H&H Group
inspiring wellness

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June			
	2020	2019	*Reported Change*	***LFL Change*******
	RMB'000	*RMB'000*	*%*	***%***
	(Unaudited)	(Unaudited)		
Revenue	**5,167,225**	5,095,265	*1.4%*	***2.6%***
Gross profit	**3,430,433**	3,423,302	*0.2%*	***1.4%***
EBITDA*	**1,267,753**	1,298,595	*–2.4%*	***–1.7%***
Adjusted EBITDA*	**1,187,582**	1,194,479	*–0.6%*	***0.1%***
Net profit	**718,005**	713,078	*0.7%*	***1.4%***
Adjusted net profit**	**658,344**	608,962	*8.1%*	***8.9%***
Cash flows from operating activities***	**1,204,254**	959,962	*25.4%*	
Basic earnings per share	**RMB1.12**	RMB1.11	*0.9%*	

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB80.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB104.1 million)

** Adjusted net profit = Net profit – EBITDA adjustment items of RMB80.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB104.1 million) + Other non-cash losses of RMB20.5 million for the six months ended 30 June 2020 (six months ended 30 June 2019: nil)

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

**** 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

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**5,167,225**	5,095,265
Cost of sales		**(1,736,792)**	(1,671,963)
Gross profit		**3,430,433**	3,423,302
Other income and gains	*5*	**134,058**	126,835
Selling and distribution costs		**(2,066,521)**	(1,971,557)
Administrative expenses		**(284,285)**	(299,379)
Other expenses		**(72,562)**	(94,677)
Finance costs		**(150,124)**	(185,601)
Share of profit of an associate		**5,134**	2,627
PROFIT BEFORE TAX	*6*	**996,133**	1,001,550
Income tax expense	*7*	**(278,128)**	(288,472)
PROFIT FOR THE PERIOD		**718,005**	713,078

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
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 period	**(17,419)**	(32,342)
Reclassification adjustments for losses included in profit or loss	**(36,753)**	(8,109)
Income tax effect	**22,405**	12,135
Exchange realignment	**–**	(168)
	(31,767)	(28,484)
Hedge of net investments:		
Effective portion of changes in fair value of hedging instruments arising during the period	**53,553**	4,809
Exchange differences on translation of foreign operations	**(71,310)**	(90,392)
Exchange differences on net investment in foreign operations	**(3,400)**	(2,713)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(52,924)**	(116,780)
Other comprehensive income 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	**66,472**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**13,548**	(116,780)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**731,553**	596,298

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit attributable to owners of the parent		**718,005**	713,078
Total comprehensive income attributable to owners of the parent		**731,553**	596,298
		RMB	*RMB*
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**1.12**	1.11
Diluted		**1.11**	1.10

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2020

	Notes	**30 June 2020 RMB'000 (Unaudited)**	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**451,180**	472,981
Right-of-use assets		**181,644**	205,937
Goodwill		**5,446,832**	5,467,488
Intangible assets		**3,546,017**	3,611,088
Bonds receivable		**218,745**	214,747
Deposits		**44,159**	45,414
Investment in an associate		**63,496**	58,362
Deferred tax assets		**523,688**	407,081
Derivative financial instruments		**93,845**	51,105
Other non-current financial assets		**240,273**	129,569
Total non-current assets		**10,809,879**	10,663,772
CURRENT ASSETS			
Inventories		**2,000,622**	1,550,350
Trade and bills receivables	*10*	**661,880**	1,106,815
Prepayments, other receivables and other assets		**287,334**	307,859
Loans receivable		**5,472**	5,306
Derivative financial instruments		**26,133**	1,058
Pledged deposits		**8,262**	8,878
Cash and cash equivalents		**3,404,225**	2,217,335
Total current assets		**6,393,928**	5,197,601
CURRENT LIABILITIES			
Trade and bills payables	*11*	**958,927**	837,752
Other payables and accruals		**1,787,293**	1,958,610
Contract liabilities		**178,607**	134,614
Lease liabilities		**32,001**	47,426
Derivative financial instruments		**987**	–
Senior notes		**21,521**	21,533
Tax payable		**270,315**	203,115
Dividend payables		**499,914**	–
Total current liabilities		**3,749,565**	3,203,050
NET CURRENT ASSETS		**2,644,363**	1,994,551
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,454,242**	12,658,323

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
30 June 2020

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
NON-CURRENT LIABILITIES		
Senior notes	**2,133,332**	2,103,246
Interest-bearing bank loans	**4,325,013**	3,751,563
Other payables and accruals	**4,634**	7,217
Lease liabilities	**106,458**	114,928
Derivative financial instruments	**90,617**	121,329
Deferred tax liabilities	**919,274**	966,234
Total non-current liabilities	**7,579,328**	7,064,517
Net assets	**5,874,914**	5,593,806
EQUITY		
Issued capital	**5,507**	5,500
Other reserves	**5,510,405**	5,085,781
Proposed dividend	**359,002**	502,525
Total equity	**5,874,914**	5,593,806

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 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 (together, the "**Group**") are principally engaged in the manufacture and sale of premium pediatric nutrition and baby care products and adult 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 AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 (the "**Period**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the revised International Financial Reporting Standards ("**IFRSs**") (which also include IASs and Interpretations) as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following IFRSs for the first time for the current period's financial information:

Amendment to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IAS 1 and IAS 8	*Definition of Material*

The application of these revised IFRSs in the Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four 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; and

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources 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 six months ended 30 June 2020 (Unaudited):

	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:						
Sales to external customers	2,338,258	856,131	1,640,161	332,675	–	5,167,225
Segment results	1,489,081	672,646	1,098,180	170,526	–	3,430,433
Reconciliations:						
Interest income						12,118
Other income and unallocated gains						121,940
Share of profit of an associate						5,134
Corporate and other unallocated expenses						(2,423,368)
Finance costs						(150,124)
Profit before tax						996,133
Other segment information:						
Depreciation and amortisation	13,236	3,702	51,101	7,199	58,376	133,614
(Write-back of)/impairment of trade receivables	–	–	(57)	3,783	–	3,726
Write-down of inventories to net realisable value	12,210	737	21,724	1,833	–	36,504
Capital expenditure*	12,797	668	7,715	4,802	8,621	34,603

Operating segment information for the six months ended 30 June 2019 (Unaudited):

	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:						
Sales to external customers	2,401,324	588,748	1,833,914	271,279	–	5,095,265
Segment results	1,601,764	447,529	1,225,365	148,644	–	3,423,302
Reconciliations:						
Interest income						11,553
Other income and unallocated gains						115,282
Share of profit of an associate						2,627
Corporate and other unallocated expenses						(2,365,613)
Finance costs						(185,601)
Profit before tax						1,001,550
Other segment information:						
Depreciation and amortisation	9,591	3,278	48,225	4,418	57,485	122,997
(Write-back of)/impairment of trade receivables	(278)	–	383	1,136	99	1,340
Write-down of inventories to net realisable value	5,494	83	24,302	1,914	–	31,793
Capital expenditure*	9,155	7,010	112,201	11,420	1,177	140,963

* 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

	Six months ended 30 June **2020** ***RMB'000*** **(Unaudited)**	2019 *RMB'000* (Unaudited)
Mainland China	**4,268,938**	3,815,800
Australia and New Zealand	**587,334**	946,906
Other locations#	**310,953**	332,559
	5,167,225	5,095,265

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

(b) Non-current assets

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Mainland China	**536,474**	570,218
Australia and New Zealand	**2,663,471**	2,721,681
Other locations#	**1,086,551**	1,101,883
	4,286,496	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 Hong Kong Special Administrative Region ("**Hong Kong SAR**") of the People's Republic of China (the "**PRC**")

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	**5,167,225**	5,095,265

Disaggregated revenue information

For the six months ended 30 June 2020 (unaudited)

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	**2,281,998**	**853,865**	**926,430**	**206,645**	**4,268,938**
Australia and New Zealand	**15,220**	**397**	**571,717**	**–**	**587,334**
Other locations*	**41,040**	**1,869**	**142,014**	**126,030**	**310,953**
Total	**2,338,258**	**856,131**	**1,640,161**	**332,675**	**5,167,225**
Timing of revenue recognition					
Goods transferred at a point in time	**2,338,258**	**856,131**	**1,640,161**	**332,675**	**5,167,225**

For the six months ended 30 June 2019 (unaudited)

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	2,365,930	575,418	750,789	123,663	3,815,800
Australia and New Zealand	14,602	1,475	930,829	–	946,906
Other locations*	20,792	11,855	152,296	147,616	332,559
Total	2,401,324	588,748	1,833,914	271,279	5,095,265
Timing of revenue recognition					
Goods transferred at a point in time	2,401,324	588,748	1,833,914	271,279	5,095,265

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June **2020** *RMB'000* (Unaudited)	2019 *RMB'000* (Unaudited)
Bank interest income	**7,302**	6,631
Interest income from loans and bonds receivables	**4,816**	4,922
Foreign exchange gains	**31,046**	58,145
Fair value gains on derivative financial instruments, net	**48,848**	45,544
Fair value gains on financial assets	**277**	427
Government subsidies*	**36,642**	2,485
Other investment income	**714**	–
Others	**4,413**	8,681
	134,058	126,835

* 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):

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,700,288**	1,640,170
Depreciation of property, plant and equipment	**43,257**	38,053
Depreciation of right-of-use assets	**26,432**	23,177
Amortisation of intangible assets	**63,925**	61,767
Research and development costs**	**58,443**	74,205
Lease payments not included in the measurement of lease liabilities	**2,061**	8,918
Loss on disposal of items of property, plant and equipment	**38**	109
Employee benefit expenses:		
Wages and salaries	**570,552**	550,797
Pension scheme contributions (defined contribution schemes)	**61,294**	78,201
Staff welfare and other expenses	**17,637**	41,048
Equity-settled share option expense	**32,654**	27,322
Equity-settled share award expense	**–**	3,858
	682,137	701,226
Foreign exchange differences, net*	**(31,046)**	(58,145)
Fair value gains on derivative financial instruments, net*	**(48,848)**	(45,544)
Fair value gains on financial assets*	**(277)**	(427)
Impairment of trade receivables**	**3,726**	1,340
Write-down of inventories to net realisable value#	**36,504**	31,793

* 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 EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	**352,697**	255,575
Hong Kong SAR	**67,461**	33,301
Australia	**(5,562)**	69,940
Elsewhere	**1,287**	3,201
Deferred	**(137,755)**	(73,545)
Total tax charge for the period	**278,128**	288,472

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% (six months ended 30 June 2019: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof. Guangzhou Hapai Information Technology Co., Ltd ("**Guangzhou Hapai**"), the Company's wholly-owned subsidiary operating in Mainland China, was recognised as high-technology enterprise in December 2019 and is subject to EIT at a rate of 15% for three years from 2019 to 2021. Therefore, Guangzhou Hapai was subject to EIT at a rate of 15% for the Period and the six months ended 30 June 2019. Biostime (Guangzhou) Health Products Limited ("**Biostime Health**"), the Company's wholly-owned subsidiary, was recognised as high-technology enterprise in December 2017, and was subject to EIT at a rate of 15% for the three years from 2017 to 2019. As at 30 June 2020, Biostime Health was in the progress of re-application of high-technology enterprise and expected that it is highly probable to be recognised as a high-technology enterprise. Thus, Biostime Health calculated the income tax provision at the rate of 15% in the Period.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profits arising in Hong Kong SAR during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD 2,000,000 (six months ended 30 June 2019: HKD2,000,000) of assessable profits of this subsidiary is 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% (six months ended 30 June 2019: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd. ("**Biostime Healthy Australia**"), 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, 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 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 for any current tax payable assumed and are compensated by Biostime Healthy Australia 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 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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interim -HKD0.63 (2019: nil) per ordinary share	**359,002**	–

On 25 August 2020, the board of directors declared an interim dividend of HKD0.63 (six months ended 30 June 2019: nil) per ordinary share, amounting to a total of approximately RMB359,002,000 (six months ended 30 June 2019: nil).

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 Period attributable to ordinary equity holders of the parent of RMB718,005,000 (six months ended 30 June 2019: RMB713,078,000), and the adjusted weighted average number of ordinary shares of 643,609,820 (six months ended 30 June 2019: 640,144,212) in issue during the Period.

The calculation of the diluted earnings per share amount for the Period is based on the profit for the Period 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 Period, 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 share award schemes.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**718,005**	713,078

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**643,842,884**	640,979,549
Weighted average number of shares held for the share award schemes	**(233,064)**	(835,337)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**643,609,820**	640,144,212
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**3,009,391**	8,899,281
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**646,619,211**	649,043,493

10. TRADE AND BILLS RECEIVABLES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Trade receivables	**562,220**	1,013,533
Bills receivable	**111,019**	100,706
	673,239	1,114,239
Less: Impairment provision	**(11,359)**	(7,424)
	661,880	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 aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Within 1 month	**361,322**	613,965
1 to 3 months	**232,962**	362,644
Over 3 months	**67,596**	130,206
	661,880	1,106,815

The movements in provision for impairment of trade and bills receivables are as follows:

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
At beginning of the Period/year	**7,424**	5,393
Impairment losses recognised	**8,846**	7,910
Amount written off as uncollectible	**–**	(52)
Impairment losses reversed	**(5,120)**	(5,834)
Exchange realignment	**209**	7
At end of the Period/year	**11,359**	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, and customer type and rating). 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.

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

11. TRADE AND BILLS PAYABLES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Trade payables	**954,181**	826,505
Bills payable	**4,746**	11,247
	958,927	837,752

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Within 1 month	**742,757**	610,362
1 to 3 months	**204,754**	200,553
Over 3 months	**11,416**	26,837
	958,927	837,752

The trade payables are non-interest-bearing. The average credit period for trade purchases is 30 to 90 days.

As at 30 June 2020, included in trade payables is an amount due to an associate of the Group of RMB34,960,000 (31 December 2019: RMB20,687,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

CHAIRMAN STATEMENT

2020 has so far proven to be a highly unpredictable year. Our adaptive and agile business model helped us weather the global COVID-19 pandemic and proactively respond to dramatically changing consumer behaviors, leading us to adapt new ways in which market our products and communicate with our consumers.

In the first half of 2020, we still achieved healthy revenue and adjusted net profit growth. And looking beyond the current challenging environment, we see a lot of room and opportunities ahead for accelerating our growth as we work to establish leading positions in the premium nutrition and wellness space globally.

The first is the sharp increase in demand for our immunity-related supplements, across both our Baby Nutrition and Care ("**BNC**") and Adult Nutrition and Care ("**ANC**") business segments, that we saw during the first half of the year. The importance of health has never been more deeply felt; COVID-19 has raised consumer awareness about the importance of immunity and proactive health management – outcomes that we can help deliver with our probiotics, vitamins and other supplements.

The second is online sales, which accelerated robustly, particularly in China* during the interim period. With consumers all around the world turning more digital and buying even more online during lockdowns, we are refocusing more efforts on strengthening our digital channels and relevant communications to engage with our consumers.

The third is in the offline sales space, which remains an essential part of our business. Despite the pressure faced in the first half of this year, there is still room to grow. We will continue to expand our distribution and penetration in the China and Australia and New Zealand ("**ANZ**") markets, making our products and brands more visible and accessible to consumers.

Finally, the broad nutrition market is continuing to experience a segmentation trend, creating opportunities in several fast-growing new categories. We are focusing more marketing and innovation efforts to capture growing demand for products such as goat infant milk formulas ("**IMF**"), infant nutrition supplements, super premium infant diapers and 'beauty from within' supplements.

As part of our philosophy to maintain our profitable growth and high cash conversion business model, we have been able to significantly increase our cash position and reduce our net debt leverage year-on-year. As a result, I am delighted to say that we have resolved to pay an interim dividend of 50% of net profit. While our cash priorities are still focused on investing in the business through accretive organic growth, we remain committed to a steady and dependable dividend policy in the long run.

* China mentioned in this announcement refers to Mainland China

Financial highlights – 2020 Interim Period:

- Total revenue grew 2.6% on a like-for-like basis to RMB5,167.2 million
- Adjusted net profit grew 8.9% on a like-for-like basis to RMB658.3 million
- Revenue from China grew 12.8% on a like-for-like basis, accounting for 82.6% of total revenue
- Immunity-focused ranges across both BNC and ANC segments continued to deliver robust growth of 45.4% and 48.5% on a like-for-like basis, respectively, and accounted for 24.3% and 28.1% of total BNC and ANC revenue, respectively
- IMF revenue in China fell 3.5% due to slower offline traffic but online revenue grew by 32.8%, with the contribution to overall IMF revenue increasing from 11.3% to 15.5%
- Revenue from Swisse in China increased by 27.9% on a like-for-like basis and accounted for 56.5% of total ANC revenue
- Operating cashflow increased by 25.4% and the net leverage ratio was down to 1.38 times
- Interim dividend payout of 50% of net profit (HKD0.63 per ordinary share)

A resilient business across the Group

The first half of 2020 has not been without its challenges. Lockdowns and the logistical challenges during the period impacted sales in our largest market, particularly in offline channels, with similar impacts being felt in our other markets as the COVID-19 outbreak became a global pandemic. Travel restrictions continued to pressure our already-struggling daigou channels in the ANZ market. The resulting surge in online sales, changes to our product mix, foreign exchange fluctuations and higher logistics costs also pressured our product margins.

Yet, the full impact of this was cushioned by our broader business exposure to China, where the COVID-19 pandemic currently looks to have peaked, combined with our resilient BNC and ANC product portfolios, as well as our defensive high-cash-conversion business model.

China: double-digit revenue growth in our core market with improved operational efficiency

Our BNC and ANC businesses in China delivered strong revenue growth, supported particularly by robust growth in our online channels and increasing demand for immunity products. Following the outbreak of COVID-19 in China, we deftly shifted our marketing activity online, utilizing live streaming, online consumer education activities and brand ambassador endorsements – an approach that paid off strongly.

Revenue growth from our BNC business in China was mostly driven by the strong performance of goat IMF and probiotics products. Market segmentation continued in the first half of this year, driving strong demand for our goat IMF launched in November last year. However, our cow IMF ranges experienced a slowdown in the second quarter as a result of higher inventory levels across our channels following 'pantry loading' in the first quarter. Furthermore, offline traffic did not fully recover in the second quarter, impacting our revenue and the timing of channel expansion.

Our probiotics lines performed solidly in line with the growing demand for immunity-enhancing products, supported by growing awareness about the immune benefits of probiotics following the outbreak of COVID-19. This has further consolidated our position as the No.1 brand of pediatric probiotic supplements in the world. Our other pediatric products segment also grew robustly as we continued to capture more demand for our premium diaper range, while expanding our marketing efforts both online and offline – especially through mom and baby stores.

China is still the growth engine of our ANC business, with Swisse continuing to deliver rigorous revenue growth, particularly around our expanded immunity and beauty-related ranges. The recent 618 shopping festival was also a strong contributor to this growth, with Swisse remaining the No. 1 ranked health supplement brand across major E-commerce platforms.

Australia and New-Zealand: overall weak performance due to challenging daigou business

In the ANZ market, conditions remain challenging in the near-term due to the continued decline of daigou activity – already pressured by the new E-commerce law implemented in China last year. Travel restrictions and logistics challenges such as limited freighting services also impacted activity. Thus, revenue growth in the ANZ market in the first half decreased by 35.8% on a like-for-like basis to AUD127.2 million.

We progressed the domestic development of our business, however, both online and offline. This included achieving 360-degree integration between all our channels in the local market, as well as the launch of Swisse Nutra+, our first nutraceutical range exclusive to pharmacy channels.

ANZ also remains one of our core production locations, particularly for supplements and goat milk. Despite harsh lockdown regimes in both countries and a recent return to lockdown in much of Victoria, our supply chain has experienced no major disruptions.

Expanding in new markets

We see tremendous potential to expand our business into other parts of Europe and Asia as both developed and developing economies discover the benefits of health, nutrition and immunity. Apart from a sales decline in Hong Kong SAR, revenue in other overseas markets grew steadily, up 8.5% on a like-for-like basis despite the logistical challenges posed by COVID-19.

We launched our brands in India on Amazon and more than 10 other major e-commerce channels at the beginning of this year, as well as in Malaysia in May. 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. Following a pattern that is similar to China, we continued to see sustained growth momentum for our IMF, baby food ranges and immunity-related products in the Netherlands, Italy, France and the United Kingdom, which is hugely encouraging.

Continuing to grow with health and happiness

COVID-19 will have a long-term impact on consumer demand and behavior. Growing demand for immunity-enhancing products and other health-related products is likely to be sustained, first online and then offline as markets around the world emerge from lockdown. We are incredibly well-positioned to capture this future source of consumer demand with our comprehensive categories.

The further penetration of offline channels also remains a strategic focus as consumers seek new BNC and ANC products that satisfy their desire for health and quality living, both for themselves and their families. Our diversified product portfolio, some of which is yet to be deployed in the China market, will continue to serve this purpose.

In the BNC segment, we recently launched a new IMF series as part of this channel expansion strategy. We will also continue to expand our distribution to drive the gradual recovery for our IMF business in the second half following the COVID-19 disruptions.

China will also remain the growth engine of our ANC business. While online sales growth remains robust, we will seek to increase penetration offline. New blue hat products and normal food products will be key to this as it boosts exposure in the important pharmacy channel, bringing Swisse greater scale and stronger recognition of its association with health and wellbeing. We will soon launch several new blue hat SKUs in offline channels, including fish oil and protein powder. Over the mid-to-long-term, we expect our EBITDA margin to gradually improve on the back of this larger scale.

In ANZ, full recovery from lockdown measures are not in sight yet and thus, we are expecting continued pressure on our daigou business into the second half of the year. However, we are continuing to support some daigou activity for overseas-based operators despite travel restrictions. But most of our efforts will be focused on growing domestic sales where we do see upside potential in demand from local consumers, particularly for our immunity ranges.

We will also continue to reaffirm our vision for using business as a force for good and remain devoted to fulfilling our sustainability commitments to achieve shared value growth. Our organic baby food subsidiary, Good Goût has just been certified as one of the 3,499 B Corps around the world. This achievement reflects our core commitments to our employees, customers, suppliers, community and the environment.

I would like to take this opportunity to express my sincere gratitude to everyone who contributed to H&H Group's success so far in 2020. This effort would not be possible without the enormous support of our employees, business partners, creditors and investors across all markets. The path ahead will likely remain turbulent. However, I am confident in the steps we are taking to deliver on our promise to make people around the world healthier and happier.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2020, the Group's revenue increased by 2.6% on a like-for-like basis to RMB5,167.2 million as compared with the same period in 2019, mainly contributed from the stable growth in both business segments in China supported by robust revenue growth in certain categories and online channels despite challenges of COVID-19 pandemic. However, conditions remained challenging in ANZ market due to continued decline of daigou activities.

	Six months ended 30 June				% to revenue	
	2020	2019	*Reported Change*	*LFL Change*	**2020**	2019
	RMB'000	*RMB'000*	*%*	*%*	*%*	*%*
Revenue by product segment						
Baby nutrition and care products	**3,527,064**	3,261,351	*8.1%*	*8.1%*	**68.3%**	64.0%
– Infant formulas	**2,338,258**	2,401,324	*–2.6%*	*–2.6%*	**45.3%**	47.1%
– Probiotic supplements	**856,131**	588,748	*45.4%*	*45.4%*	**16.6%**	11.6%
– Other pediatric products	**332,675**	271,279	*22.6%*	*22.6%*	**6.4%**	5.3%
Adult nutrition and care products	**1,640,161**	1,833,914	*–10.6%*	*–7.3%*	**31.7%**	36.0%
Revenue by geography						
China	**4,268,938**	3,815,800	*11.9%*	*12.8%*	**82.6%**	74.9%
ANZ	**587,334**	946,906	*–38.0%*	*–35.8%*	**11.4%**	18.6%
Rest of the world	**310,953**	332,559	*–6.5%*	*–4.9%*	**6.0%**	6.5%
Total	**5,167,225**	5,095,265	*1.4%*	*2.6%*	**100.0%**	100.0%

China: Achieving double-digit revenue growth despite COVID-19

Revenue from China amounted to RMB4,268.9 million for the six months ended 30 June 2020, increasing by 12.8% on a like-for-like basis, compared with the same period of last year, with the China market now accounting for 82.6% of our total revenue, compared with 74.9% in the same period of last year. This strong growth is attributable to consumers' growing demand for immunity-enhancing products and continuous demand for necessity products such as IMF as well as the Group's proactive efforts to shift more sales and marketing activities online such as live streaming and online consumer education in response to COVID-19 lockdown restrictions. The revenue from IMF in China from online channels grew by 32.8% and the contribution increased from 11.3% to 15.5% of total IMF revenue in China.

In BNC segment, total revenue grew by 9.1% to RMB3,342.5 million for the six months ended 30 June 2020, compared with the same period of last year. The revenue from IMF in China amounted to RMB2,282.0 million for the six months ended 30 June 2020, slighted decreased by 3.5% compared with the same period of last year. The decrease was affected by softer offline sales of cow milk IMF post COVID-19 in the second quarter while the online IMF sales accelerated. The Group's share in the overall cow IMF market for the twelve months ended 30 June 2020 remained stable at 6.1%. The Group's new goat milk IMF series, which was successfully launched in November 2019, recorded revenue of RMB132.3 million in China and accounted for 5.8% of total IMF revenue in China.

For the six months ended 30 June 2020, the Group recorded revenue from probiotic supplements in China of RMB853.9 million, a strong growth of 48.4% compared with the six months ended 30 June 2019 as a result of increasing demand for immunity-enhancing products following the COVID-19 outbreak.

Revenue from other pediatric products segment in China increased by 67.1% to RMB206.6 million for the six months ended 30 June 2020 compared with the six months ended 30 June 2019. Sales of Dodie branded diaper in China achieved a growth of 56.1% to RMB191.5 million for the six months ended 30 June 2020 compared with the same period of last year. The rapid growth was mainly attributed to the strong demand for our premium diaper range and increasing awareness of Dodie. The Group also expanded the baby nutrition portfolio, launching new Biostime-branded supplements such as DHA+ARA, as well as platinum version of probiotics and Calcium + Vitamin D powder in mid-June, contributing revenue of RMB10.7 million for the six months ended 30 June 2020.

In ANC segment, on a like-for-like basis, China active sales continued to maintain its double-digit growth momentum of 27.9% owing to increasing brand awareness and Swisse's leading position in the fast-growing online channel, and accounted for 56.5% of total ANC revenue for the six months ended 30 June 2020, with demand for Swisse's immunity ranges spiking in response to rising consciousness around health and disease prevention following the COVID-19 outbreak. Immunity-focused ranges continued to deliver robust year-on-year growth of 128.9% on a like-for-like basis and accounted for 21.0% of total ANC revenue in China for the six months ended 30 June 2020. The recent 618 shopping festival was also a strong contributor to this growth with Swisse remaining the No.1 ranked health supplement brand across all major E-commerce platforms with market share of 5.8%.

ANZ: Still in a leading position in ANZ despite continued decline of daigou activity

On a like-for-like basis, revenue from ANZ market segment amounted to AUD127.2 million for the six months ended 30 June 2020, representing a decrease of 35.8% compared with the six months ended 30 June 2019. Revenue from ANZ domestic channels which accounted for 68.3% of the total ANZ business decreased by 13.1% due to travel restrictions. For the twelve months ended 30 June 2020, Swisse's share of the Australian vitamin, herbal and mineral supplements ("**VHMS**") market reached 14.0%. Revenue from the corporate daigou channel decreased by 59.7% due to logistics challenges such as limited freighting services, surging shipping costs and extended customs clearance time.

Note: The exchange rates of AUD1=RMB4.6183 and AUD1=RMB4.7871 were used for the six months ended 30 June 2020 and 2019, respectively.

Rest of the world: mixed performance across different regions

Revenue contributed from rest of the world decreased by 4.9% on a like-for-like basis in the six months ended 30 June 2020, as compared with the same period of last year, which was mainly attributable to a sales decline in Hong Kong SAR market due to COVID-19 pandemic and significant reduction of mainland and overseas visitors. Despite this, for the six months ended 30 June 2020, the Group saw sustained moderate growth momentum for immunity-related products in the Netherlands, Italy, United Kingdom and Singapore. If excluding Hong Kong SAR, revenue of rest of the world increased by 8.5% on a like-for-like basis for the six months ended 30 June 2020 compared with the six months ended 30 June 2019.

Gross profit and gross profit margin

In the first half of 2020, the Group recorded gross profit of RMB3,430.4 million, a slight increase of 0.2% compared with the same period of last year. The Group's gross profit margin decreased to 66.4% in the first half of 2020 from 67.2% in the first half of 2019, mainly due to the product mix and market mix.

The gross profit of baby nutrition and care segment increased by 6.1% to RMB2,332.2 million in the first half of 2020 compared with the same period of last year. The gross profit margin of baby nutrition and care segment decreased to 66.1% in the first half 2020 from 67.4% in the first half of 2019 mainly due to the product mix towards higher revenue proportion from the lower-margin goat milk and organic IMF products as well as the Dodie branded diaper and Good Goût products.

On a like-for-like basis, the gross profit for the adult nutrition and care segment decreased by 7.1% to AUD237.8 million in the first half of 2020, compared with the same period of last year. The gross profit margin of the adult nutrition and care segment slightly increased from 66.8% in the first half of 2019 to 67.0% in the first half of 2020, resulting from the more favorable market mix towards higher revenue proportion from the higher gross margin China market.

Other income and gains

Other income and gains amounted to RMB134.1 million for the six months ended 30 June 2020. Other income and gains primarily consisted of net fair value gains on derivatives of RMB48.8 million, government subsidies of RMB36.6 million, net foreign exchange gain of RMB31.0 million and others.

The non-cash fair value gains on derivative financial instruments of RMB48.8 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. The net foreign exchange gain of RMB31.0 million mainly represented non-cash gain from the revaluation on intragroup loans between the Company and its subsidiaries resulting from historical intra-group transaction.

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 4.9% to RMB1,999.8 million in the six months ended 30 June 2020, as compared with the same period of 2019. Selling and distribution costs excluding D&A as a percentage of the Group's revenue was 38.7% in the first half of 2020, which decreased by 1.3 percentage points from 40.0% in the year ended 31 December 2019, while increased by 1.3 percentage points as compared with a low base at 37.4% in the first half of 2019.

BNC

Selling and distribution costs of BNC business amounted to RMB1,263.6 million in the six months ended 30 June 2020, representing an increase of 2.7% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business decreased by 1.9 percentage points from 37.7% in the first half of 2019 to 35.8% in the first half of 2020.

Advertising and marketing expense of BNC business as a percentage of its revenue increased from 9.9% in the first half of 2019 to 11.8% in the first half of 2020. The increase was mainly due to the strategic investments in the fast growing online channel and new product categories, including the goat milk IMF series launched in the second half of 2019 and Biostime-branded pediatric supplements such as DHA+ARA, as well as platinum version of probiotics and Calcium + Vitamin D powder launched in the first half of 2020.

Owing to effective measures taken in all key markets especially in China to improve spending efficiency, selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of BNC revenue decreased to 24.0% in the first half of 2020 from 27.8% of the same period of last year despite strategic channel investments made in new markets and new categories.

Comparing with the year ended 31 December 2019, selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business significantly decreased by 5.6 percentage points mainly due to the improved operational efficiency through digitalization strategy in China, including online live streaming and social media marketing activities as well as standardized promotion activities.

ANC

Selling and distribution costs of ANC business amounted to RMB736.2 million in the six months ended 30 June 2020, representing an increase of 8.9% as compared with the same period of last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business increased by 8 percentage points from 36.9% in the first half of 2019 to 44.9% in the first half of 2020. The increase was mainly due to the significant structural change in market mix including the continued drop in ANZ corporate daigou channel and the continued strong growth in Chinese market, even though the selling and distribution costs of ANC China as a percentage of its revenue started to improve slightly.

Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 25.7% in the first half of 2019 to 31.4% in the first half of 2020. The increase was mainly due to the market mix towards higher proportion of sales from the Chinese market following the decrease of sales from ANZ market. The higher investment in marketing campaigns was required in Chinese market to further enhance brand awareness and build up scale both online and offline. The investment was considered necessary given the relatively low penetration of Swisse brand and products among Chinese consumers nationwide.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue increased from 11.1% in the first half of 2019 to 13.5% in the first half of 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 this year, 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.

Comparing with the year ended 31 December 2019, selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business also increased by 7.6 percentage points due to the same market mix change.

Administrative expenses

Administrative expenses decreased by 5.0% from RMB299.4 million in the six months ended 30 June 2019 to RMB284.3 million for the six months ended 30 June 2020. Administrative expenses as a percentage of the Group's revenue improved slightly by 0.4 percentage point to 5.5% in the first half of 2020, as compared with 5.9% in the first half of 2019. The decrease in administrative expenses was mainly due to the decrease in travelling and entertainment expenses resulting from lockdown restrictions.

Other expenses

Other expenses for the six months ended 30 June 2020 amounted to RMB72.6 million. Other expenses mainly included R&D expenditure of RMB58.4 million.

During the period under review, R&D expenditure decreased by 21.3% as compared with the same period of last year. The decrease in R&D expenditure was mainly due to the phasing change for new product development in new markets and decrease in travelling and entertainment expenses under lockdown restrictions.

EBITDA and EBITDA margin

EBITDA for the six months ended 30 June 2020 amounted to RMB1,267.8 million, decreased by 1.7% on a like-for-like basis from RMB1,298.6 million in the six months ended 30 June 2019. EBITDA margin decreased from 25.5% in the first half of 2019 to 24.5% in the first half of 2020.

Adjusted EBITDA achieved RMB1,187.7 million in the six months ended 30 June 2020, which maintained flat with that for the six months ended 30 June 2019 on a like-for-like basis. Adjusted EBITDA margin for the first half of 2020 was 23.0%, decreased slightly by 0.4 percentage points as compared with the same period of last year. The lower Adjusted EBITDA margin was mainly due to the revenue decline of the high-margin ANZ business which has been impacted by the implementation of China's new E-commerce law leading lower daigou activities and lockdown restrictions.

The adjusted EBITDA was arrived at by reconciling the non-cash items from EBITDA as set out below:

	Six months ended 30 June	
	2020	2019
	RMB million	*RMB million*
EBITDA	**1,267.8**	1,298.6
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange gains	**(31.0)**	(58.1)
(2) Net fair value gains on financial instruments	**(49.1)**	(46.0)
Adjusted EBITDA	**1,187.7**	1,194.5

* Non-cash items are to be adjusted only if the amount is equal to or greater than RMB10 million.

Finance costs

During the six months ended 30 June 2020, the Group incurred finance costs of RMB150.1 million, representing a decrease of 19.1% compared with the same period of 2019. The finance costs for the six months ended 30 June 2020 included interests for the term loan and senior notes of RMB125.3 million, which were reduced by 30.8% compared with the same period of last year thanks to the improved capital structure post the successful refinancing of these two debt instruments in the second half of 2019. The finance costs for the six months ended 30 June 2020 also included the one-off amortized loss of interest rate swap in relation to the previous term loan of RMB20.5 million and others.

Income tax expense

Income tax expense decreased slightly from RMB288.5 million in the six months ended 30 June 2019 to RMB278.1 million in the six months ended 30 June 2020. The effective tax rate decreased from 28.8% in the first half of 2019 to 27.9% in the first half of 2020. Excluding the impact from net foreign exchange gain, net fair value gains on financial instruments and one-off amortized loss of interest rate swap for previous term loan, the normalized effective tax rate for the six months ended 30 June 2020 was 29.7% compared with 32.1% for the six months ended 30 June 2019.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2020	2019
	RMB million	*RMB million*
Net profit	**718.0**	713.1
Reconciled by:		
EBITDA adjusted items as listed above	**(80.1)**	(104.1)
Non-cash item*:		
One-off amortized loss of interest rate swap for previous term loan	**20.5**	–
Adjusted net profit	**658.4**	609.0

* Non-cash item is to be adjusted only if the amount is equal to or greater than RMB10 million.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2020, the Group recorded net cash generated from operating activities of RMB858.2 million, resulting from pre-tax cash from operations of RMB1,204.3 million, minus income tax paid of RMB346.1 million.

Investing activities

For the six months ended 30 June 2020, net cash flows used in investing activities amounted to RMB70.3 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB33.2 million, strategic investments made by the Group's solely-owned NewH^2 fund of RMB44.2 million and others.

Financing activities

For the six months ended 30 June 2020, net cash flows generated from financing activities amounted to RMB379.5 million. The cash inflows were primarily related to the drawdown of RMB936.4 million (equivalent to US$125.0 million) under the existing term loan and from revolving bank facility. The cash inflows were partially offset by the repayment of revolving bank facility of RMB412.4 million (equivalent to US$50.0 million), and the interest paid for term loans and senior notes of RMB120.7 million.

Cash and bank balances

As of 30 June 2020, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB3,404.2 million.

Term loan and senior notes

As of 30 June 2020, the Group's outstanding term loans amounted to RMB4,325.0 million, all are payable after one year. The total carrying amount of the senior notes was RMB2,154.9 million, including current portion of RMB21.5 million.

As of 30 June 2020, the net leverage ratio decreased to 1.38 from 1.65 of the same period of last year, calculated by dividing the net debts[Note] by accumulated adjusted EBITDA for the last twelve months ended 30 June. Gearing ratio decreased to 37.7% from 38.9% as of 30 June 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 China, except for limited circumstances. The Group usually allows credit sales in oversea markets outside 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.

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 six months ended 30 June 2019 to 31 days for the six months ended 30 June 2020. The average turnover days of trade payables were 93 days for the six months ended 30 June 2020, representing a decrease of 3 days from 96 days for the six months ended 30 June 2019 mainly due to the different cut-off days.

The inventory turnover days were 184 days for the six months ended 30 June 2020, representing an increase of 3 days from 181 days for the six months ended 30 June 2019. The average turnover days of BNC products decreased 7 days from 139 days for the six months ended 30 June 2019 to 132 days for the six months ended 30 June 2020. The average turnover days of ANC products increased 44 days from 254 days for the six months ended 30 June 2019 to 298 days for the six months ended 30 June 2020. The increase was mainly caused by the higher safety stock built to ensure business continuity under COVID-19 pandemic and the lower-than-expected growth of revenue from ANC in ANZ market. Despite the increased inventory turnover days, the overall slow-moving inventory provision as a percentage of gross inventories decreased from 8.4% as at 31 December 2019 to 6.5% as at 30 June 2020.

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

INTERIM DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board has resolved to declare an interim dividend of HKD0.63 per ordinary share, representing approximately 50.0% of the Group's profit available for distribution for the period of six months ended 30 June 2020. The interim dividend will be paid on or about Friday, 23 October 2020 to the shareholders whose names appear on the register of members of the Company on Monday, 14 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 10 September 2020 to Monday, 14 September 2020, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim 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 Wednesday, 9 September 2020.

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.

CORPORATE GOVERNANCE CODE

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**") (the "**Listing Rules**") as its own code of corporate governance. The Company has complied with all the code provisions contained in the CG Code for the six months ended 30 June 2020.

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 during the six months ended 30 June 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 six months ended 30 June 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 is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system, internal control system and risk management system and associated procedures.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim results announcement complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020.

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by the Hong Kong Institute of Certified Public Accountants.

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 six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 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, 25 August 2020

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.