



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)

(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1112)

# Interim Report

## 中期報告

# 2020



Biostime®

dodie™

Swisse

Healthy Timez™

GOOD GOÛT

AURELIA  
PROBIOTIC SKINCARE

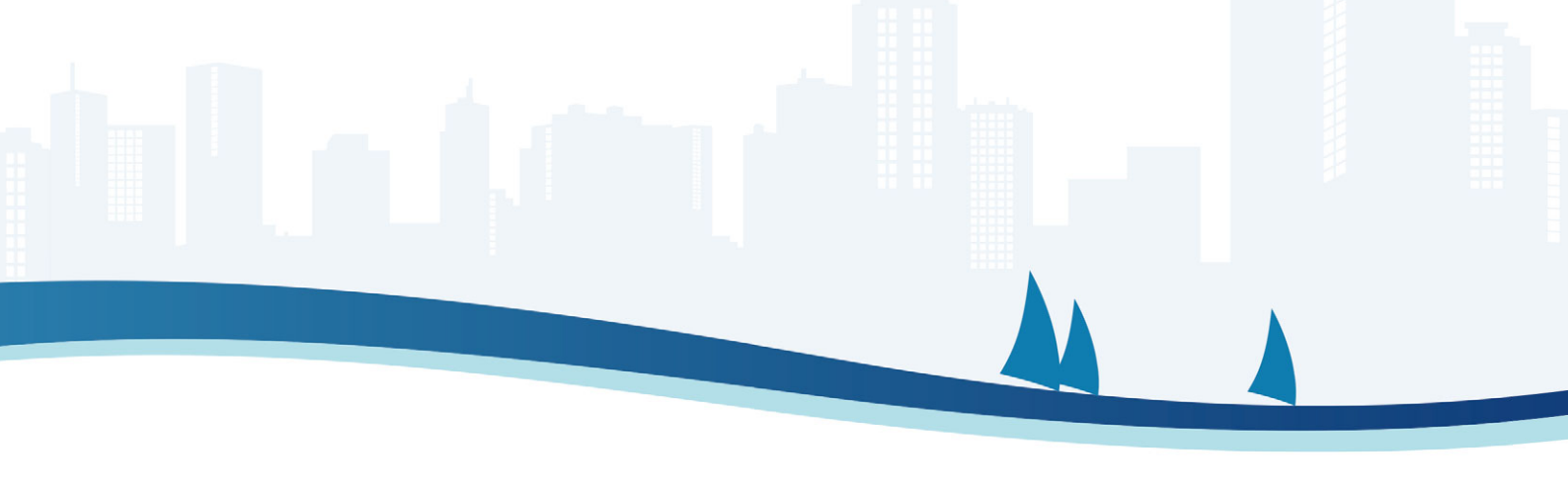




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## BOARD OF DIRECTORS

### Executive Directors

Mr. Luo Fei (*Chairman*)  
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER  
(*Chief Executive Officer*)  
Mr. Wang Yidong

### Non-executive Directors

Dr. Zhang Wenhui  
Mr. Luo Yun

### Independent Non-executive Directors\*

Mr. Tan Wee Seng  
Mrs. Lok Lau Yin Ching  
Mr. Wang Can

## BOARD COMMITTEE

### Audit Committee

Mr. Wang Can (*Chairman*)  
Mr. Tan Wee Seng  
Mr. Luo Yun

### Nomination Committee

Mr. Luo Fei (*Chairman*)  
Mr. Tan Wee Seng  
Mrs. Lok Lau Yin Ching

### Remuneration Committee

Mr. Tan Wee Seng (*Chairman*)  
Mr. Luo Fei  
Mrs. Lok Lau Yin Ching

## COMPANY SECRETARY

Ms. Yang Wenyun

## AUTHORISED REPRESENTATIVES

Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER  
Ms. Yang Wenyun

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEAD OFFICE

Suites 4007-09, 40/F, One Island East  
Taikoo Place  
18 Westlands Road  
Quarry Bay  
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 4007-09, 40/F, One Island East  
Taikoo Place  
18 Westlands Road  
Quarry Bay  
Hong Kong

## COMPANY'S WEBSITE

[www.hh.global](http://www.hh.global)

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

\* Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive Directors of the Company with effect from 24 March 2020. Dr. Ngai Wai Fung and Professor Xiao Baichun retired from office as independent non-executive Directors of the Company immediately after the conclusion of the AGM held on 8 May 2020.

## AUDITOR

Ernst & Young  
*Certified Public Accountants*  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited  
Royal Bank House – 3rd Floor  
24 Shedden Road, Grand Cayman  
KY1-1110  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

# FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Reported Change %	LFL Change**** %
	2020 RMB'000 (Unaudited)	2019 RMB'000 (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%	

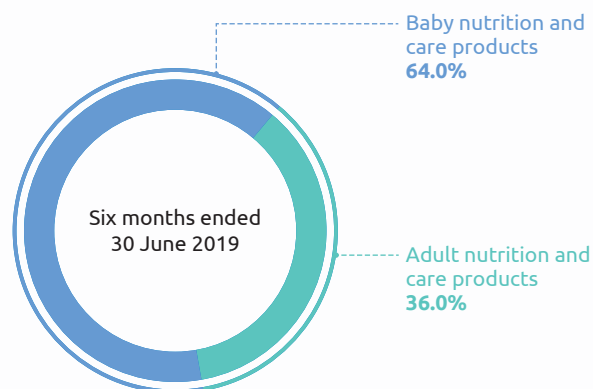
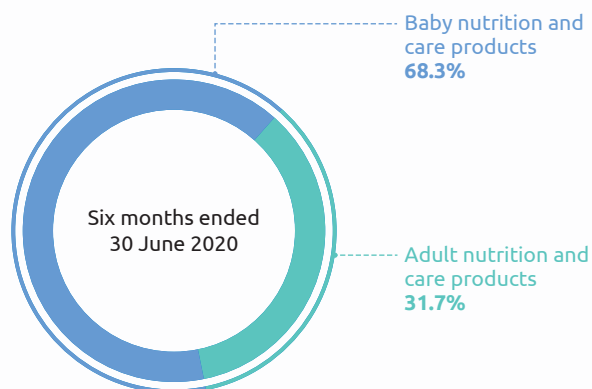
\* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB80.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB104.1 million)

\*\* 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)

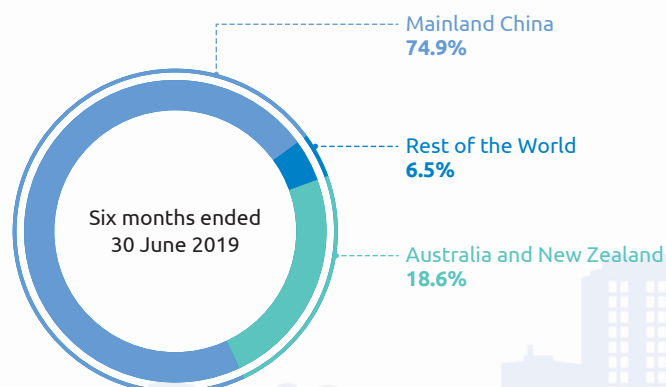
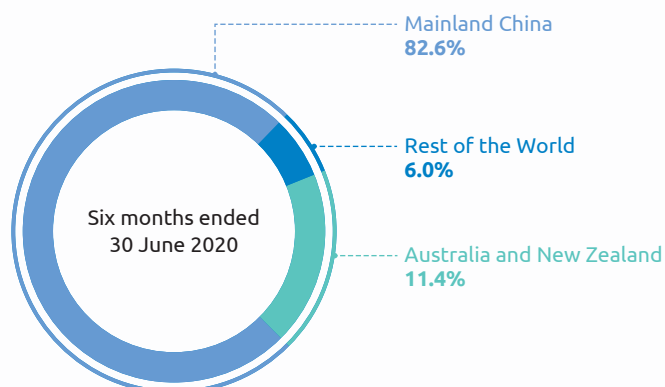
\*\*\* Cash flows from operating activities is calculated on a pre-tax basis

\*\*\*\* 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

## REVENUE BY BUSINESS SEGMENT



## REVENUE BY GEOGRAPHY



Dear shareholders,

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 interim report 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 50.0% 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.

**Luo Fei**

*Chairman*

Hong Kong, 25 August 2020

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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, slightly 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 freight services, surging shipping costs and extended customs clearance time.

## **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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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:

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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
<b>Net profit</b>	<b>718.0</b>	713.1
Reconciled by:		
EBITDA adjusted items as listed above	<b>(80.1)</b>	(104.1)
Non-cash item*:		
One-off amortized loss of interest rate swap for previous term loan	<b>20.5</b>	–
<b>Adjusted net profit</b>	<b>658.4</b>	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<sup>2</sup> 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 USD125.0 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 USD50.0 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<sup>Note</sup> 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 overseas 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 slightly 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.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

## 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.

## HUMAN RESOURCES

As at 30 June 2020, the Group had over 3,200 employees. The total employee benefit expense (including directors' and chief executive's remuneration) for the six months ended 30 June 2020 please refer to note 7 to the interim condensed consolidated financial statements.

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.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in the regions in which the Group operates, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted certain share options schemes and share award scheme for its employees.

## 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.

## REMUNERATION COMMITTEE

The remuneration committee of the Board (“**Remuneration Committee**”) was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of three members, namely, Mr. Tan Wee Seng, Mr. Luo Fei and Mrs. Lok Lau Yin Ching, the majority of whom are independent non-executive Directors. Mr. Tan Wee Seng was appointed as the chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on the Company’s remuneration policy and structure for all Directors’ and senior management’s remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his/her close associates (as defined in the Listing Rules) will be involved in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department of the Company is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

## NOMINATION COMMITTEE

The nomination committee of the Board (“**Nomination Committee**”) was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The chairman of the Nomination Committee is Mr. Luo Fei, an executive Director, and the two other members are Mr. Tan Wee Seng and Mrs. Lok Lau Yin Ching, both of whom are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company’s Board Diversity Policy, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate’s character, qualifications, experience, independence and other relevant criteria as set out in the Company’s Director Nomination Policy to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at shareholders' meetings.

During the six months ended 30 June 2020, the Company attended 16 investors' conferences and roadshows and approximately 255 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2020 are summarized as follows:

Date	Event	Organizer	Location
Jan 2020	Goldman Sachs Hong Kong/China Corporate Day	Goldman Sachs	Hong Kong
Jan 2020	Citi Consumer Corporate Day	Citi	Hong Kong
Jan 2020	Morgan Stanley China New Economy Summit	Morgan Stanley	Beijing
Jan 2020	Taipei Non-deal Roadshow	Citi	Taipei
Mar 2020	Post Annual Results Roadshow	Citi	Virtual
Mar 2020	Post Annual Results Roadshow	CLSA	Virtual
Mar 2020	Post Annual Results Roadshow	Goldman Sachs	Virtual
Apr 2020	Post Annual Results Roadshow	Citi	Virtual
May 2020	Macquarie Consumer Day	Macquarie	Virtual
May 2020	CLSA China Consumer Staples Access Week	CLSA	Virtual
May 2020	Daiwa Consumer & Gaming Corporate Day	Daiwa	Virtual
May 2020	Citi Pan Asia Regional Investor Conference	Citi	Virtual
May 2020	JP Morgan Asia Consumer Forum	JP Morgan	Virtual
Jun 2020	BofA Innovative China Conference	Bank of America	Virtual
Jun 2020	Goldman Sachs Greater China Corporate Day	Goldman Sachs	Virtual
Jun 2020	HSBC Asia Credit Conference	HSBC	Virtual

The last shareholders' meeting was the annual general meeting (the "AGM") held on 8 May 2020 at 29/F, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC") for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, and the re-election of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

To promote effective communication, the Company maintains a website at [www.hh.global](http://www.hh.global), where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access. Investors may write directly to the Company or via email to [IR@hh.global](mailto:IR@hh.global) for any enquiries.

## REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report 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 this 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 sold 114,705 ordinary shares of the Company on the Stock Exchange at a total consideration of HKD2,934,357.04 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.

## SHARE OPTION SCHEMES

The details of the share option schemes of the Company are as follows:

### Share Option Scheme

A share option scheme (the "**Share Option Scheme**") of the Company was conditionally approved by the shareholders of the Company at the AGM held on 8 May 2020 and the terms of such Share Option Scheme are disclosed in the circular of the Company dated 3 April 2020. No share option has been granted, exercised, lapsed or cancelled under the Share Option Scheme.

The total number of shares available for issue under the Share Option Scheme as at 30 June 2020 was 64,405,486, representing approximately 10.00% of the Company's issued share capital as at 30 June 2020.

### 2010 Share Option Scheme

A share option scheme (the "**2010 Share Option Scheme**") of the Company was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such 2010 Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010. The 2010 Share Option Scheme was terminated with effect from 8 May 2020 upon the adoption of the Share Option Scheme.

On 25 March 2020, a total of 704,647 share options (the "**Share Options**") to subscribe for 704,647 ordinary shares of HKD0.01 each in the share capital of the Company were granted to grantees (the "**Grantees**") under the 2010 Share Option Scheme at an exercise price of HKD26.10 per share. The closing prices of the shares of the Company immediately before date of grant was HKD24.85.

## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

Particulars and movements of Share Options under the 2010 Share Option Scheme during the six months ended 30 June 2020 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Number of Share Options					Outstanding as at 30 June 2020
			Outstanding as at 1 January 2020	Granted during the six months ended 30 June 2020	Exercised during the six months ended 30 June 2020	Lapsed during the six months ended 30 June 2020	Cancelled during the six months ended 30 June 2020	
<b>Directors</b>								
Mr. Tan Wee Seng	19/04/2017	25.75	150,000	-	-	-	-	150,000
	29/03/2019	49.15	150,000	-	-	-	(150,000)	-
	25/03/2020	26.10	-	150,000	-	-	-	150,000
Mr. Wang Can	25/03/2020	26.10	-	100,000	-	-	-	100,000
Mrs. Lok Lau Yin Ching	25/03/2020	26.10	-	100,000	-	-	-	100,000
Dr. Ngai Wai Fung <sup>(1)</sup>	19/04/2017	25.75	50,000	-	-	-	-	50,000
	29/03/2019	49.15	150,000	-	-	-	-	150,000
Professor Xiao Baichun <sup>(1)</sup>	19/04/2017	25.75	150,000	-	-	-	-	150,000
	29/03/2019	49.15	150,000	-	-	-	-	150,000
Mr. Luo Fei	24/08/2017	29.25	616,253	-	-	-	-	616,253
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	29/12/2015	15.58	308,982	-	(308,982) <sup>(2)</sup>	-	-	-
	24/08/2017	29.25	472,907	-	-	-	-	472,907
	15/11/2019	32.65	2,110,742	-	-	-	-	2,110,742
Mr. Wang Yidong	03/05/2016	21.05	181,157	-	-	-	-	181,157
	24/08/2017	29.25	472,907	-	-	-	-	472,907
	15/11/2019	32.65	628,536	-	-	-	-	628,536
<b>Sub-total</b>			<b>5,591,484</b>	<b>350,000</b>	<b>(308,982)</b>	<b>-</b>	<b>(150,000)</b>	<b>5,482,502</b>
<b>Employees and others</b>								
	09/06/2011	15.312	2,285	-	(989) <sup>(3)</sup>	(698)	-	598
	29/11/2011	11.52	9,908	-	(3,558) <sup>(4)</sup>	(492)	-	5,858
	01/06/2012	19.64	13,243	-	(9,202) <sup>(5)</sup>	(1,207)	-	2,834
	07/12/2012	24.70	31,556	-	(17,939) <sup>(6)</sup>	(5,644)	-	7,973
	29/12/2015	15.58	2,294,259	-	(180,771) <sup>(7)</sup>	(672)	-	2,112,816
	30/09/2016	20.92	241,871	-	(104,360) <sup>(8)</sup>	(8,680)	-	128,831
	23/12/2016	23.30	120,984	-	(2,960) <sup>(9)</sup>	(13,649)	-	104,375
	19/04/2017	25.75	231,367	-	(7,482) <sup>(10)</sup>	-	-	223,885
	07/07/2017	22.15	87,122	-	(3,060) <sup>(11)</sup>	-	-	84,062
	24/08/2017	29.25	7,059,400	-	-	(597,282)	-	6,462,118
	05/12/2017	47.10	336,174	-	-	(18,653)	-	317,521
	20/04/2018	60.02	593,073	-	-	(49,740)	-	543,333
	26/07/2018	59.05	387,450	-	-	(60,799)	-	326,651
	28/09/2018	47.27	56,302	-	-	(7,477)	-	48,825
	29/03/2019	49.15	482,399	-	-	(35,890)	-	446,509
	09/07/2019	45.79	251,718	-	-	-	-	251,718
	15/11/2019	32.65	4,103,228	-	-	(681,540)	-	3,421,688
25/03/2020	26.10	-	-	354,647	-	(354,647)	-	-
<b>Sub-total</b>			<b>16,302,339</b>	<b>354,647</b>	<b>(330,321)</b>	<b>(1,837,070)</b>	<b>-</b>	<b>14,489,595</b>
<b>Total</b>			<b>21,893,823</b>	<b>704,647</b>	<b>(639,303)</b>	<b>(1,837,070)</b>	<b>(150,000)</b>	<b>19,972,097</b>

## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

*Notes:*

- 1 Dr. Ngai Wai Fung and Professor Xiao Baichun retired from office as independent non-executive Directors of the Company immediately after the conclusion of the AGM held on 8 May 2020.
- 2 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD29.30.
- 3 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD33.37.
- 4 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD36.07.
- 5 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD36.57.
- 6 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD31.82.
- 7 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD33.75.
- 8 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD35.83.
- 9 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD35.28.
- 10 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD31.71.
- 11 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD30.68.



## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

All Share Options granted since the adoption of the 2010 Share Option Scheme until 7 July 2017 have vested in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a “**Vesting Date**”):

All 14,318,647 Shares Options granted on 24 August 2017 (including Share Options granted to Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong, executive Directors) shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

Among the 777,607 Shares Options granted on 5 December 2017, 125,359 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2019	100% of the total number of Share Options granted

Among the 777,607 Shares Options granted on 5 December 2017, 652,248 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

Among the 801,283 Shares Options granted on 20 April 2018, 3,267 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2019	100% of the total number of Share Options granted

Among the 801,283 Shares Options granted on 20 April 2018, 798,016 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

All 555,375 Shares Options granted on 26 July 2018 shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

All 137,277 Shares Options granted on 28 September 2018 shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

All 5,593,349 Shares Options granted on 16 November 2018 (including Share Options granted to Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong, executive Directors) shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2022	100% of the total number of Share Options granted

Among the 3,085,008 Shares Options granted on 29 March 2019, 524,266 of the Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

Among the 3,085,008 Shares Options granted on 29 March 2019, 2,560,742 of the Share Options granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2022	100% of the total number of Share Options granted

All 251,718 Shares Options granted on 9 July 2019 shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

Among the 6,842,506 Shares Options granted on 15 November 2019, 306,712 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

<b>Vesting Date</b>	<b>Percentage of Share Options to vest</b>
1 April 2021	100% of the total number of Share Options granted

## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

Among the 6,842,506 Shares Options granted on 15 November 2019, 3,796,516 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	100% of the total number of Share Options granted

Among the 6,842,506 Shares Options granted on 15 November 2019, 2,739,278 Share Options granted to granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	100% of the total number of Share Options granted

Among the 704,647 Shares Options granted on 25 March 2020, 354,647 of the Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	114,886 Share Options
1 April 2022	239,761 Share Options

Among the 704,647 Shares Options granted on 25 March 2020, 350,000 of the Share Options granted to Mr. Tan Wee Seng, Mrs. Lok Lau Yin Ching and Mr. Wang Can shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	100% of the total number of Share Options granted

Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or their respective associates (as defined in the Listing Rules).

Other than the 150,000 Shares Options granted to Mr. Tan Wee Seng which were cancelled on 25 March 2020, no Share Options granted under the 2010 Share Option Scheme were cancelled during the six months ended 30 June 2020.

Since the 2010 Share Option Scheme was terminated with effect from 8 May 2020, the total number of shares available for issue under the 2010 Share Option Scheme as at 30 June 2020 was the same as the number of outstanding Share Options, i.e. 19,972,097, representing approximately 3.10% of the Company's issued share capital as at 30 June 2020.

## SHARE OPTION SCHEMES (CONTINUED)

### 2010 Share Option Scheme (continued)

The weighted average fair values of Share Options granted during the year ended 31 December 2019 and the six months ended 30 June 2020 are as follows:

	Six months ended 30 June 2020	The year ended 31 December 2019
Directors	HKD8.71	HKD18.15
Other employees	HKD8.67	HKD14.78

The values of Share Options granted were calculated using the Hull-White model, which is subject to certain fundamental limitations, due to the subjective nature of and uncertainty related to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

In respect of the Share Options granted during the year ended 31 December 2019, judgement on parameters made by the Directors in applying the Hull-White model is summarized below:

	Options granted to Directors	Options granted to other employees
Dividend yield (%)	0.57-0.74	0.57-0.74
Expected volatility (%)	48.29-48.93	48.29-48.93
Risk-free interest rate (%)	1.42-1.58	1.42-1.58

Details of the valuation for the Share Options granted during the six months ended 30 June 2020 are set out in note 28 to these interim condensed consolidated financial statements of this interim report.

The value of a Share Option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of a Share Option.

### Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) is to give the Directors senior management, employees and business partners of the Company an opportunity to have a personal stake in the Company and help motivate the Directors, senior management, employees and business partners to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme (the “**Pre-IPO Share Options**”) is HKD2.53;

## SHARE OPTION SCHEMES (CONTINUED)

### Pre-IPO Share Option Scheme (continued)

(b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 7 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the “Listing Date”);

(c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the third anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fourth anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fifth anniversary of the Listing Date	40% of the total numbers of options granted

(d) there is a 6-year exercise period for each option granted under the Pre-IPO Share Option Scheme.

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HKD1.00 paid by each grantee. During the six months ended 30 June 2020, 4 participants was no longer eligible for the Pre-IPO Share Options due to their failure to meet performance target or retirement or expiry of the exercise period, and as a result, a total of 35,552 Pre-IPO Share Options lapsed. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2020 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options			Outstanding as at 30 June 2020
	Outstanding as at 1 January 2020	Exercised during the six months ended 30 June 2020	Lapsed during the six months ended 30 June 2020	
Senior management members	60,627	(14,940)	(5,552)	40,135
Other employees	181,934	(157,467)	–	24,467
Business partners	60,000	–	(30,000)	30,000
<b>Total</b>	<b>302,561</b>	<b>(172,407)</b>	<b>(35,552)</b>	<b>94,602</b>

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2020.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 94,602, representing approximately 0.015% of the Company’s issued share capital as at 30 June 2020.

## 2013 SHARE AWARD SCHEME

The Board adopted a 2013 share award scheme (the “**2013 Share Award Scheme**”) on 29 November 2013, which was further amended on 14 May 2015. The purposes of the 2013 Share Award Scheme are to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Share Award Scheme (the “**Selected Participant**”) or a group of Selected Participants for participation in the 2013 Share Award Scheme. Subject to the limit on the size of the 2013 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares which it wishes to be the subject of an award under the 2013 Share Award Scheme, or (b) instruct the trustee to allocate Returned Shares (as defined below) as awarded shares to any Selected Participant(s).

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders’ approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the Board shall pay (or cause to be paid) sufficient funds to the trustee (or as it shall direct) from the Group’s resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the funds from the Company, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the Board from time to time but in any event no later than 40 business days before the vesting of the relevant awarded shares.

Such awarded shares shall then be held by the trustee for the Selected Participants in accordance with the provisions of the 2013 Share Award Scheme prior to vesting. The trustee shall not exercise any voting right attached in respect of any awarded shares held in trust by it under the 2013 Share Award Scheme (including but not limited to the awarded shares and any bonus shares and script shares derived from them).

Where awarded shares (the “**Returned Shares**”), which are referable to a Selected Participant, do not vest in accordance with the specified procedures, then the trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Participants in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme would represent in excess of 1.5% of the issued share capital of the Company as at the adoption date of the same. No sum of money shall be set aside and no awarded shares shall be subscribed pursuant to the 2013 Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a subscription, if, as a result of such subscription, the number of awarded shares administered under the 2013 Share Award Scheme would represent in excess of 1% of the issued share capital of the Company as at the adoption date of the same, provided that awarded shares which have been transferred to Selected Participants upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

The maximum number of awarded shares which may be subject to award(s) to a single Selected Participant at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date of the 2013 Share Award Scheme.

Subject to any early termination as may be determined by the Board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date of the same.

## 2013 SHARE AWARD SCHEME (CONTINUED)

Details of the 2013 Share Award Scheme are set out in the Company's announcements dated 29 November 2013 and 14 May 2015.

During the six months ended 30 June 2020, the Board did not grant any awarded shares to Selected Participants under the 2013 Share Award Scheme.

There is no outstanding unvested awarded shares granted under the 2013 Share Award Scheme.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2020, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company (Note 4)
Luo Fei	Beneficial owner	Long position	1,185,196 (Note 1)	0.18%
	Beneficial owner	Long position	616,253 (Note 2)	0.10%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 (Note 3)	67.07%
Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	Beneficial owner	Long position	658,941 (Note 1)	0.10%
	Beneficial owner	Long position	2,583,649 (Note 2)	0.40%
Wang Yidong	Beneficial owner	Long position	164,164 (Note 1)	0.03%
	Beneficial owner	Long position	1,282,600 (Note 2)	0.20%
Luo Yun	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 (Note 3)	67.07%
Tan Wee Seng	Beneficial owner	Long position	60,000 (Note 1)	0.01%
	Beneficial owner	Long position	300,000 (Note 2)	0.05%
Wang Can	Beneficial owner	Long position	100,000 (Note 2)	0.02%
Lok Lau Yin Ching	Beneficial owner	Long position	100,000 (Note 2)	0.02%

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY (CONTINUED)

Note 1: These are directly held ordinary shares of the Company.

Note 2: These are the shares subject to the exercise of the Share Options granted by the Company under the 2010 Share Option Scheme. Details of the Company's 2010 Share Option Scheme are set out in the section headed "Share Option Schemes – 2010 Share Option Scheme" above.

Note 3: As at 30 June 2020, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

Note 4: As at 30 June 2020, the total number of the issued shares of the Company was 644,137,534.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2020.

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2020, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding (Note 2)
Biostime Pharmaceuticals (China) Limited (Note 1)	Beneficial owner	Long position	432,000,000	67.07%
Flying Company Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	67.07%
Sailing Group Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	67.07%
Coliving Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	67.07%
UBS Trustees (BVI) Limited (Note 1)	Trustee	Long position	432,000,000	67.07%



## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Note 1: As at 30 June 2020, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at 30 June 2020, the total number of the issued shares of the Company was 644,137,534.

Save as mentioned above, as at 30 June 2020, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## CHANGES IN INFORMATION OF DIRECTORS

Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive Directors of the Company with effect from 24 March 2020.

Dr. Ngai Wai Fung and Professor Xiao Baichun retired from office as independent non-executive Directors of the Company immediately after the conclusion of the AGM held on 8 May 2020.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS

References are made to the announcements issued by the Company on 21 June 2018 and 13 September 2018, regarding the entering into of a facility agreement (the “**2018 Facility Agreement**”) among Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrower, the Company and certain subsidiaries as guarantors, and affiliates of The Goldman Sachs Group, Inc., as amended by an amendment agreement (the “**Amendment Agreement**”) entered into on 13 September 2018, to provide for a senior secured US dollar term loan facility and a senior secured Australian dollar term loan facility (the “**Refinancing Term Loan Facilities**”) in an aggregate amount of up to USD400.0 million and a senior secured multi-currency revolving credit facility (the “**Revolving Credit Facility**”) in an aggregate amount of up to USD50.0 million. Pursuant to the 2018 Facility Agreement as amended by the Amendment Agreement, if Mr. Luo Fei, Mr. Luo Yun and the family members of each of them (collectively) cease to (i) hold (directly or indirectly) beneficially 23% or more of the issued voting share capital of the Company, or (ii) be the persons who hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, the Refinancing Term Loan Facilities and the Revolving Credit Facility will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rules 13.21 and 13.18 of the Listing Rules.

## INTERIM DIVIDEND

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.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of Health and Happiness (H&H) International Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 35 to 80, which comprise the interim condensed consolidated statement of financial position as at 30 June 2020, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “*Interim Financial Reporting*” (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”).

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

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## CONCLUSION

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

*Ernst & Young*  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

25 August 2020

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>REVENUE</b>	5	<b>5,167,225</b>	5,095,265
Cost of sales		<b>(1,736,792)</b>	(1,671,963)
Gross profit		<b>3,430,433</b>	3,423,302
Other income and gains	5	<b>134,058</b>	126,835
Selling and distribution costs		<b>(2,066,521)</b>	(1,971,557)
Administrative expenses		<b>(284,285)</b>	(299,379)
Other expenses		<b>(72,562)</b>	(94,677)
Finance costs	6	<b>(150,124)</b>	(185,601)
Share of profit of an associate		<b>5,134</b>	2,627
<b>PROFIT BEFORE TAX</b>	7	<b>996,133</b>	1,001,550
Income tax expense	8	<b>(278,128)</b>	(288,472)
<b>PROFIT FOR THE PERIOD</b>		<b>718,005</b>	713,078
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
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	23	<b>(17,419)</b>	(32,342)
Reclassification adjustments for losses included in profit or loss		<b>(36,753)</b>	(8,109)
Income tax effect		<b>22,405</b>	12,135
Exchange realignment		<b>-</b>	(168)
		<b>(31,767)</b>	(28,484)
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	23	<b>53,553</b>	4,809
Exchange differences on translation of foreign operations		<b>(71,310)</b>	(90,392)
Exchange differences on net investment in foreign operations		<b>(3,400)</b>	(2,713)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		<b>(52,924)</b>	(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		<b>66,472</b>	-
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>		<b>13,548</b>	(116,780)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>731,553</b>	596,298
Profit attributable to owners of the parent		<b>718,005</b>	713,078
Total comprehensive income attributable to owners of the parent		<b>731,553</b>	596,298
		<b>RMB</b>	<b>RMB</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
	10		
Basic		<b>1.12</b>	1.11
Diluted		<b>1.11</b>	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)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	451,180	472,981
Right-of-use assets	12(a)	181,644	205,937
Goodwill	13	5,446,832	5,467,488
Intangible assets	14	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	26	523,688	407,081
Derivative financial instruments	23	93,845	51,105
Other non-current financial assets	15	240,273	129,569
<b>Total non-current assets</b>		<b>10,809,879</b>	<b>10,663,772</b>
<b>CURRENT ASSETS</b>			
Inventories	16	2,000,622	1,550,350
Trade and bills receivables	17	661,880	1,106,815
Prepayments, other receivables and other assets	18	287,334	307,859
Loans receivable		5,472	5,306
Derivative financial instruments	23	26,133	1,058
Pledged deposits	19	8,262	8,878
Cash and cash equivalents	19	3,404,225	2,217,335
<b>Total current assets</b>		<b>6,393,928</b>	<b>5,197,601</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	20	958,927	837,752
Other payables and accruals	21	1,787,293	1,958,610
Contract liabilities	22	178,607	134,614
Lease liabilities	12(b)	32,001	47,426
Derivative financial instruments	23	987	–
Senior notes	25	21,521	21,533
Tax payable		270,315	203,115
Dividend payables		499,914	–
<b>Total current liabilities</b>		<b>3,749,565</b>	<b>3,203,050</b>
<b>NET CURRENT ASSETS</b>		<b>2,644,363</b>	<b>1,994,551</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,454,242</b>	<b>12,658,323</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Senior notes	25	2,133,332	2,103,246
Interest-bearing bank loans	24	4,325,013	3,751,563
Other payables and accruals	21	4,634	7,217
Lease liabilities	12(b)	106,458	114,928
Derivative financial instruments	23	90,617	121,329
Deferred tax liabilities	26	919,274	966,234
<b>Total non-current liabilities</b>		<b>7,579,328</b>	<b>7,064,517</b>
<b>Net assets</b>		<b>5,874,914</b>	<b>5,593,806</b>
<b>EQUITY</b>			
Issued capital	27	5,507	5,500
Other reserves		5,510,405	5,085,781
Proposed dividend		359,002	502,525
<b>Total equity</b>		<b>5,874,914</b>	<b>5,593,806</b>

**Luo Fei**  
Director

**Wang Yidong**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2020

Notes	Issued capital RMB'000	Shares premium account RMB'000	Share held for the				Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
			Shares for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000								
At 31 December 2019 (Audited)	5,500	653,039*	(3,397)*	26,992*	95*	382,651*	125,093*	(214,731)*	(1,217,025)*	(53,307)*	(12,183)*	5,398,554*	502,525	5,599,806
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	718,005	-	718,005
Other comprehensive income/(loss) for the period:														
Changes in fair value of equity investment designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	66,472	-	-	-	66,472
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	(31,767)	-	-	-	-	(31,767)
Hedge of net investments	-	-	-	-	-	-	-	53,553	-	-	-	-	-	53,553
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(71,310)	-	-	-	-	-	(71,310)
Exchange differences on net investment in foreign operations	-	-	-	-	-	-	-	(3,400)	-	-	-	-	-	(3,400)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	(21,157)	-	(31,767)	66,472	718,005	-	731,553
Equity-settled share option arrangements	7	20,139	-	-	-	-	28,078	-	-	-	-	-	-	48,224
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	-	-	-	(109)	-	-	-	-	109	-	-
Disposal of shares held for Share Award Schemes (as defined in note 29)	-	-	3,396	-	-	-	-	-	-	-	-	(985)	-	2,411
Final 2019 dividend declared	-	-	-	-	-	-	-	-	-	-	-	1,445	(502,525)	(500,080)
Interim 2020 dividend	-	-	-	-	-	-	-	-	-	-	-	(359,002)	359,002	-
At 30 June 2020 (Unaudited)	5,507	673,178*	(1)*	26,992*	95*	382,651*	153,062*	(235,888)*	(1,217,025)*	(85,074)*	54,289*	5,738,726*	359,002	5,874,914

\* These reserve accounts comprise the consolidated other reserves of RMB5,510,405,000 (31 December 2019: RMB5,085,781,000) in these interim condensed consolidated statement of financial position as at 30 June 2020.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2020

	Notes	Issued capital RMB'000	Shares premium account RMB'000	Share for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
At 31 December 2018 (Audited)		5,473	589,662	(13,081)	26,992	95	382,651	86,595	25,688	(167,295)	(1,217,025)	(12,403)	4,877,609	264,586	4,849,547
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	713,078	-	713,078
Other comprehensive income/(loss) for the period:															
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	(28,484)	-	-	(28,484)
Hedge of net investments	23	-	-	-	-	-	-	-	-	4,809	-	-	-	-	4,809
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(90,392)	-	-	-	-	(90,392)
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	-	-	(2,713)	-	-	-	-	(2,713)
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	-	-	(88,296)	-	(28,484)	713,078	-	596,298
Equity-settled share option arrangements		13	33,586	-	-	-	-	19,610	-	-	-	-	-	-	53,209
Equity-settled share award schemes		-	-	9,684	-	-	-	-	(25,688)	-	-	-	19,862	-	3,858
Final 2018 dividend declared		-	-	-	-	-	-	-	-	-	-	-	(1,512)	(264,586)	(266,098)
At 30 June 2019 (Unaudited)		5,486	623,248	(3,397)	26,992	95	382,651	106,205	-	(255,591)	(1,217,025)	(40,887)	5,609,037	-	5,236,814

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>996,133</b>	1,001,550
Adjustments for:			
Bank interest income	5	<b>(7,302)</b>	(6,631)
Interest income from loans and bonds receivables	5	<b>(4,816)</b>	(4,922)
Other investment income	5	<b>(714)</b>	–
Finance costs	6	<b>150,124</b>	185,601
Share of profit of an associate		<b>(5,134)</b>	(2,627)
Depreciation	7	<b>43,257</b>	38,053
Depreciation of right-of-use assets	7	<b>26,432</b>	23,177
Amortisation of intangible assets	7	<b>63,925</b>	61,767
Loss on disposal of items of property, plant and equipment	7	<b>38</b>	109
Equity-settled share option expense	7	<b>32,654</b>	27,322
Equity-settled share award expense	7	<b>–</b>	3,858
Fair value gains on derivative financial instruments, net	7	<b>(48,848)</b>	(45,544)
Fair value gains on financial assets	7	<b>(277)</b>	(427)
Impairment of trade receivables	7	<b>3,726</b>	1,340
Write-down of inventories to net realisable value	7	<b>36,504</b>	31,793
Foreign exchange differences, net	7	<b>(31,046)</b>	(58,145)
		<b>1,254,656</b>	1,256,274
Increase in inventories		<b>(480,951)</b>	(262,547)
Decrease/(increase) in trade and bills receivables		<b>415,144</b>	(64,582)
Decrease/(increase) in prepayments, other receivables and other assets		<b>7,175</b>	(18,526)
Increase in rental deposits		<b>(78)</b>	(2,070)
Increase in trade and bills payables		<b>122,931</b>	153,515
Decrease in other payables and accruals		<b>(156,562)</b>	(149,202)
Increase in contract liabilities		<b>41,939</b>	47,100
Cash generated from operations		<b>1,204,254</b>	959,962
Corporate income tax paid		<b>(346,024)</b>	(512,551)
Net cash flows from operating activities		<b>858,230</b>	447,411

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(22,271)	(67,823)
Proceeds from disposal of items of property, plant and equipment and intangible assets		443	1,767
Additions to intangible assets		(10,903)	(9,639)
Addition to other financial assets		(44,173)	(23,976)
Addition to investment to a short-term financial instrument		(355,057)	–
Proceeds from disposal of a short-term financial instrument		354,783	–
Acquisition of subsidiaries		–	(12,574)
Repayment of loans receivable		–	4,758
Interest received		6,853	6,681
Subscription of bonds receivable		–	(78,473)
Net cash flows used in investing activities		(70,325)	(179,279)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares upon exercise of share options	27	15,570	25,887
New bank loans		936,401	78,521
Repayment of bank loans		(412,417)	–
Payment of lease liabilities	12(b)	(30,298)	(25,604)
Decrease in restricted deposits	19	616	5,142
Interest paid		(120,748)	(177,253)
Payment for certain CCSs (as defined in note 23)	23	(12,069)	(28,397)
Proceeds from disposal of shares held for Share Award Schemes	29	2,411	–
Net cash flows from/(used in) financing activities		379,466	(121,704)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of the period		2,217,335	1,912,394
Effect of foreign exchange rate changes, net		19,519	(1,101)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>			
		3,404,225	2,057,721
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	19	3,404,225	2,057,721

# 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	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IAS 1 and IAS 8	<i>Definition of Material</i>

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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

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
<b>Segment revenue:</b>						
Sales to external customers	2,338,258	856,131	1,640,161	332,675	–	5,167,225
<b>Segment results</b>	1,489,081	672,646	1,098,180	170,526	–	3,430,433
<i>Reconciliations:</i>						
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
<b>Other segment information:</b>						
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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

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
<b>Segment revenue:</b>						
Sales to external customers	2,401,324	588,748	1,833,914	271,279	–	5,095,265
<b>Segment results</b>	1,601,764	447,529	1,225,365	148,644	–	3,423,302
<i>Reconciliations:</i>						
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
<b>Other segment information:</b>						
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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### 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 <sup>#</sup>	310,953	332,559
	<b>5,167,225</b>	<b>5,095,265</b>

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

#### (b) Non-current assets

	30 June	31 December
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Audited)
Mainland China	536,474	570,218
Australia and New Zealand	2,663,471	2,721,681
Other locations <sup>#</sup>	1,086,551	1,101,883
	<b>4,286,496</b>	<b>4,393,782</b>

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

<sup>#</sup> Including the Hong Kong Special Administrative Region ("Hong Kong SAR") of the People's Republic of China (the "PRC").



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 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
<b>Geographical markets</b>					
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
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time	2,338,258	856,131	1,640,161	332,675	5,167,225

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### Revenue (continued)

#### Disaggregated revenue information (continued)

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
<b>Geographical markets</b>					
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
<b>Total</b>	<b>2,401,324</b>	<b>588,748</b>	<b>1,833,914</b>	<b>271,279</b>	<b>5,095,265</b>
<b>Timing of revenue recognition</b>					
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
	<b>134,058</b>	<b>126,835</b>

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 6. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on bank loans and senior notes	125,305	181,137
Interest expense on lease liabilities (note 12(b))	4,309	4,464
Amortised loss of interest rate hedge in relation to previous term loan	20,510	–
	<b>150,124</b>	<b>185,601</b>

## 7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of inventories sold		1,700,288	1,640,170
Depreciation of property, plant and equipment	11	43,257	38,053
Depreciation of right-of-use assets	12(a)	26,432	23,177
Amortisation of intangible assets	14	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	28	32,654	27,322
Equity-settled share award expense		–	3,858
		<b>682,137</b>	<b>701,226</b>
Foreign exchange differences, net*	5	(31,046)	(58,145)
Fair value gains on derivative financial instruments, net*	5	(48,848)	(45,544)
Fair value gains on financial assets*	5	(277)	(427)
Impairment of trade receivables**	17	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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 8. 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 (note 26)	(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 2,000,000 in Hong Kong dollars (“**HKD**”) (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%.

## 8. INCOME TAX EXPENSE (CONTINUED)

### 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 entities.

### 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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 9. DIVIDENDS

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

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).

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

The calculation of the basic earnings per share amount is based on the profit 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)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<b>718,005</b>	713,078
		<b>Number of shares</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue	<b>643,842,884</b>	640,979,549
Weighted average number of shares held for the share award schemes	<b>(233,064)</b>	(835,337)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<b>643,609,820</b>	640,144,212
Effect of dilution – weighted average number of ordinary shares:		
Share options and awarded shares	<b>3,009,391</b>	8,899,281
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<b>646,619,211</b>	649,043,493

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB22,448,000 (six months ended 30 June 2019: RMB51,282,000). During the Period, depreciation of RMB43,257,000 (six months ended 30 June 2019: RMB38,053,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB481,000 (six months ended 30 June 2019: RMB1,876,000) were disposed of by the Group. Besides, exchange realignment with an amount of RMB511,000 (negative) was recognised in the Period (six months ended 30 June 2019: RMB142,000).

## 12. LEASE

### (a) Right-of-use assets

The Group has lease contracts for various items of land, office buildings, vehicles and office equipment. During the Period, the Group recognised the right-of-use assets, with an aggregate cost of RMB2,689,000 (six months ended 30 June 2019: RMB22,487,000). During the Period, depreciation of RMB26,432,000 (six months ended 30 June 2019: RMB23,177,000) was charged. Besides, exchange realignment with an amount of RMB550,000 (negative) was recognised in the Period (six months ended 30 June 2019: RMB264,000 (negative)).

### (b) Lease liabilities

During the Period, the Group recognised the new lease liabilities of RMB2,689,000 (six months ended 30 June 2019: RMB22,487,000) and interest expense of RMB4,309,000 (six months ended 30 June 2019: RMB4,464,000) was charged. During the Period, the Group paid for the lease liabilities of RMB30,298,000 (six months ended 30 June 2019: RMB25,604,000). Besides, exchange realignment with an amount of RMB595,000 (negative) was recognised in the Period (six months ended 30 June 2019: RMB298,000 (negative)).

## 13. GOODWILL

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>Cost and carrying amount:</b>		
At 1 January	5,467,488	5,295,242
Acquisition of subsidiaries	–	105,270
Exchange realignment	(20,656)	66,976
At end of the Period/year	5,446,832	5,467,488

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 14. INTANGIBLE ASSETS

During the Period, the Group acquired intangible assets with an aggregate cost of RMB12,155,000 (six months ended 30 June 2019: RMB89,681,000). During the Period, amortisation of RMB63,925,000 (six months ended 30 June 2019: RMB61,767,000) was charged by the Group, and no intangible asset (six months ended 30 June 2019: nil) was disposed of by the Group. Besides, exchange realignment with an amount of RMB13,301,000 (negative) was recognised in the Period (six months ended 30 June 2019: RMB5,603,000 (negative)).

## 15. OTHER NON-CURRENT FINANCIAL ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial assets at fair value through profit or loss		
– Unlisted equity investments	58,705	44,591
– Other unlisted investments	64,517	63,223
Equity investments designed at fair value through other comprehensive income		
– Listed equity investment in BOD Australia Limited	20,146	21,755
– Listed equity investment in Else Nutrition Holdings Limited (“Else”)	96,905	–
	<b>240,273</b>	129,569

The above unlisted equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The above unlisted investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The above listed equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers the investments to be strategic in nature.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 16. INVENTORIES

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Raw materials	655,890	437,922
Goods in transit	417,021	282,902
Work in progress	184	1,981
Finished goods	927,527	827,545
	<b>2,000,622</b>	1,550,350

## 17. TRADE AND BILLS RECEIVABLES

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Trade receivables	562,220	1,013,533
Bills receivable	111,019	100,706
	<b>673,239</b>	1,114,239
Less: Impairment provision	<b>(11,359)</b>	(7,424)
	<b>661,880</b>	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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 17. TRADE AND BILLS RECEIVABLES (CONTINUED)

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:

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

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

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

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayments	127,020	106,268
Deposits	1,489	2,010
Other receivables	107,865	153,162
Prepaid expenses	47,214	45,056
Right-of-return assets	3,746	1,363
	<b>287,334</b>	<b>307,859</b>

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 30 June 2020 and 31 December 2019, the loss allowance was assessed to be minimal.

## 19. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Cash and bank balances	3,403,433	2,216,540
Time deposits	792	795
Pledged deposits	8,262	8,878
	<b>3,412,487</b>	<b>2,226,213</b>
Less:		
Restricted deposits for an operating lease	(4,331)	(4,012)
Restricted deposits for bills issued	(3,931)	(4,866)
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	<b>3,404,225</b>	<b>2,217,335</b>
Denominated in RMB (note)	1,747,854	1,279,611
Denominated in other currencies	1,664,633	946,602
	<b>3,412,487</b>	<b>2,226,213</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 19. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (CONTINUED)

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between three month and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with original maturity over one year when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

## 20. 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
	<b>958,927</b>	<b>837,752</b>

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
	<b>958,927</b>	<b>837,752</b>

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.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 21. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Salaries and welfare payables		172,489	266,905
Accruals		738,738	731,147
Other tax payables		116,679	170,014
Other payables	(a)	99,277	96,479
Refund liabilities	(b)	664,744	701,282
		<b>1,791,927</b>	1,965,827
Less: Current portion		<b>(1,787,293)</b>	(1,958,610)
Non-current portion		<b>4,634</b>	7,217

Notes:

- (a) Other payables are non-interest-bearing and have an average term of three months.
- (b) Details of refund liabilities as at 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Sales rebate	647,570	689,462
Sales return	17,174	11,820
	<b>664,744</b>	701,282

## 22. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Advances from customers	72,210	39,474
Customer loyalty points	106,397	95,140
	<b>178,607</b>	134,614

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. Included in contract liabilities are advances received from customers and the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the reporting period.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 23. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2020		31 December 2019	
		Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
<b>Current</b>					
Forward currency contracts	(a)	12,849	987	1,058	–
Warrants	(b)	13,284	–	–	–
		<b>26,133</b>	<b>987</b>	1,058	–
<b>Non-current</b>					
Early redemption option embedded in the senior notes	(c)	44,356	–	51,105	–
The CCIRs (as defined below)	(d)	–	80,318	–	62,296
The CCSs (as defined below)					
– designated as hedge	(e)	38,102	10,299	–	43,859
– not designated as hedge	(e)	11,387	–	–	15,174
		<b>93,845</b>	<b>90,617</b>	51,105	121,329

Notes:

- (a) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The net fair value of the forward currency contracts as at 30 June 2020 was RMB11,862,000 (31 December 2019: RMB1,058,000). A net gain of RMB10,912,000 was recognised in profit or loss during the Period (six months ended 30 June 2019: RMB984,000).
- (b) In the Period, the Group was granted several warrants entitling the Group to acquire, subject to adjustment, one common share in the capital of Else for each warrant. The fair value of the warrants as at 30 June 2020 was RMB13,284,000 (31 December 2019: nil). A fair value gain of RMB12,049,000 was recognised in profit or loss for the Period (six months ended 30 June 2019: nil).
- (c) An early redemption option is embedded in the senior notes, details of which are set out in note 25 to these interim condensed consolidated financial statements. The fair value of the early redemption option as at 30 June 2020 was RMB44,356,000 (31 December 2019: RMB51,105,000). A fair value loss of RMB7,691,000 was charged to profit or loss for the Period (six months ended 30 June 2019: a gain of RMB47,983,000).
- (d) Cash flow hedges

As at 30 June 2020 and 31 December 2019, a subsidiary of the Group, whose functional currency is Australian dollars (“AUD”) had certain cross currency interest rate swap agreements (the “CCIRs”) to hedge its exposure arising from bank borrowings carried at floating rates and denominated in United States dollars (“USD”). Under the CCIRs, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the CCIRs match the term of the USD bank borrowings. The cash flow hedge relating to the expected interest and principal payments was assessed to be highly effective. The fair value of the CCIRs as at 30 June 2020 was RMB80,318,000 (31 December 2019: RMB62,296,000). A loss of RMB17,419,000 (six months ended 30 June 2019: RMB32,342,000) was included in the hedging reserve and a gain of the ineffective portion of RMB89,000 was recognised in profit or loss for the Period (six months ended 30 June 2019: a loss of RMB4,227,000).

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(e) Hedges of net investments in foreign operations

As at 30 June 2020 and 31 December 2019, the Company had certain cross currency swap and cross currency interest rate swap agreements (collectively, the “CCSs”) to hedge its exposure of foreign currency risks arising from its investment in Mainland China and Australia. Under the CCSs, the Company agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and fixed or floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

For the CCSs designated as hedging instruments, there is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the CCSs. The Company has established a hedge ration of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investments in the foreign subsidiaries becomes lower than the amount of the CCSs.

During the Period, in respect of the CCSs designated as hedging instruments, a net gain of RMB53,553,000 (six months ended 30 June 2019: RMB4,809,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net gain of RMB10,427,000 (six months ended 30 June 2019: nil) was recognised in profit or loss. For the CCSs not designated as hedging instruments, a net gain of RMB23,062,000 (six months ended 30 June 2019: RMB804,000) was recognised in profit or loss for the Period. During the Period, the Company has paid net cash of RMB12,069,000 (six month ended 30 June 2019: RMB28,397,000) in respective of those CCSs.

## 24. INTEREST-BEARING BANK LOANS

	30 June 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
<b>Non-current</b>						
Secured bank loan	BBSY + margin	Nov-2022	59,213	BBSY + margin	Nov-2022	55,240
Secured bank loan	Libor + margin	Nov-2022	589,539	Libor + margin	Nov-2022	507,495
Secured bank loan	BBSY + margin	May-2023	59,213	BBSY + margin	May-2023	55,240
Secured bank loan	Libor + margin	May-2023	589,539	Libor + margin	May-2023	507,495
Secured bank loan	BBSY + margin	Nov-2023	276,327	BBSY + margin	Nov-2023	257,787
Secured bank loan	Libor + margin	Nov-2023	2,751,182	Libor + margin	Nov-2023	2,368,306
			<b>4,325,013</b>			<b>3,751,563</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 24. INTEREST-BEARING BANK LOANS (CONTINUED)

Analysed into:

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Bank loans repayable		
within one year or on demand	–	–
in the second year	–	–
in the third to fifth years, inclusive	<b>4,325,013</b>	3,751,563
	<b>4,325,013</b>	3,751,563

BBSY stands for the Australian Bank Bill Swap Bid Rate.

Libor stands for the London InterBank offered Rate.

Notes:

- (a) As at 30 June 2020 and 31 December 2019, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges (in respect of Health and Happiness (H&H) Hong Kong Limited, a floating charge only) over present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.
- (b) As at 30 June 2020, the Group's bank loans were denominated in USD and AUD at aggregate amounts of RMB3,930,260,000 (31 December 2019: RMB3,383,296,000) and RMB394,753,000 (31 December 2019: RMB368,267,000) respectively.



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 25. SENIOR NOTES

On 24 October 2019, the Company issued senior notes due 24 October 2024 with an aggregate principal amount of USD300,000,000 (the “**Senior Notes**”), which are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The coupon interest rate of the Senior Notes is 5.625% per annum and interest is paid semi-annually. The Company used the net proceeds of the Senior Notes to redeem a portion of the senior notes issued on 21 June 2016 and 23 January 2017 (the “**Original Senior Notes**”).

The Senior Notes is secured by a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries) on a second-ranking basis. Besides, they are jointly and severally guaranteed on a senior subordinated basis by certain subsidiaries.

Pursuant to the terms of the Senior Notes, on or after 24 October 2021, the Company may on any one or more occasions redeem all or any part of the Senior Notes, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on 24 October of the years indicated below (subject to the rights of holders of Senior Notes on the relevant record date to receive interest on the relevant interest payment date).

Period	Redemption price
2021	102.81250%
2022	101.40625%
2023 and thereafter	100.00000%

The Company may at its option redeem the Senior Notes, in whole but not in part, at any time prior to 24 October 2021, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 25. SENIOR NOTES (CONTINUED)

At any time and from time to time prior to 24 October 2021, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in one or more equity offerings at a redemption price of 105.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date; provided that at least 60% of the aggregate principal amount of the Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

As at 30 June 2020, the fair value of the early redemption option embedded in the Senior Notes amounted to RMB44,356,000 (31 December 2019: RMB51,105,000), details of which are set out in note 23(c) to these interim condensed consolidated financial statements.

The Senior Notes is subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

The movements of the senior notes during the Period and the year ended 31 December 2019 are set out below:

	RMB'000
At 1 January 2019 (Audited)	3,274,686
Redemption of the Original Senior Notes	(3,404,959)
Premium paid for early redemption of the Original Senior Notes	56,212
Upon the completion of the issuance of the Senior Notes	
Proceeds received	2,121,810
Transaction cost incurred	(23,609)
Redemption option embedded in the Senior Notes	34,189
Interest charged during the year	222,472
Interest paid during the year	(213,571)
Exchange realignment	57,549
At 31 December 2019 and 1 January 2020 (Audited)	2,124,779
Interest charged during the Period	57,842
Interest paid during the Period	(59,179)
Exchange realignment	31,411
At 30 June 2020 (Unaudited)	2,154,853
Less: current portion	(21,521)
Non-current portion	2,133,332

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period and the year ended 31 December 2019 are as follows:

### Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Tax losses recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020 (Audited)	7,796	277,527	34,891	65,338	-	21,529	407,081
(Charged)/credited to profit or loss for the Period (note 8)	(707)	75,160	9,657	16,791	10,289	(17,732)	93,458
Credited to equity for the Period	-	-	-	-	22,405	-	22,405
Exchange realignment	-	(1,319)	-	1,345	1,751	(1,033)	744
At 30 June 2020 (Unaudited)	7,089	351,368	44,548	83,474	34,445	2,764	523,688
At 1 January 2019 (Audited)	8,932	251,558	36,539	32,605	-	32,925	362,559
(Charged)/credited to profit or loss for the year	(1,136)	24,908	(1,647)	32,386	-	(11,586)	42,925
Exchange realignment	-	1,061	(1)	347	-	190	1,597
At 31 December 2019 (Audited)	7,796	277,527	34,891	65,338	-	21,529	407,081

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 26. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020 (Audited)	228	79,685	855,921	19,558	10,842	966,234
Credited to profit or loss for the Period (note 8)	(215)	(20,729) <sup>#</sup>	(14,925)	(6,153)	(2,275)	(44,297)
Exchange realignment	(13)	(47)	(1,995)	(404)	(204)	(2,663)
At 30 June 2020 (Unaudited)	–	58,909	839,001	13,001	8,363	919,274
At 1 January 2019 (Audited)	242	107,669	859,282	17,579	3,526	988,298
(Credited)/charged to profit or loss for the year	(17)	(27,981) <sup>#</sup>	(28,171)	11,952	7,182	(37,035)
Acquisition of subsidiaries	–	–	14,841	–	–	14,841
Charged to equity for the year	–	–	–	(10,221)	–	(10,221)
Exchange realignment	3	(3)	9,969	248	134	10,351
At 31 December 2019 (Audited)	228	79,685	855,921	19,558	10,842	966,234

<sup>#</sup> The amount represented a deferred tax provision of RMB23,061,000 (year ended 31 December 2019: RMB45,065,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB43,790,000 (year ended 31 December 2019: RMB73,046,000) arising from dividends declared by these subsidiaries to their foreign investors during the Period.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 27. SHARE CAPITAL

### Shares

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Authorised:		
10,000,000,000 (31 December 2019: 10,000,000,000) ordinary shares of HKD0.01 each	HKD100,000,000	HKD100,000,000
Issued and fully paid:		
644,137,534 (31 December 2019: 643,325,824) ordinary shares of HKD0.01 each	HKD6,441,375	HKD6,433,258
Equivalent to	RMB5,507,000	RMB5,500,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HKD'000	Equivalent to RMB'000
At 1 January 2019 (Audited)	640,310,819	6,403	5,473
Share options exercised (note (a))	3,015,005	30	27
At 31 December 2019 and 1 January 2020 (Audited)	643,325,824	6,433	5,500
Share options exercised (note (b))	811,710	8	7
At 30 June 2020 (Unaudited)	644,137,534	6,441	5,507

Notes:

- (a) During the year ended 31 December 2019, the subscription rights attaching to 3,015,005 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 3,015,005 ordinary shares for a total cash consideration, before expenses, of HKD48,184,000 (equivalent to approximately RMB48,306,000).
- (b) During the Period, the subscription rights attaching to 811,710 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 811,710 ordinary shares for a total cash consideration, before expenses, of HKD11,259,000 (equivalent to RMB15,570,000).

### Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 28 to these interim condensed consolidated financial statements.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 28. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) on 12 July 2010 and a share option scheme (the “**Share Option Scheme**”) on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

The Pre-IPO Share Option Scheme will expire on 17 December 2020 and the Share Option Scheme will expire after 24 November 2020. Pursuant to the resolution of the annual general meeting of the Company held on 8 May 2020, a new share option scheme (the “**New Share Option Scheme**”) has been adopted and in effect, and the Share Option Scheme was terminated upon the New Share Option Scheme becoming unconditional. Thereafter, no further options shall be offered under the Share Option Scheme but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted thereunder prior to such termination shall continue to be valid and exercisable in accordance with their terms of issue.

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HKD2.53. In respect of the Share Option Scheme, the exercise price of the share options is determined by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 28. SHARE OPTION SCHEMES (CONTINUED)

### Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices are set out below:

#### Six months ended 30 June 2020

	Pre-IPO Share Option Scheme		Share Option Scheme		Total number of options '000
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2020	2.53	303	31.07	21,894	22,197
Granted during the Period	2.53	-	26.10	705	705
Forfeited during the Period	2.53	(4)	32.28	(1,831)	(1,835)
Expired during the Period	2.53	(31)	22.12	(6)	(37)
Cancelled during the Period	2.53	-	49.15	(150)	(150)
Exercised during the Period	2.53	(172)	16.93	(639)	(811)
At 30 June 2020	2.53	96	31.10	19,973	20,069

#### Six months ended 30 June 2019

	Pre-IPO Share Option Scheme		Share Option Scheme		Total number of options '000
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2019	2.53	709	32.79	25,425	26,134
Granted during the period	2.53	-	49.15	3,085	3,085
Forfeited during the period	2.53	-	38.99	(3,403)	(3,403)
Exercised during the period	2.53	(3)	17.73	(1,474)	(1,477)
At 30 June 2019	2.53	706	34.97	23,633	24,339

The weighted average share prices at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the Period were HKD31.54 per share (six months ended 30 June 2019: HKD46.50 per share) and HKD32.22 per share (six months ended 30 June 2019: HKD46.18 per share), respectively.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 28. SHARE OPTION SCHEMES (CONTINUED)

### Movements in share options (continued)

A total of 811,710 share options were exercised during the Period under the two share option schemes, resulting in the issue of 811,710 ordinary shares of the Company and new share capital of HKD8,000 (equivalent to approximately RMB7,000) and share premium of HKD11,251,000 (equivalent to approximately RMB15,563,000) (before issue expenses). An amount of RMB4,576,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share option reserve of RMB109,000 related to the expired shares that have been vested was transferred to retained profits during the Period (six months ended 30 June 2019: nil).

During the Period, the Group has recognised share option expense related to the two share option schemes of RMB32,654,000 (six months ended 30 June 2019: RMB27,322,000) in total.

### Fair value of the share option

The directors of the Company used Hull-White model to determine the fair value of the share options as at the grant date, which is to be expensed over the relevant vesting period. During the Period, the weighted average fair value of share options granted to directors and other employees are HKD8.71 (equivalent to RMB7.95) and HKD8.67 (equivalent to RMB7.91) per share, respectively (six months ended 30 June 2019: HKD23.04 (equivalent to RMB19.76) and HKD22.44 (equivalent to RMB19.25) per share, respectively).

Other than the exercise price disclosed above, significant judgement on parameters, such as dividend yield, expected volatility and risk-free interest rate, are required to be made by the directors in applying the Hull White model, which are summarised below:

	Six months ended 30 June			
	2020		2019	
	Options granted to directors	Options granted to other employees	Options granted to directors	Options granted to other employees
Dividend yield (%)	3.26	3.26	0.57	0.57
Expected volatility (%)	48.30	48.30	48.93	48.93
Risk-free interest rate (%)	0.83	0.83	1.42	1.42



## 29. SHARE AWARD SCHEMES

### Share Award Scheme

The share award scheme (the “**Share Award Scheme**”) of the Company was adopted by the board of directors on 28 November 2011 and amended by the board of directors on 30 March 2012.

Pursuant to a resolution of the board of directors of the Company held on 31 October 2019, the Share Award Scheme has been terminated with effect on 31 October 2019. Further details of the termination were disclosed in the Company’s announcement dated 31 October 2019. As at 24 March 2020, the trustee disposed the 114,705 shares held for the Share Award Scheme at the average price of HKD25.58 per share, resulting in the cash proceeds of HKD2,934,000 (equivalent to RMB2,411,000). The net loss of RMB985,000 has transferred to retained profits during the Period.

### 2013 Share Award Scheme

The board of directors of the Company has approved the adoption of the 2013 share award scheme (“**2013 Share Award Scheme**”) on 29 November 2013.

For the purpose of satisfying awards granted under 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the board of directors by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders’ approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the board of directors shall pay (or cause to be paid) sufficient funds (the “**Referable Amount**”) to the Trustee (or as it shall direct) from the Group’s resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the Referable Amount, the Trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the Trustee and the board of directors from time to time but in any event no later than 40 business days before the vesting of the relevant Awarded Shares.

There was no outstanding share granted under 2013 Share Award Scheme as at 30 June 2020.

During the Period, no shares were issued for 2013 Share Award Scheme (six months ended 30 June 2019: nil).

The Group recognised no share award expense of during the Period (six months ended 30 June 2019: RMB2,413,000) in relation to 2013 Share Award Scheme.

No shares for the 2013 Share Award Scheme was awarded upon vesting during the Period (six months ended 30 June 2019: RMB7,000). No Share award reserve related to the vested 2013 Awarded Shares was transferred to retained profits during the Period (six months ended 30 June 2019: RMB20,858,000).

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

## 30. RESERVES

The amounts of the Group's reserves and the movements therein for the Period and six months ended 30 June 2019 are presented in the interim condensed consolidated statement of changes in equity on pages 38 and 39.

The Group's contributed surplus represents the excess of the previous nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation over the previous nominal value of the Company's shares issued and cash consideration paid in exchange therefor.

The Group's capital surplus represents 1% of the equity in Biostime Health contributed by Biostime Pharmaceuticals (China) Limited, the ultimate shareholder, during the year ended 31 December 2009 when Biostime Health became a wholly-owned subsidiary of the Group.

In accordance with the Company Law of the People's Republic of China, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

## 31. COMMITMENTS

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	72	789
Property, plant and equipment	24,729	26,662
	<b>24,801</b>	27,451

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 32. RELATED PARTY BALANCES AND TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the Period:

### (a) Related party transactions

The Group purchases finished goods from an associate, amounted to RMB115,714,000 (six months ended 30 June 2019: RMB57,873,000) in the Period. The transactions were conducted in accordance with mutually agreed terms.

### (b) Outstanding balance with a related party

Details of the Group's trade payable balance with its associate as at the end of the reporting period are disclosed in note 20 to these interim condensed consolidated financial statements.

### (c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Fees	2,382	1,020
Short-term employee benefits	31,768	24,493
Pension scheme contributions	381	324
Equity-settled share option expense	21,159	18,417
Equity-settled share award expense	–	2,199
Termination benefits	1,745	–
Total compensation paid to key management personnel	57,435	46,453

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>Financial assets</b>				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	44,356	51,105	44,356	51,105
– Forward currency contracts	12,849	1,058	12,849	1,058
– Warrants	13,284	–	13,284	–
– The CCSs	49,489	–	49,489	–
Other non-current financial assets	240,273	129,569	240,273	129,569
	<b>360,251</b>	<b>181,732</b>	<b>360,251</b>	<b>181,732</b>
<b>Financial liabilities</b>				
Derivative financial instruments				
– Forward currency contracts	(987)	–	(987)	–
– The CCSs	(10,299)	(59,033)	(10,299)	(59,033)
– The CCIRs	(80,318)	(62,296)	(80,318)	(62,296)
Senior notes	(2,154,853)	(2,124,779)	(2,172,104)	(2,158,094)
	<b>(2,246,457)</b>	<b>(2,246,108)</b>	<b>(2,263,708)</b>	<b>(2,279,423)</b>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, loans receivable, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals and lease liabilities (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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

- (a) The fair values of bonds receivable, lease liabilities (non-current), and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and lease liabilities (non-current) and the suppliers' non-performance risk for bonds receivables as at 30 June 2020 were assessed to be insignificant.
- (b) The financial assets at fair value through profit or loss included in the other non-current financial assets are measured using valuation technique of discounted cash flow model using significant unobservable market inputs or the last transaction price method with market observable input.
- (c) The fair values of equity investments designed at fair value through other comprehensive income included in the other non-current financial assets, are based on quoted market prices.
- (d) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market observable input. The carrying amounts of forward currency contracts are the same as their fair values.
- (e) The fair value of warrants is measured using valuation technique of Black-Scholes model using significant observable market input.
- (f) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the CCIRs and the CCSs, are measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRs and the CCSs were the same as their carrying amounts.
- (g) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of Hull-White model using significant unobservable market inputs.
- (h) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets – USD denominated loan receivable	Discounted cash flow model	Discount rate	14.21% to 14.50% (31 December 2019: 15.35% to 15.66%)	1% (31 December 2019: 1%) increase in discount rate would result in decrease in fair value by RMB35,000 (31 December 2019: RMB36,000)
				1% (31 December 2019: 1%) decrease in discount rate would result in increase in fair value by RMB35,000 (31 December 2019: RMB36,000)
Other non-current financial assets – investment in ISM	Discounted cash flow model	Discount rate	3.61% to 3.68% (31 December 2019: 3.61% to 3.68%)	1% (31 December 2019: 1%) increase in discount rate would result in decrease in fair value by RMB64,000 (31 December 2019: RMB63,000)
				1% (31 December 2019: 1%) decrease in discount rate would result in increase in fair value by RMB72,000 (31 December 2019: RMB70,000)
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – receive leg	0.23% to 0.33% (31 December 2019: 1.69% to 1.91%)	1% (31 December 2019: 1%) increase in discount rate would result in decrease in fair value by RMB299,000 (31 December 2019: RMB1,790,000)
				1% (31 December 2019: 1%) decrease in discount rate would result in increase in fair value by RMB299,000 (31 December 2019: RMB2,011,000)

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – pay leg	1.87% to 2.22% (31 December 2019: 2.62% to 2.71%)	<p>1% (31 December 2019: 1%) increase in discount rate would result in increase in fair value by RMB1,818,000 (31 December 2019: RMB2,916,000)</p> <p>1% (31 December 2019: 1%) decrease in discount rate would result in decrease in fair value by RMB1,820,000 (31 December 2019: RMB2,700,000)</p>
Derivative financial instrument – the CCSs (USD/AUD)	Discounted cash flow model	Discount rate – receive leg	0.23% to 0.33% (31 December 2019: 1.69% to 1.91%)	<p>1% (31 December 2019: 1%) increase in discount rate would result in increase in fair value by RMB1,090 (31 December 2019: RMB8,274)</p> <p>1% (31 December 2019: 1%) decrease in discount rate would result in decrease in fair value by RMB1,090 (31 December 2019: RMB8,171)</p>
		Discount rate – pay leg	0.25% to 0.61% (31 December 2019: 1.04% to 1.33%)	<p>1% (31 December 2019: 1%) increase in discount rate would result in increase in fair value by RMB50,423 (31 December 2019: RMB79,194)</p> <p>1% (31 December 2019: 1%) decrease in discount rate would result in decrease in fair value by RMB50,428 (31 December 2019: RMB79,599)</p>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – The CCIRs	Discounted cash flow model	Discount Rate – receive leg	1.96% to 2.00% (31 December 2019: 1.88% to 1.92%)	1% (31 December 2019: 1%) increase in discount rate would result in decrease in fair value by RMB1,284,000 (31 December 2019: RMB1,432,000)
			1% (31 December 2019: 1%) decrease in discount rate would result in increase in fair value by RMB1,122,000 (31 December 2019: RMB1,381,000)	
		Discount Rate – pay leg	2.08% to 2.12% (31 December 2019: 1.21% to 1.23%)	1% (31 December 2019: 1%) increase in discount rate would result in increase in fair value by RMB126,065,000 (31 December 2019: RMB129,138,000)
			1% (31 December 2019: 1%) decrease in discount rate would result in decrease in fair value by RMB130,435,000 (31 December 2019: RMB133,372,000)	
Derivative financial instrument – early redemption option embedded in the senior notes	Hull-White model	Credit spread	4.51% to 4.60% (31 December 2019: 6.00% to 6.13%)	1% (31 December 2019: 1%) increase in credit spread would result in increase in fair value by RMB3,763,000 (31 December 2019: RMB47,120,000)
			1% (31 December 2019: 1%) decrease in credit spread would result in decrease in fair value by RMB3,771,000 (31 December 2019: RMB55,098,000)	



# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
<b>At 30 June 2020 (Unaudited)</b>				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	44,356	44,356
– The CCSs	–	–	49,489	49,489
– Forward currency contracts	–	12,849	–	12,849
– Warrants	–	13,284	–	13,284
Other non-current financial assets	117,051	58,705	64,517	240,273
	<b>117,051</b>	<b>84,838</b>	<b>158,362</b>	<b>360,251</b>
<b>At 31 December 2019 (Audited)</b>				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	51,105	51,105
– Forward currency contracts	–	1,058	–	1,058
Other non-current financial assets	21,755	44,591	63,223	129,569
	<b>21,755</b>	<b>45,649</b>	<b>114,328</b>	<b>181,732</b>

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2019 are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At 1 January	114,328	153,593
Additions	–	36,364
Derecognition	–	(33,555)
Net cash settlement	13,148	(67,425)
Total (losses)/gains recognised in profit or loss	(11,454)	16,641
Total gains recognised in equity	40,515	12,176
Exchange realignment	1,825	(3,466)
At end of the Period/year	<b>158,362</b>	<b>114,328</b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
<b>At 30 June 2020 (Unaudited)</b>				
Derivative financial instruments				
– The CCIRs	–	–	80,318	80,318
– The CCSs	–	–	10,299	10,299
– Forward currency contracts	–	987	–	987
	–	987	90,617	91,604
<b>At 31 December 2019 (Audited)</b>				
Derivative financial instruments				
– The CCSs	–	–	59,033	59,033
– The CCIRs	–	–	62,296	62,296
	–	–	121,329	121,329

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2019 are as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At 1 January	121,329	77,042
Net cash settlement	1,079	(9,046)
Total (gains)/losses charged in profit or loss	(37,618)	24,905
Total losses charged in equity	4,381	22,531
Exchange realignment	1,446	5,897
At end of the Period/year	90,617	121,329

During the Period and the year ended 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

## 34. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 25 August 2020.





Health and Happiness (H&H) International Holdings Limited  
健合 (H&H) 國際控股有限公司