The historical financial information for 2016, 2017 and 2018 and the six months ended 30 June 2019 of the Company contained in Appendix I to the Prospectus and the historical financial information for 2019 contained in the Company's 2019 annual report have been audited by independent auditors, Ernst & Young ("EY"), who have issued an unqualified opinion. The Joint Sponsors have conducted independent due diligence on the Group's financial information (including the labor and advertising costs) and the business information (including the number of employees) disclosed in the Prospectus.

4. **Feihe Tailai's income and tax rebate:** Although Tailai Plant is still under construction, Feihe Tailai Dairy Co., Limited ("**Feihe Tailai**") started trading activities (i.e., selling the products of the Group) since its establishment in 2016, and resulted in revenue and taxes. Feihe Tailai's tax rebates since 2016 were based on such trading activities (rather than production activities).
5. **Capital Expenditures:** (1) Kedong Plant: the expansion of Kedong Plant includes the expansion of packaging processing capacity and the expansion of intelligent production capacity of formula milk powder, of which the expansion of packaging processing capacity has been completed by the end of 2018. The expansion of Kedong Plant disclosed in the Prospectus refers to the expansion of the intelligent production capacity of formula milk powder (with the annual production capacity increasing from 12,000 tonnes to 52,000 tonnes). As of the date of this announcement, the expansion of the intelligent production capacity of formula milk powder in Kedong Plant has been completed; (2) Kingston Plant: the total estimated capital expenditure for Kingston Plant disclosed in the Prospectus is approximately C\$330.0 million, which includes expenditure for plant construction and equipment procurement, while the Graham Group only undertakes the infrastructure construction of the main body of the Kingston Plant, representing merely a part of the abovementioned total capital expenditure; (3) Jilin Plant: Jilin Plant completed the infrastructure construction in November 2019, received the production license in January 2020, passed the government inspection and acceptance in May 2020 and obtained the registration certificate for the completion and filing as well as the real estate certificate. The Company is currently applying for an infant formula milk powder production license and is expected to obtain such license in October 2020. As of 30 June 2020, a capital expenditure of RMB356.4 million has been incurred for Jilin Plant.
6. **Scope of Audit:** The historical financial information of the Group (including the Company and all of its subsidiaries) for 2016, 2017, 2018 and the six months ended 30 June 2019 contained in Appendix I to the Prospectus has been audited by independent auditors, EY, who have issued an accountant's report with an unqualified opinion. After listing, EY continued to audit the Group's 2019 consolidated financial statements as the Company's independent auditors.
7. **YST:** Please refer to the disclosures in the "Risk Factors" and "Business" sections of the Prospectus for the relationship between the Group and the YuanShengTai Dairy Farm Limited ("**YST**").

8. **Cash position:** The Company has checked with its major cooperative banks about its bank deposit balances in accounts held at such banks as of 30 June 2020. The Company's deposits with balances exceeding RMB100 million are listed below, indicating the Company's good cash position.

No.	Name of Bank	<b>RMB Bank Deposits Balance</b> <i>(RMB in thousands)</i>
1.	Nanyang Commercial Bank	2,821,408
2.	Rural Commercial Bank	2,794,150
3.	China Construction Bank (Asia)	2,356,150
4.	China Zheshang Bank	1,959,971
5.	Bank of China	1,745,813
6.	China Construction Bank	1,630,000
7.	Bank of Beijing	650,028
8.	Harbin Bank	300,000
9.	Luso International Banking Limited	212,385
10.	Industrial Bank	200,000
11.	Industrial and Commercial Bank of China	200,000
<b>Total</b>		<b>14,869,905</b>

9. **Tax payment certificates:** The Company has requested and obtained the tax payment certificates (the “**Tax Payment Certificates**”) from Qiqihar Taxation Bureau, Shuangcheng District of Harbin Taxation Bureau, Miyun District of Beijing Taxation Bureau and Zhenlai County Taxation Bureau of the PRC State Administration of Taxation, which confirmed that the total tax payments (including VAT, corporate income tax etc.) made in accordance with the applicable PRC laws and regulations by the Company's principal subsidiaries located in the PRC for the six months ended 30 June 2020 amounted to approximately RMB1.93 billion, representing an increase of 34% compared to the same period in 2019 (the total tax payments (including VAT, corporate income tax etc.) made in accordance with the applicable PRC laws and regulations by the Company's principal subsidiaries located in the PRC for the six months ended 30 June 2019 amounted to approximately RMB1.44 billion). The Company's subsidiaries in Qiqihar in aggregate are grade A taxpayers who contribute the largest amount of tax payment in the city. The Group's tax payment certificates also reflect the Group's operating scale and conditions. From January to March 2019, the VAT rate applicable to the Group was 16%. From April 2019 to the present, the VAT rate applicable to the Group is 13%.
10. **Loan repayment:** In May 2020, the Company repaid loans of approximately US\$383.3 million borrowed from Nanyang Commercial Bank, such loans were mainly used for the payment of special dividends. In June 2020, the Company repaid loans of C\$38.5 million and C\$120 million borrowed from the Toronto Branch of Bank of China and Toronto Branch of China Construction Bank, respectively, such loans were used for Kingston Plant.

Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Board confirms that, save as disclosed above, it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

It is important for the Shareholders to be aware that the Relevant Allegations are the opinions of Blue Orca Capital whose interests may not be aligned with those of the Shareholders in general, and that who may intend to undermine confidence in the Company and its management, and to harm the Company's reputation. Accordingly, the Shareholders should treat the Relevant Allegations with caution. The Company reserves its rights to take legal actions (including commencing litigation) in connection with the Report.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.**

By Order of the Board  
**China Feihe Limited**  
**LENG Youbin**  
*Chairman*

Beijing, China, 9 July 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.*