Health and Happiness (H&H) International Holdings Limited
健合 (H&H) 國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1112)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
			Reported
	2020	2019	Change
	RMB'000	*RMB'000*	%
Revenue	**11,194,679**	10,925,217	2.5%
Gross profit	**7,186,991**	7,228,541	-0.6%
EBITDA*	**2,156,764**	2,222,155	-2.9%
Adjusted EBITDA*	**2,160,627**	2,235,400	-3.3%
Net profit	**1,136,694**	1,005,049	13.1%
Adjusted Net profit**	**1,183,087**	1,074,506	10.1%
Cash flows from operating activities***	**2,170,852**	2,175,452	-0.2%
Basic earnings per share	**RMB1.77**	RMB1.57	12.7%

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB69.2 million for the year ended 31 December 2020 (2019: RMB2.9 million) + Non-recurring losses of RMB68.9 million for the year ended 31 December 2020 (2019: RMB16.1 million) + Consolidated EBITDA loss of Solid Gold for the period from 12 December 2020 to 31 December 2020 of RMB4.1 million

** Adjusted net profit = Net profit + EBITDA adjustment items of RMB3.9 million for the year ended 31 December 2020 (2019: RMB13.2 million) + Other non-recurring losses of RMB42.5 million for the year ended 31 December 2020 (2019: RMB56.2 million)

*** Cash flows from operating activities is calculated on a pre-tax basis

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
REVENUE	*5*	**11,194,679**	10,925,217
Cost of sales		**(4,007,688)**	(3,696,676)
Gross profit		**7,186,991**	7,228,541
Other income and gains	*5*	**169,677**	131,873
Selling and distribution expenses		**(4,604,026)**	(4,493,378)
Administrative expenses		**(679,062)**	(638,018)
Other expenses		**(190,784)**	(249,541)
Finance costs		**(286,554)**	(420,757)
Share of profit of an associate		**8,418**	6,480
PROFIT BEFORE TAX	*6*	**1,604,660**	1,565,200
Income tax expense	*7*	**(467,966)**	(560,151)
PROFIT FOR THE YEAR		**1,136,694**	1,005,049
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(431,088)**	(46,514)
Reclassification adjustments for gains included in profit or loss		**363,907**	16,574
Income tax effect		**32,913**	(10,221)
Exchange realignment		**–**	(743)
		(34,268)	(40,904)
Hedges of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(90,197)**	36,159
Exchange differences on translation of foreign operations		**212,253**	(81,891)
Exchange differences on net investments in foreign operations		**1,288**	(1,704)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**89,076**	(88,340)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**178,397**	(12,183)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**267,473**	(100,523)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,404,167**	904,526
Profit attributable to owners of the parent		**1,136,694**	1,005,049
Total comprehensive income attributable to owners of the parent		**1,404,167**	904,526
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**1.77**	1.57
Diluted		**1.76**	1.55

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**433,896**	472,981
Right-of-use assets		**169,591**	205,937
Goodwill		**6,648,697**	5,467,488
Intangible assets		**3,579,673**	3,611,088
Bonds receivable		**220,504**	214,747
Deposits		**65,484**	45,414
Investment in an associate		**66,780**	58,362
Deferred tax assets		**587,539**	407,081
Derivative financial instruments		**91,345**	51,105
Other non-current financial assets		**386,363**	129,569
Total non-current assets		**12,249,872**	10,663,772
CURRENT ASSETS			
Inventories		**1,958,055**	1,550,350
Trade and bills receivables	*10*	**795,558**	1,106,815
Prepayments, other receivables and other assets		**341,629**	307,859
Loans receivable		**–**	5,306
Derivative financial instruments		**38,022**	1,058
Pledged deposits		**4,416**	8,878
Cash and cash equivalents		**1,830,873**	2,217,335
Total current assets		**4,968,553**	5,197,601
CURRENT LIABILITIES			
Trade and bills payables	*11*	**637,822**	837,752
Other payables and accruals		**2,184,333**	1,958,610
Contract liabilities		**168,028**	134,614
Lease liabilities		**42,846**	47,426
Senior notes		**20,232**	21,533
Tax payable		**224,440**	203,115
Total current liabilities		**3,277,701**	3,203,050
NET CURRENT ASSETS		**1,690,852**	1,994,551

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2020

	2020	2019
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**1,690,852**	1,994,551
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,940,724**	12,658,323
NON-CURRENT LIABILITIES		
Senior notes	**1,965,327**	2,103,246
Interest-bearing bank loans	**4,038,793**	3,751,563
Lease liabilities	**106,262**	114,928
Other payables and accruals	**5,030**	7,217
Derivative financial instruments	**684,583**	121,329
Deferred tax liabilities	**938,042**	966,234
Total non-current liabilities	**7,738,037**	7,064,517
Net assets	**6,202,687**	5,593,806
EQUITY		
Issued capital	**5,510**	5,500
Other reserves	**5,987,832**	5,085,781
Proposed dividend	**209,345**	502,525
Total equity	**6,202,687**	5,593,806

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Health and Happiness (H&H) International Holdings Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (the "**Group**") are principally engaged in the manufacture and sale of premium pediatric nutrition, baby care products, adult nutrition and care products and pet nutrition and care products.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include International Accounting Standards ("**IASs**") and Interpretations promulgated by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments and other non-current financial assets which have been measured at fair value. These financial statements are presented in 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 Group for the year ended 31 December 2020. 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).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

4. OPERATING SEGMENT INFORMATION

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

(a) the infant formulas segment comprises the production of infant formulas for children under seven years old and milk formulas for expectant and nursing mothers;

(b) the probiotic supplements segment comprises the production of probiotic supplements in the form of sachets, capsules and tablets for infants, children and expectant mothers;

(c) the adult nutrition and care products segment comprises the production of vitamins, health supplements, skin care and sports nutrition products for adults;

(d) the other pediatric products segment comprises the production of dried baby food and nutrition supplements and baby care products; and

(e) the pet nutrition and care products segment*(Note)* comprises the production of food, health supplements and bone broth products for pets.

Note: The pet nutrition and care products segment is a new reportable segment in the year ended 31 December 2020 as a result of the acquisition of Solid Gold Holdings, LLC and its subsidiary.

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 measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains, share of results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

Operating segment information for the year ended 31 December 2020:

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Pet nutrition and care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue *(note 5)*:							
Sales to external customers	5,244,186	1,395,644	3,867,510	661,097	26,242	–	11,194,679
Segment results	3,343,737	1,087,698	2,411,142	334,408	10,006	–	7,186,991
Reconciliations:							
Interest income							18,697
Other income and unallocated gains							150,980
Share of profit of an associate							8,418
Corporate and other unallocated expenses							(5,473,872)
Finance costs							(286,554)
Profit before tax							1,604,660
Other segment information:							
Depreciation and amortisation	21,254	4,625	112,997	14,099	31	131,241	284,247
Impairment of trade receivables	–	–	655	6,359	25	–	7,039
Write-down of inventories to net realisable value	30,695	6,611	69,081	12,298	–	–	118,685
Capital expenditure*	22,392	3,919	16,769	13,753	1,579	19,904	78,316

Operating segment information for the year ended 31 December 2019:

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue *(note 5)*:						
Sales to external customers	5,071,511	1,255,011	3,991,455	607,240	–	10,925,217
Segment results	3,335,167	963,750	2,614,397	315,227	–	7,228,541
Reconciliations:						
Interest income						20,229
Other income and unallocated gains						111,644
Share of profit of an associate						6,480
Corporate and other unallocated expenses						(5,380,937)
Finance costs						(420,757)
Profit before tax						1,565,200
Other segment information:						
Depreciation and amortisation	22,484	6,665	99,314	14,674	113,290	256,427
(Write-back of impairment)/ impairment of trade receivables	(144)	–	1,082	1,138	–	2,076
Write-down of inventories to net realisable value	17,696	306	51,472	9,979	–	79,453
Capital expenditure*	21,271	8,275	130,921	16,882	8,619	185,968

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**9,276,132**	8,449,504
Australia and New Zealand	**1,238,377**	1,833,662
Other locations*	**680,170**	642,051
	11,194,679	10,925,217

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

(b) Non-current assets

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**507,418**	570,218
Australia and New Zealand	**2,699,656**	2,721,681
Other locations*	**1,108,350**	1,101,883
	4,315,424	4,393,782

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

* Including the special administrative regions of the PRC.

Information about major customers

During the year ended 31 December 2020, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**11,194,679**	10,925,217

(i) *Disaggregated revenue information*

For the year ended 31 December 2020

Segments	**Infant formulas** *RMB'000*	**Probiotic supplements** *RMB'000*	**Adult nutrition and care products** *RMB'000*	**Other pediatric products** *RMB'000*	**Pet nutrition and care products** *RMB'000*	**Total** *RMB'000*
Geographical markets						
Mainland China	**5,123,022**	**1,389,519**	**2,370,763**	**392,828**	**–**	**9,276,132**
Australia and New Zealand	**28,799**	**1,113**	**1,208,465**	**–**	**–**	**1,238,377**
Other locations*	**92,365**	**5,012**	**288,282**	**268,269**	**26,242**	**680,170**
Total	**5,244,186**	**1,395,644**	**3,867,510**	**661,097**	**26,242**	**11,194,679**
Timing of revenue recognition						
Goods transferred at a point in time	**5,244,186**	**1,395,644**	**3,867,510**	**661,097**	**26,242**	**11,194,679**

For the year ended 31 December 2019

Segments	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Total *RMB'000*
Geographical markets					
Mainland China	4,990,479	1,232,415	1,904,317	322,293	8,449,504
Australia and New Zealand	35,083	5,046	1,793,533	–	1,833,662
Other locations*	45,949	17,550	293,605	284,947	642,051
Total	5,071,511	1,255,011	3,991,455	607,240	10,925,217
Timing of revenue recognition					
Goods transferred at a point in time	5,071,511	1,255,011	3,991,455	607,240	10,925,217

* Including the special administrative regions of the PRC.

(i) Disaggregated revenue information (continued)

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:

	2020	2019
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**134,614**	100,880

(ii) Performance obligations

The performance obligation is satisfied upon delivery of the Group's products. Advance payment is normally required for sales to customers in Mainland China except in limited circumstances for credit sales. Credit sales are usually allowed for customers outside Mainland China with credit terms of 30 to 60 days from end of month. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Other income and gains

	2020	2019
	RMB'000	*RMB'000*
Bank interest income	**8,851**	10,457
Interest income from loans and bonds receivables	**9,846**	9,772
Foreign exchange gains	**56,485**	48,024
Fair value gains on derivative financial instruments	**24,128**	–
Fair value gains on financial assets	**2,117**	2,329
Government subsidies*	**51,077**	42,152
Other investment income	**701**	–
Others	**16,472**	19,139
	169,677	131,873

* There are no unfulfilled conditions or contingencies related to these government subsidies.

6. PROFIT BEFORE TAX

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

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories sold	**3,889,003**	3,617,223
Depreciation of property, plant and equipment	**87,371**	80,450
Depreciation of right-of-use assets	**65,225**	51,099
Amortisation of intangible assets	**131,651**	124,878
Research and development costs**	**138,975**	163,700
Lease payments not included in the measurement of lease liabilities	**10,646**	2,863
Loss on disposal of items of property, plant and equipment**	**212**	472
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,095,987**	1,068,993
Pension scheme contributions (defined contribution schemes)	**88,532**	158,243
Staff welfare and other expenses	**79,716**	78,085
Equity-settled share option expense	**48,460**	53,596
Equity-settled share award expense	**–**	3,929
	1,312,695	1,362,846
Foreign exchange gains, net*	**(56,485)**	(48,024)
Fair value (gains)/losses on derivative financial instruments, net	**(24,128)***	13,829**
Derecognition of early redemption option**	**–**	33,555
Fair value gains on financial assets*	**(2,117)**	(2,329)
Impairment of trade receivables**	**7,039**	2,076
Write-down of inventories to net realisable value#	**118,685**	79,453
Impairment of right-of-use assets**	**13,453**	–
Premium paid for early redemption of original senior notes	**–**	56,212

* Included in "Other income and gains" in profit or loss.

** Included in "Other expenses" in profit or loss.

\# Included in "Cost of sales" in profit or loss.

7. INCOME TAX

	2020 *RMB'000*	2019 *RMB'000*
Current		
– Charge/(credit) for the year		
Mainland China	**548,165**	460,032
Hong Kong	**136,191**	69,420
Australia	**(29,673)**	90,851
Elsewhere	**1,244**	2,117
– Underprovision in the prior year	**5,151**	17,691
Deferred	**(193,112)**	(79,960)
Total tax charge for the year	**467,966**	560,151

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% (2019: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. Biostime (Guangzhou) Health Products Limited ("**Biostime Health**") and Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**"), the Company's wholly-owned subsidiaries operating in Mainland China, were recognised as high-new technology enterprises in December 2017 and 2019, respectively, and are subject to EIT at a rate of 15% for three years from 2017 to 2019 and from 2019 to 2021, respectively. In the year, Biostime Health has reapplied and been granted the qualification, which was effective from 2020. Therefore, Biostime Health and Guangzhou Hapai were subject to EIT at a rate of 15% for the year ended 31 December 2020.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (2019: HKD2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (2019: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd, its wholly-owned Australian subsidiaries and eligible Tier 1 fellow subsidiaries have elected to form an income tax multiple entry consolidated ("**MEC**") group, for Australian income tax purposes.

In an income tax MEC group, Biostime Healthy Australia Pty Ltd, its wholly-owned subsidiaries and eligible Tier 1 fellow subsidiaries within the income tax MEC group account for their own current and deferred tax amounts. These income tax amounts are measured as if each entity in the income tax MEC group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Biostime Healthy Australia Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries within the income tax MEC group.

The entities have also entered into a tax funding arrangement under which the wholly-owned entities fully compensate Biostime Healthy Australia Pty Ltd for any current tax payable assumed and are compensated by Biostime Healthy Australia Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Biostime Healthy Australia Pty Ltd under the income tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding arrangement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entitles.

Income tax for other jurisdictions

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

8. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HKD0.63 (2019: Nil) per ordinary share	**359,585**	–
Proposal final – HKD0.39 (2019: HKD0.85) per ordinary share	**209,345**	502,525
	568,930	502,525

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. 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 for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 643,883,701 (2019: 641,104,643) in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share option schemes and the share award schemes.

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

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,136,694**	1,005,049

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**644,087,931**	641,651,744
Weighted average number of shares held for the share award schemes	**(204,230)**	(547,101)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**643,883,701**	641,104,643
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**2,679,339**	6,964,416
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**646,563,040**	648,069,059

10. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**714,374**	1,013,533
Less: Impairment provision	**(13,123)**	(7,424)
	701,251	1,006,109
Bills receivable	**94,307**	100,706
	795,558	1,106,815

Advance payment is normally required for sales to customers in Mainland China except in limited circumstances for credit sales. Credit sales are usually allowed for customers outside Mainland China with credit terms of 30 to 60 days from end of month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department 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 receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. Bills receivable represent bank acceptance notes issued by banks in Mainland China which 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:

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**466,228**	613,965
1 to 3 months	**289,211**	362,644
Over 3 months	**40,119**	130,206
	795,558	1,106,815

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**7,424**	5,393
Acquisition of a subsidiary	**188**	–
Impairment losses recognised (note 6)	**10,516**	7,910
Amount written off as uncollectible	**(1,582)**	(52)
Impairment losses reversed (note 6)	**(3,477)**	(5,834)
Exchange realignment	**54**	7
At end of year	**13,123**	7,424

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Expected credit loss rate	**0.63%**	**1.85%**	**3.58%**	**15.29%**	**1.84%**
Gross carrying amount (RMB'000)	**470,287**	**117,722**	**96,838**	**29,527**	**714,374**
Expected credit losses (RMB'000)	**2,963**	**2,178**	**3,467**	**4,515**	**13,123**

As at 31 December 2019

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected credit loss rate	0.23%	0.89%	3.00%	12.16%	0.73%
Gross carrying amount (RMB'000)	751,921	184,236	58,442	18,934	1,013,533
Expected credit losses (RMB'000)	1,729	1,640	1,753	2,302	7,424

None of the bills receivable is either past due or impaired. There was no recent history of default for bills receivable.

11. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**626,732**	826,505
Bills payable	**11,090**	11,247
	637,822	837,752

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:

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**502,892**	610,362
1 to 3 months	**53,138**	200,553
Over 3 months	**81,792**	26,837
	637,822	837,752

The trade payables are non-interest-bearing and are normally settled on 30-90 day terms.

As at 31 December 2019, included in the trade payable balance was an amount due to an associate of the Group of RMB20,687,000, which is repayable within 30 days, being a credit period offered by the associate to its major customers. As at 31 December 2020, the balance was nil.

CHAIRMAN’S STATEMENT

2020 was a year that the world will not forget, with the COVID-19 pandemic challenging every country, company and family around the world. As a purpose-led business, we needed to navigate the period in a highly agile manner, taking advantage of new opportunities to deliver our products into the hands of consumers whilst making extra efforts to support our team, supply partners and the community.

Despite the turbulence, our mission and vision did not waver and in fact, strengthened. Our strategic partnerships and supply chain governance, combined with our flexibility and proven ability to pivot, ensured our business continuity and enabled us to maintain positive revenue and net profit growth, supported by double-digit revenue growth and solid profitability improvement in Mainland China.

In Mainland China, we continued to reinforce our premium brand positioning through our core Baby Nutrition & Care (“**BNC**”) product portfolios, scientific innovation and support, and expanded distribution network. Meanwhile, our Adult Nutrition & Care (“**ANC**”) business segment witnessed robust revenue growth in both the Cross Border E-Commerce (“**CBEC**”) and online normal trade markets. This further strengthened our leading position in the overall Chinese vitamin, herbal and mineral supplement (“**VHMS**”) market.

However, conditions in the Australia and New Zealand (“**ANZ**”) market were still challenging as travel restrictions and logistics challenges impacted daigou activity. In response, we optimized our investment to target the domestic market and take advantage of rising local demand, particularly in the sub-category of immunity. In addition, despite the pandemic, we continued to push forward our global growth initiatives and achieved positive growth in our other markets.

Last November, we were delighted to announce the acquisition of Solid Gold, America’s first holistic pet nutrition brand, establishing Pet Nutrition & Care (“**PNC**”) alongside our existing business segments. Driven by the rapidly increasing pet population, pet nutrition premiumization and the trend of humanizing our pets – indeed, we see pets being very much a part of the family, contributing to the overall health and happiness of the family unit. With PNC becoming the third growth pillar of our business, we believe Solid Gold is particularly well aligned with our mission and we feel very confident in the brand’s ability to contribute more to H&H’s future expansion.

As a result of our philosophy to maintain profitable growth and a high cash conversion business model, we preserved our healthy cash position and net debt leverage year-on-year. We are delighted to announce that we have resolved to continue paying an annual dividend of 50% of net profit. We remain committed to maintaining a strong cash position and steady dividend policy in the long run.

A RESILIENT AND FAST-ADAPTING BUSINESS

Lockdowns, logistics challenges and travel restrictions severely curtailed sales in our two largest markets – Mainland China and ANZ – during the first half of the year. Yet, our Group proved itself to be remarkably resilient due in part to our good supply chain governance, our resilient BNC and ANC product portfolios, and more importantly, our fast adaptability to the market.

At the beginning of the outbreak, we adopted preventive measures that largely enabled normal operations and built up sufficient safety stock to ensure our business continuity, shielding our supply chain from any major disruption despite strict local lockdowns.

In order to quickly cater to fast-changing consumer demand and behavior during the pandemic, we shifted our resources to amplify our messaging on the immune benefits of our products, accelerated our digitalization and expanded e-commerce channels across different markets, while broadening education and our engagement with consumers. These initiatives proved to be a winning formula, ensuring the sustainable growth of our business.

MAINLAND CHINA: OVERALL DOUBLE-DIGIT GROWTH IN OUR CORE MARKET

Even before the pandemic, China was already the most sophisticated and developed e-commerce market in the world. However, the pressure of strict COVID-19 lockdowns in China at the beginning of the year spurred even more innovation in this sector. Our decision to quickly expand distribution network and accelerate the digitalization of our omni-channels timed perfectly with the recovery of consumer confidence and spending. We also standardized our promotion strategies, which allowed us to shift resources from promotion to consumer education, further establishing the value of our brands. Our Mainland China business – which accounted for 82.8% of our total revenue in 2020 – continued to remain the largest revenue and growth contributor to the Group. Revenue grew strongly across our BNC and ANC segments, driven by robust growth in our online sales and the sharp uptick in demand for immunity products.

Within our BNC segment, sales of our cow milk infant milk formula ("**IMF**") series recovered in the second half of the year after experiencing some earlier weakness. This was supported by the further penetration of offline channels, particularly baby specialty stores through new distributors, as well as consumer education and strong online sales. We continue to maintain a stable market share in the overall cow milk IMF market in China with a market share of 6.1%[1].

The continued premiumization of the IMF market in China has accelerated the demand for goat milk IMF, which has become one of the market's most dynamic segments. As a result of this trend and by leveraging Biostime's brand equity and extensive distribution network, our goat milk IMF segment grew rapidly in 2020, accounting for 6.1% of our total IMF revenue despite launching only one year ago.

1 Nielsen market share data for the past twelve months as of 31 December 2020

Biostime's probiotic supplements segment also delivered double-digit growth, supported by growing awareness about the immune benefits of probiotics following the outbreak of COVID-19. We solidified Biostime's No.1 position in the global pediatric probiotic supplements market and leveraged this leading position to introduce a platinum range of Biostime-branded probiotics in Mainland China in June 2020.

Our other pediatric products segment maintained solid growth as we continued to capture more demand for our premium Dodie diaper range while expanding our marketing efforts both online and offline – especially through baby specialty stores.

Within our ANC business segment, Swisse delivered high double-digit revenue growth and profitability improvement throughout the year. Despite encountering lower offline traffic due to COVID-19, Swisse continued to see fast growth across our CBEC and normal trade e-commerce channels, with the latter reporting particularly high growth on the back of Swisse's continued No.1 position on China's major CBEC platforms and an enlarged normal trade product portfolio.

AUSTRALIA AND NEW ZEALAND: OVERALL CHALLENGING CONDITIONS WITH CONTINUED DECLINE IN DAIGOU CHANNEL WHILE DELIVERING STRONG DOMESTIC SALES

Conditions in the ANZ market was highly challenging with both Australia and New Zealand banning inbound travel and enforcing some of the world's strictest lockdowns at various points throughout the year. This precipitated a collapse in daigou activity, an important source of revenue.

This necessitated a re-focus on the domestic development of our business to better capture the rising local demand for wellness and immunity. In 2020, we concentrated our efforts to expand our presence in offline channels in the local market, such as introducing Swisse Nutra+, our first nutraceutical range exclusive to pharmacy channels and health professional recommendation, and now available in over 1,000 pharmacies.

Our market share in the Australian VHMS market declined slightly to 12.6% for the twelve months ended 31 December 2020, according to research statistics from IRI, an independent research company. This decline was the result of the pressure we saw in our daigou channel, despite the improvement in domestic sales during the pandemic.

Furthermore, strong brand recognition remains a major asset in this key market. H&H Group Australia was also recognized in the 2020 Annual Advantage Survey (the definitive retailer feedback survey in Australia) as the No.1 supplier in the Health, Beauty and Baby ("**HBB**") category, No.2 supplier overall across all categories to the grocery channel and the No.2 HBB supplier to the pharmacy channel.

REST OF THE WORLD: MAINTAINED GROWTH DESPITE THE PANDEMIC

We continue to see tremendous potential to expand our business into other parts of the world as both developed and developing economies discovering the benefits of health, nutrition and immunity. Despite the challenges posed by COVID-19, revenue in our other markets grew by double-digit year-on-year, except in the Hong Kong SAR.

In 2020, we launched our brands in India on Amazon and more than 10 other major e-commerce channels, as well as in Malaysia. We also launched Biostime's probiotics range in Singapore, both in online and offline channels, making it our fourth global market for this range after the Hong Kong SAR, France and Australia. We also saw sustained growth momentum for our IMF and immunity-related products in other markets, as our Biostime branded IMF series once again retained its No.1 position in the organic IMF in the French pharmacy channel.

CONTINUING TO GROW WITH HEALTH AND HAPPINESS

In 2021, we will continue to aim for profitable revenue growth with improved margins across the Group and Mainland China remaining the largest contributor. Our number one strategic focus is to expand the penetration of our diversified BNC and ANC products in the Chinese offline market. While the IMF market in China remains immensely competitive amid declining birthrates, we will strive to increase our market share by further expanding our distribution network and leveraging our diverse product portfolio in the BNC market segment. In addition, we aim to capture more of the fast-growing normal trade e-commerce market channel in China by introducing more new blue hat SKUs, increasing its contribution to our overall ANC business. We also plan to build on the fast growth we saw across our online channels in 2020 through the continued implementation of our digital marketing strategy, live webcasts and online campaigns.

We see promising opportunities in the PNC segment. We are confident that Solid Gold can grow further in the U.S. market driven by robust online demand. And as the No.4 ranked imported cat nutrition brand in China, it already has a strong foothold in our largest market. Leveraging on synergies created with the rest of our business, we intend to quickly grow Solid Gold's market share, leveraging on two promising trends already happening in China: the premiumization of the pet nutrition space and how quickly sales are moving online. We expect the sales contribution from the PNC segment to rapidly grow as we invest in online branding and marketing.

Elsewhere, we expect sales in the ANZ market to gradually stabilize throughout 2021, given the lower sales base for the past two years. We will continue to invest in branding and marketing campaigns in the local market to drive domestic demand, with the daigou channel expected to remain inactive. We also expect to see more contribution from our other markets as we globalize our Biostime and Swisse brands and realize our vision of becoming a global leader in premium nutrition and wellness through superior products and aspirational brands.

SUSTAINABILITY: FROM GOOD TO GREAT

Sustainability is at the heart of our organization and our purpose aligns naturally with a responsible way of doing business. We continue to evolve our approach, making sustainable governance a key area of focus that warrants increased Board and shareholder engagement.

In September 2020, our MSCI ESG Research rating was upgraded from “BBB” to “A”. We also received an HKQAA rating of “A” for ESG performance in the same month.

As we move forward into 2021, we remain committed to realizing our vision: to make people healthier and happier. For H&H Group, this means operating responsibly and integrating sustainability throughout our strategy and operations. Our most recent materiality assessment, conducted in 2020, identified 23 priority areas that will support us in achieving long-term business growth that benefits all our stakeholders, society, and the planet.

In the short term, with much of the world still grappling with the challenges of the pandemic, sustainability also means balancing business continuity and growth, employee safety, and managing environmental and social considerations within our supply chain. Over the longer term, we see incredible opportunities arising from the permanent changes that the COVID-19 pandemic is triggering in consumer demand and behavior, particularly the growing appetite for immunity and health-related products.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2020, the Group's revenue reached RMB11,194.7 million, increasing 2.5% on a like-for-like basis[Note] as compared with 2019, primarily attributed to the double-digit revenue growth in Mainland China supported by strong growth in online sales, channel expansion and sustained demand for immunity products. However, conditions in the ANZ market were still challenging as travel restrictions and logistics challenges impacting daigou activity.

	Year ended 31 December				% to revenue	
	2020	2019	*Reported Change*	*Like-for-like Change*	**2020**	2019
	RMB'000	*RMB'000*	*%*	*%*	***%***	*%*
Revenue by product segment						
Baby nutrition and care products	**7,300,927**	6,933,762	5.3%	5.3%	**65.2%**	63.5%
– Infant formulas	**5,244,186**	5,071,511	3.4%	3.4%	**46.8%**	46.4%
– Probiotic supplements	**1,395,644**	1,255,011	11.2%	11.2%	**12.5%**	11.5%
– Other pediatric products	**661,097**	607,240	8.9%	8.9%	**5.9%**	5.6%
Adult nutrition and care products	**3,867,510**	3,991,455	-3.1%	-2.4%	**34.5%**	36.5%
Pet nutrition and care products	**26,242**	–	N/A	N/A	**0.3%**	–
Revenue by geography						
Mainland China	**9,276,132**	8,449,503	9.8%	10.0%	**82.8%**	77.3%
Australia and New Zealand ("**ANZ**")	**1,238,377**	1,833,662	-32.5%	-32.0%	**11.1%**	16.8%
Rest of the world	**680,170**	642,052	5.9%	2.2%	**6.1%**	5.9%
Total	**11,194,679**	10,925,217	2.5%	2.5%	**100.0%**	100.0%

Mainland China: Overall double-digit growth in our core market

Revenue from Mainland China amounted to RMB9,276.1 million for the year ended 31 December 2020, increasing by 10.0% on a like-for-like basis, compared with 2019. This double-digit growth was supported particularly by robust growth in the Group's online channels and increasing demand for immunity-related products. Mainland China market remained as the Group's main growth driver and now accounts for 82.8% of the Group's total revenue, compared with 77.3% in 2019.

Note: Like-for-like ("**LFL**") basis is used to indicate change of this period compared with same period of previous year, excluding the impact from foreign exchange changes and merge & acquisition.

In BNC segment, total revenue grew by 5.5% to RMB6,905.4 million for the year ended 31 December 2020, compared with last year. The revenue from IMF in Mainland China amounted to RMB5,123.0 million for the year ended 31 December 2020, increased by 2.7% compared with last year. The increase was driven by the robust performance of the Group's e-commerce business, further penetration in offline channels, particularly baby specialty stores through new distributors, as well as effective consumer education efforts. The Group's points of distribution in baby specialty stores in Mainland China further increased from 44,991 at the end of September 2020 to 65,952 at the end of December 2020. The Group's new goat milk IMF series, which was successfully launched in November 2019, recorded revenue of RMB320.7 million in Mainland China and accounted for 6.1% of the Group's total IMF revenue.

For the year ended 31 December 2020, the Group achieved revenue from probiotic supplements in Mainland China of RMB1,389.5 million, a continuing growth of 12.7% compared with last year supported by increasing awareness about the immune benefits of probiotics following the COVID-19 outbreak and the launch of the platinum version of probiotics in mid-June 2020.

Revenue from other pediatric products segment in Mainland China increased by 21.9% to RMB392.8 million for the year ended 31 December 2020 compared with last year. Sales of Dodie branded diaper in Mainland China achieved a growth of 16.9% to RMB363.9 million for the year ended 31 December 2020 compared with last year. The solid growth was mainly attributed to the efforts made to capture more demand for the premium diaper range and expand market presence both online and offline.

In ANC segment, on a like-for-like basis, Mainland China active sales continued to maintain its high double-digit growth of 25.4% mainly attributed to Swisse's leading position in online channels, and accounted for 61.3% of total ANC revenue for the year ended 31 December 2020. Immunity-focused ranges continued to deliver robust year-on-year growth of 71.3% on a like-for-like basis and accounted for 19.3% of total ANC revenue in Mainland China for the year ended 31 December 2020. For the year ended 31 December 2020, revenue generated in CBEC and normal trade channels increased by 25.3% and 25.7%, respectively.

ANZ: Overall challenging conditions with continued decline in daigou channel while delivering strong domestic sales

On a like-for-like basis, revenue from ANZ market segment amounted to AUD260.0 million for the year ended 31 December 2020, representing a decrease of 32.0% compared with the year ended 31 December 2019. The decrease is mainly due to prolonged lockdowns and travel restrictions stemming from the COVID-19 pandemic. As a result, revenue from the corporate daigou channel decreased by 54.6%. Revenue from ANZ retail channels which accounted for 70.7% of the total ANZ business decreased by 14.4%. The Group expects sales in the ANZ market to gradually stabilize throughout 2021, given the lower sales base for the past two years.

Rest of the World: Maintained growth despite pandemic

Revenue contributed from rest of the world increased by 2.2% on a like-for-like basis in the year ended 31 December 2020. Despite the challenges posed by COVID-19, revenue in the Group's other markets other than Hong Kong Special Administrative Region ("**Hong Kong SAR**") grew by 11.3% on a like-for-like basis, excluding the revenue of Solid Gold, particularly supported by the growth momentum of the Biostime branded products in France, Swisse branded products in Singapore and Aurelia branded products in UK.

Revenue of Solid Gold which was consolidated in the group's financial results post deal closing was RMB26.2 million for the period from 12 December 2020 to 31 December 2020. The full-year sales of Solid Gold for the year ended 31 December 2020 on the stand-alone basis reach USD64.2 million, a strong increase of 49.2% compared with last year which was well beyond management's expectation.

Gross profit and gross profit margin

In 2020, the Group recorded gross profit of RMB7,187.0 million, a slight decrease of 0.6% compared with last year. The Group's gross profit margin decreased to 64.2% in 2020 from 66.2% in 2019, mainly due to the product mix and market mix changes, while the overall cost of sourcing remained stable.

The gross profit of baby nutrition and care segment increased by 3.3% to RMB4,765.8 million in 2020 compared with that of last year. The gross profit margin of baby nutrition and care segment decreased by 1.2 percentage points to 65.3% in 2020 from 66.5% in 2019 mainly due to the product mix towards higher revenue proportion from the lower-margin goat milk IMF series, domestic IMF series and diaper products.

On a like-for-like basis, the gross profit for the adult nutrition and care segment decreased by 7.1% to AUD506.3 million in 2020, compared with last year. The gross profit margin of the adult nutrition and care segment decreased by 3.2 percentage points from 65.5% in 2019 to 62.3% in 2020. Excluding the non-recurring stock write-off costs in relation to supply chain model optimization in Australia and U.S. of RMB29.3 million, the normalized gross profit margin of the adult nutrition and care segment was 63.1% in 2020, which decreased by 2.4 percentage points from last year resulting from the change of market and channel mixes.

The gross profit of pet nutrition and care segment was 38.1%, following the consolidation of Solid Gold financial statements for the period from 12 December 2020 to 31 December 2020.

Other income and gains

Other income and gains amounted to RMB169.7 million for the year ended 31 December 2020. Other income and gains primarily consisted of net foreign exchange gain of RMB56.5 million, government subsidies of RMB51.1 million, net fair value gains on derivatives of RMB24.1 million and others.

The net foreign exchange gain of RMB56.5 million mainly represented non-cash gain from the revaluation on intragroup loans between the Company and its subsidiaries resulting from intra-group transaction. The non-cash fair value gains on derivative financial instruments of RMB24.1 million was mainly caused by the fair value gain on the warrants issued by Else Nutrition Holdings Inc., and the cross currency swap and cross currency interest rate swap agreements.

Selling and distribution costs

Excluding depreciation of property, plant and equipment and right-of-use assets, and amortization of intangible assets ("**D&A**"), selling and distribution costs increased by 2.5% to RMB4,469.7 million in the year ended 31 December 2020, as compared with 2019. Selling and distribution costs excluding D&A as a percentage of the Group's revenue remained stable at 40.0% in 2020, with rise in ANC mainly due to ANZ sales decline being neutralized by proactive improvement efforts in BNC. Owing to strong spending control throughout the year, selling and distribution costs invested in new markets and new categories accounted for 9.5% of the Group's total selling and distributions costs, decreasing from 9.8% in 2019.

BNC

Selling and distribution costs of BNC business amounted to RMB2,806.3 million in the year ended 31 December 2020, represented a slight decrease of 2.3% as compared with last year. Selling and distribution costs of BNC business as a percentage of its revenue decreased by 3.0 percentage points from 41.4% in 2019 to 38.4% in 2020, mainly driven by the improved operational efficiency through digitalization strategy in Mainland China, including online live streaming and social media marketing activities as well as standardized offline and online promotion activities.

Advertising and marketing expense of BNC business as a percentage of its revenue increased from 12.3% in 2019 to 13.5% in 2020. The increase was mainly due to the strategic investments in the fast growing online channel through the continued implementation of digital marketing strategy, live webcasts and online campaigns.

Selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of its revenue decreased to 24.9% in 2020 from 29.1% of last year, thanks to the effective measures taken in all markets especially in Mainland China to improve the spending efficiency.

ANC

Selling and distribution costs of ANC business amounted to RMB1,663.4 million in the year ended 31 December 2020, represented an increase of 11.6% as compared with last year. Selling and distribution costs of ANC business as a percentage of its revenue increased by 5.7 percentage points from 37.3% in 2019 to 43.0% in 2020. The increase was mainly due to the operational deleveraging post sharp revenue base decline in the ANZ business especially daigou channel. Selling and distribution costs of Mainland China business as a percentage of its revenue came down slightly in 2020 compared with last year thanks to the continuous efforts made to improve spending efficiency. Selling and distribution costs invested in new markets, including India, Malaysia, Italy, Netherlands, Hong Kong SAR, Singapore, U.K. and U.S, accounted for 15.5% of total selling and distribution costs of ANC business in 2020, decreasing from 17.4% in 2019.

Advertising and marketing expense of ANC business as a percentage of its revenue increased from 27.5% in 2019 to 30.0% in 2020. The increase was mainly due to the market mix towards higher proportion of sales from the Mainland China market following the decrease of sales from ANZ market.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue increased from 9.8% in 2019 to 13.0% in 2020 resulting from the strategic investments in new markets, including the launch in India on Amazon and more than 10 other major e-commerce channels at the beginning of 2020, as well as in Malaysia in May. The increase was also due to the increasing revenue proportion from Chinese normal trade markets which required higher selling and distribution costs.

Administrative expenses

Excluding the non-recurring transaction costs in relation to mergers and acquisitions ("**M&A**") of RMB19.1 million, the administrative expenses as a percentage of the Group's revenue for the year ended 31 December 2020 remained stable at 5.9% as compared with last year. Including the non-recurring transaction costs in relation to M&A, the reported administrative expenses increased by 6.4% from RMB638.0 million in 2019 to RMB679.1 million for the year ended 31 December 2020. The reported administrative expenses as a percentage of the Group's revenue thus slightly increased by 0.3 percentage point to 6.1% in 2020.

Other expenses

Other expenses for the year ended 31 December 2020 amounted to RMB190.8 million. Other expenses mainly included research and development ("**R&D**") expenditure of RMB139.0 million, and non-cash impairment of right-of-use asset of RMB13.5 million in relation to the sub-leased warehouse in Sydney, Australia following the supply chain model optimization.

During the period under review, R&D expenditure decreased by 15.1% as compared with last year. The decrease in R&D expenditure was mainly due to the phasing changes for new product development in new markets and the decrease in travelling and entertainment expenses under lockdown restrictions.

EBITDA and EBITDA margin

EBITDA for the year ended 31 December 2020 amounted to RMB2,156.8 million with EBITDA margin of 19.3%. Excluding the consolidated financial statements of Solid Gold for the period from 12 December 2020 to 31 December 2020, the EBITDA for the year ended 31 December 2020 amounted to RMB2,160.9 million, decreased by 2.8% as compared with last year, and EBITDA margin decreased slightly by 1.0 percentage to 19.3%.

Adjusted EBITDA decreased by 3.3% to RMB2,160.6 million in the year ended 31 December 2020. Adjusted EBITDA margin decreased by 1.2 percentage points from 20.5% in 2019 to 19.3% in 2020. The lower Adjusted EBITDA margin was mainly due to the revenue decline in the historical high-margin ANZ business which has been impacted by the prolonged lockdowns and travel restrictions stemming from the COVID-19 pandemic. Meanwhile the Adjusted EBITDA margin in Mainland China business was improved mainly thanks to the efficiency gained from the accelerated digitalization of omni-channels, promotion activity standardization and other spending efficiency improvement measures.

The adjusted EBITDA was arrived at by reconciling the non-cash items, the non-recurring items and the M&A item from EBITDA as set out below:

	Year ended 31 December	
	2020	2019
	RMB million	*RMB million*
EBITDA	**2,156.8**	2,222.2
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange gains	**(56.5)**	(48.0)
(2) Net fair value (gains)/losses on derivative financial instruments and financial assets	**(26.2)**	45.1
(3) Impairment of right-of-use assets in relation to the sub-leased warehouse in Sydney Australia following the supply chain model optimization	**13.5**	–
Non-recurring items*:		
(4) One-time restructuring costs in certain markets	**20.5**	16.1
(5) Stock write-off costs in relation to supply chain model optimization in Australia and U.S.	**29.3**	–
(6) Transaction costs in relation to M&A	**19.1**	–
M&A:		
(7) Consolidation of Solid Gold financial statements for the period from 12 December 2020 to 31 December 2020	**4.1**	–
Adjusted EBITDA	**2,160.6**	2,235.4

* Either non-recurring or non-cash items is to be adjusted only if the amount is equal to or greater than RMB10 million.

Finance costs

During the year ended 31 December 2020, the Group incurred finance costs of RMB286.6 million, representing a significant decrease of 31.9% compared with 2019. The finance costs for the year ended 31 December 2020 included interests for the term loan and senior notes of RMB231.9 million, which were reduced by 34.3% compared with 2019 thanks to the improved capital structure post the successful refinancing of the two debt instruments in the second half of 2019. The finance costs for the year ended 31 December 2020 also included the amortized loss of interest rate swap in relation to the previous term loan of RMB42.5 million and others.

Income tax expense

Income tax expense decreased by 16.5% from RMB560.2 million in 2019 to RMB468.0 million in 2020. The effective tax rate decreased from 35.8% in 2019 to 29.2% in 2020 thanks for the tax initiatives launched by the Group. Excluding the consolidation of Solid Gold financial statements for the period from 12 December 2020 to 31 December 2020, the impact from net foreign exchange gain, net fair value gains or losses on derivative financial instruments and financial assets, amortized loss of interest rate swap for previous term loan and premium paid for early redemption of part of the senior notes, the normalized effective tax rate for 2020 was 29.8% compared with 34.6% for 2019.

Net profit and adjusted net profit

The adjusted net profit was arrived at by reconciling the non-cash item and the non-recurring item from net profit as set out below:

	Year ended 31 December	
	2020	2019
	RMB million	*RMB million*
Net profit	**1,136.7**	1,005.0
Reconciled by:		
EBITDA adjusted items as listed above	**3.9**	13.2
Non-cash item*:		
Amortized loss of interest rate swap for previous term loan	**42.5**	–
Non-recurring item*:		
Premium paid for early redemption of part of the senior notes	**–**	56.2
Adjusted net profit	**1,183.1**	**1,074.4**

* Either non-recurring or non-cash items is to be adjusted only if the amount is equal to or greater than RMB10 million.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2020, the Group recorded net cash generated from operating activities of RMB1,532.6 million, resulting from pre-tax cash from operations of RMB2,170.9 million, minus income tax paid of RMB638.3 million.

Investing activities

For the year ended 31 December 2020, net cash flows used in investing activities amounted to RMB1,240.3 million, primarily resulted from payment in relation to acquisition of Solid Gold of RMB1,079.2 million, purchases of property, plant and equipment and intangible assets of RMB106.5 million, strategic investments mainly made by the Group's solely-owned $NewH^2$ fund of RMB79.9 million and others.

Financing activities

For the year ended 31 December 2020, net cash flows used in financing activities amounted to RMB687.7 million. The cash inflows were primarily related to the scheduled drawdown of remaining RMB482.6 million (equivalent to US$75.0 million) under the existing term loan in January 2020. The cash inflows were offset by the dividend paid to the Group's shareholders of RMB862.1 million, and the interest paid for term loans and senior notes of RMB230.0 million.

Cash and bank balances

As of 31 December 2020, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,830.9 million.

Term loan and senior notes

As of 31 December 2020, the Group's outstanding term loans amounted to RMB4,038.8 million, all are payable after one year. The total carrying amount of the senior notes was RMB1,985.6 million, including current portion of RMB20.2 million.

As of 31 December 2020, the net leverage ratio increased to 1.94 from 1.64 of last year, calculated by dividing the net debts[Note] by adjusted EBITDA. Excluding Solid Gold acquisition consideration payout, the net leverage ratio as of 31 December 2020 is 1.44. Gearing ratio decreased to 35.0% from 37.0% as of 31 December 2019, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

Advance payment is normally required for the sale in Mainland China, except for limited circumstances. The Group usually allows credit sales in oversea markets outside Mainland China, with credit terms ranging from 30 to 60 days from the end of month. The Group's suppliers generally grant a credit period of between 30 and 90 days.

Note: Net debts = term loan + senior notes – cash and bank balances – time deposits

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables slighted decreased by 1 day from 32 days for the year ended 31 December 2019 to 31 days for the year ended 31 December 2020. The average turnover days of trade payables decreased by 15 days from 81 days for the year ended 31 December 2019 to 66 days for the year ended 31 December 2020, resulting from the different cut-off days.

The inventory turnover days increased by 6 days to 158 days for the year ended 31 December 2020, from 152 days for the year ended 31 December 2019. The average turnover days of BNC products increased by 18 days from 118 days for the year ended 31 December 2019 to 136 days for the year ended 31 December 2020, mainly due to the stock built-up for Chinese New Year sales season. The average turnover days of ANC products decreased by 14 days from 208 days for the year ended 31 December 2019 to 194 days for the year ended 31 December 2020, mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board is pleased to recommend the payment of a final dividend of HKD0.39 per ordinary share for the year ended 31 December 2020. Taking into account of the interim dividend of HKD0.63 per ordinary share in respect of the six months ended 30 June 2020 paid in September 2020, the annual dividend will amount to HKD1.02 per ordinary share, representing approximately 50.0% of profit for the year ended 31 December 2020.

Subject to approval at the forthcoming annual general meeting on Thursday, 13 May 2021, the said final dividend will be payable on or about Tuesday, 13 July 2021 to shareholders whose names appear on the register of members of the Company on Monday, 24 May 2021.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2020 and up to the date of this announcement, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

The Group does not mainly engage in production activities and therefore its operations do not generally result in pollution issues. The Group strives to strengthen its environmental protection efforts on conserving resources and managing waste from its business activities.

The materials which the Group purchases are carefully considered, so the Group is not only offsetting our emissions, but funding programs that bring many benefits to the community. The Group nourishes the environment through our carbon offsetting programs in Australia and Carbon Neutral status, verified through the Australian Government's National Carbon Offset Standard.

Relationship with Employees

The Group values its employees and recognizes the importance of personal development of its employees. The Group strives to motivate employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides regular training sessions for its employees for their continuous professional development in areas such as managerial skills, communication skills, sales and quality control.

Relationship with Customers

The Mama100 membership program offers extensive membership services to the Group's consumers. There are service hotlines for its members to obtain updated information such as parenting tips and products information. Through this program, the Group is able to get feedback from the consumers and better understand consumer needs and demands.

Relationship with Suppliers

The Group has developed long-standing and good relationships with its global suppliers. The Group also participates in joint research and development projects with certain suppliers to further explore and improve the products to be offered. The Group works together with its suppliers to ensure that we share our commitment to product quality.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2021 Annual General Meeting

The forth coming annual general meetings will be held on Thursday, 13 May 2021 (the "**2021 AGM**"). The register of members of the Company will be closed from Monday, 10 May 2021 to Thursday, 13 May 2021, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2021 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 7 May 2021.

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Thursday, 20 May 2021 to Monday, 24 May 2021, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 May 2021.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Throughout the year ended 31 December 2020, the Company has complied with all the code provisions contained in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2020.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the year ended 31 December 2020.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely, Mr. Wang Can, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Mr. Wang Can, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The Audit Committee oversees the audit process, internal control and risk management systems of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2020 and the annual results for the year ended 31 December 2020, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 and the Annual Report for the year ended 31 December 2020, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in 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 the preliminary announcement.

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

In connection with the termination of the share award scheme adopted by the Company on 28 November 2011 and terminated on 31 October 2019 (the "**Share Award Scheme**"), the trustee of the Share Award Scheme has sold 114,705 ordinary shares of the Company on the Stock Exchange at a total consideration of HK$2,934,357.04 on 24 March 2020.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2020 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board of
Health and Happiness (H&H) International Holdings Limited
Luo Fei
Chairman

Hong Kong, 23 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. Luo Fei, Mrs. Laetitia GARNIER and Mr. Wang Yidong; the non-executive directors of the Company are Dr. Zhang Wenhui and Mr. Luo Yun; and the independent non-executive directors of the Company are Mr. Tan Wee Seng, Mrs. Lok Lau Yin Ching and Mr. Wang Can.