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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1112)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019	2018	% of Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Revenue	**5,095,265**	4,573,574	11.4%
Gross profit	**3,423,302**	3,075,690	11.3%
EBITDA*	**1,298,595**	965,670	34.5%
Adjusted EBITDA*	**1,194,479**	1,249,006	-4.4%
Net profit**	**713,078**	384,312	85.5%
Adjusted net profit**	**608,962**	701,061	-13.1%
Cash flows from operating activities***	**959,962**	1,149,178	-16.5%
Basic earnings per share ("**EPS**")	**RMB1.11**	RMB0.60	85.0%
Adjusted EPS****	**RMB0.95**	RMB1.10	-13.6%

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB104.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: losses of RMB278.7 million) – Non-recurring gains of nil for the six months ended 30 June 2019 (six months ended 30 June 2018: loss of RMB4.6 million)

** Adjusted net profit = Net profit – EBITDA adjustment items of RMB104.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: losses of RMB283.3 million) + Other non-cash losses of nil for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB33.4 million)

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

**** Adjusted EPS = Adjusted net profit/Adjusted weighted average number of ordinary shares

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018, as follows:

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

Six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**5,095,265**	4,573,574
Cost of sales		**(1,671,963)**	(1,497,884)
Gross profit		**3,423,302**	3,075,690
Other income and gains	*5*	**126,835**	25,756
Selling and distribution costs		**(1,971,557)**	(1,546,415)
Administrative expenses		**(299,379)**	(295,875)
Other expenses		**(94,677)**	(360,439)
Finance costs		**(185,601)**	(242,634)
Share of profit of an associate		**2,627**	497
PROFIT BEFORE TAX	*6*	**1,001,550**	656,580
Income tax expense	*7*	**(288,472)**	(272,268)
PROFIT FOR THE PERIOD		**713,078**	384,312

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**(32,342)**	64,123
Reclassification adjustments for losses included in profit or loss	**(8,109)**	(70,715)
Income tax effect	**12,135**	(673)
Exchange realignment	**(168)**	(999)
	(28,484)	(8,264)
Hedge of net investments:		
Effective portion of changes in fair value of hedging instruments arising during the period	**4,809**	(30,406)
Exchange differences on translation of foreign operations	**(90,392)**	42,130
Exchange difference on net investment in foreign operations	**(2,713)**	(201,647)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(116,780)**	(198,187)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**596,298**	186,125

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Profit attributable to owners of the parent		**713,078**	384,312
Total comprehensive income attributable to owners of the parent		**596,298**	186,125
		RMB	*RMB*
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**1.11**	0.60
Diluted		**1.10**	0.59

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**491,783**	480,288
Right-of-use assets		**218,853**	–
Prepaid land lease payments		**–**	57,331
Goodwill		**5,390,377**	5,295,242
Intangible assets		**3,611,134**	3,588,823
Bonds receivable		**214,788**	137,148
Deposits		**46,932**	191,232
Investment in an associate		**54,509**	51,882
Deferred tax assets		**386,875**	362,559
Derivative financial instrument		**103,606**	95,388
Pledged deposits		**3,941**	3,924
Other non-current financial assets		**82,574**	58,205
Total non-current assets		**10,605,372**	10,322,022
CURRENT ASSETS			
Inventories		**1,800,861**	1,565,152
Trade and bills receivables	*10*	**927,004**	861,862
Prepayments, deposits and other receivables		**179,637**	159,230
Loans receivable		**8,763**	13,678
Derivative financial instruments		**5,270**	4,301
Pledged deposits		**10,789**	15,948
Cash and cash equivalents		**2,057,721**	1,912,394
Total current assets		**4,990,045**	4,532,565
CURRENT LIABILITIES			
Trade and bills payables	*11*	**984,128**	829,607
Other payables and accruals		**1,590,587**	1,736,521
Contract liabilities		**147,980**	100,880
Lease liabilities		**36,633**	–
Senior notes		**171,352**	236,351
Tax payable		**146,707**	298,333
Dividend payables		**270,745**	–
Total current liabilities		**3,348,132**	3,201,692
NET CURRENT ASSETS		**1,641,913**	1,330,873
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,247,285**	11,652,895

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
30 June 2019

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES		
Senior notes	**3,108,318**	3,038,335
Interest-bearing bank loans	**2,779,330**	2,692,250
Other payables and accruals	**4,274**	7,423
Lease liabilities	**135,487**	–
Derivative financial instruments	**43,303**	77,042
Deferred tax liabilities	**939,759**	988,298
Total non-current liabilities	**7,010,471**	6,803,348
Net assets	**5,236,814**	4,849,547
EQUITY		
Issued capital	**5,486**	5,473
Other reserves	**5,231,328**	4,579,488
Proposed dividend	**–**	264,586
Total equity	**5,236,814**	4,849,547

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

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

The Group is 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 2019 (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 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 2018, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") (which also include International Accounting Standards ("**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 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the Period's financial statements:

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Lease* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the application of these new and 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.

(a) IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, offices, vehicles and office equipments. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease; and
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

The impact arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000* (unaudited)
Assets	
Increase in right-of-use assets	**219,807**
Decrease in prepaid land lease payments	**(57,331)**
Decrease in prepayment, other receivable and other assets	**(1,478)**
Increase in total assets	**160,998**
Liabilities	
Increase in lease liabilities	**171,071**
Decrease in other payable and accruals	**(10,073)**
Increase in total liabilities	**160,998**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RMB'000 (unaudited)
Operating lease commitments as at 31 December 2018	170,710
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	162,606
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,608)
Add:	
Accrued rental expenses recorded in other payables and accruals as at 31 December 2018	10,073
Lease liabilities as at 1 January 2019	171,071

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains, share of results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

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

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	2,401,324	588,748	1,833,914	271,279	–	5,095,265
Segment results	1,601,764	447,529	1,225,365	148,644	–	3,423,302
Reconciliations:						
Interest income						11,553
Other income and unallocated gains						115,282
Share of profit of an associate						2,627
Corporate and other unallocated expenses						(2,365,613)
Finance costs						(185,601)
Profit before tax						1,001,550
Other segment information:						
Depreciation and amortisation	19,349	3,278	58,596	5,875	35,899	122,997
Impairment/(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

Operating segment information for the six months ended 30 June 2018 (Unaudited):

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	2,093,242	553,942	1,795,600	130,790	–	4,573,574
Segment results	1,385,100	431,631	1,176,388	82,571	–	3,075,690
Reconciliations:						
Interest income						11,158
Other income and unallocated gains						14,598
Share of profit of an associate						497
Corporate and other unallocated expenses						(2,202,729)
Finance costs						(242,634)
Profit before tax						656,580
Other segment information:						
Depreciation and amortisation	5,440	2,465	44,105	4,741	20,863	77,614
Write-back of impairment of trade receivables	(30)	–	–	–	–	(30)
Write-down of inventories to net realisable value	22,259	120	24,961	1,946	–	49,286
Capital expenditure*	7,593	9,283	6,379	3,898	841	27,994

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June **2019** *RMB'000* (Unaudited)	2018 *RMB'000* (Unaudited)
Mainland China	**3,815,800**	3,301,087
Australia and New Zealand	**946,906**	1,081,978
Other locations#	**332,559**	190,509
	5,095,265	4,573,574

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

(b) **Non-current assets**

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**562,558**	543,504
Australia and New Zealand	**2,729,431**	2,695,995
Other locations#	**1,131,223**	1,130,057
	4,423,212	4,369,556

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

Including the special administrative regions of the People's Republic of China (the "**PRC**")

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	**5,095,265**	4,573,574

Disaggregated revenue information

For the six months ended 30 June 2019 (unaudited)

Segments	**Infant formulas**	**Probiotic supplements**	**Adult nutrition and care products**	**Other pediatric products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Geographical markets					
Mainland China	**2,365,930**	**575,418**	**750,789**	**123,663**	**3,815,800**
Australia and New Zealand	**14,602**	**1,475**	**930,829**	**–**	**946,906**
Other locations*	**20,792**	**11,855**	**152,296**	**147,616**	**332,559**
Total	**2,401,324**	**588,748**	**1,833,914**	**271,279**	**5,095,265**
Timing of revenue recognition					
Goods transferred at a point in time	**2,401,324**	**588,748**	**1,833,914**	**271,279**	**5,095,265**

For the six months ended 30 June 2018 (unaudited)

Segments	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Total *RMB'000*
Geographical markets					
Mainland China	2,070,234	535,952	631,991	62,910	3,301,087
Australia and New Zealand	–	–	1,081,978	–	1,081,978
Other locations*	23,008	17,990	81,631	67,880	190,509
Total	2,093,242	553,942	1,795,600	130,790	4,573,574
Timing of revenue recognition					
Goods transferred at a point in time	2,093,242	553,942	1,795,600	130,790	4,573,574

* Including the special administrative regions of the PRC.

Other income and gains

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**6,631**	7,036
Interest income from loans and bonds receivables	**4,922**	4,122
Gain on deemed disposal of partial interest in an associate	**–**	9,487
Foreign exchange gains	**58,145**	–
Fair value gains on derivative financial instruments, net	**45,544**	–
Fair value gains on financial assets	**427**	1,304
Government subsidies*	**2,485**	2,434
Others	**8,681**	1,373
	126,835	25,756

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

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June 2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Unaudited)
Cost of inventories sold		**1,640,170**	1,448,598
Depreciation of property, plant and equipment		**38,053**	35,894
Depreciation of right-of-use assets		**23,177**	–
Amortisation of intangible assets		**61,767**	40,982
Amortisation of prepaid land lease payments		**–**	738
Research and development costs**		**74,205**	60,701
Loss on disposal of items of property, plant and equipment		**109**	3,435
Employee benefit expenses:			
Wages and salaries		**550,797**	506,571
Pension scheme contributions (defined contribution schemes)		**78,201**	59,797
Staff welfare and other expenses		**41,048**	39,212
Equity-settled share option expense		**27,322**	22,171
Equity-settled share award expense		**3,858**	14,563
		701,226	642,314
Foreign exchange differences, net		**(58,145)***	218,123**
Fair value (gains)/losses on derivative financial instruments, net		**(45,544)***	70,139**
Impairment/(Write-back of impairment) of trade receivables**	*10*	**1,340**	(30)
Write-down of inventories to net realisable value#		**31,793**	49,286
Gain on deemed disposal of partial interest in an associate*		**–**	(9,487)

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

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

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

7. INCOME TAX EXPENSE

	Six months ended 30 June 2019 *RMB'000* (Unaudited)	2018 *RMB'000* (Unaudited)
Current – Charge for the period		
Mainland China	**255,575**	215,365
Hong Kong SAR	**33,301**	7,738
Australia	**69,940**	40,226
Elsewhere	**3,201**	4,058
Deferred	**(73,545)**	4,881
Total tax charge for the period	**288,472**	272,268

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 2018: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof. Biostime (Guangzhou) Health Products Limited, the Company's wholly-owned subsidiary operating in Mainland China, was recognised as a high-technology enterprise in December 2017, and is subject to EIT at a rate of 15% for three years from 2017 to 2019. Therefore, Biostime (Guangzhou) Health Products Limited was subject to EIT at a rate of 15% for the Period.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2018: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd. ("**Biostime Healthy Australia**") and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biostime Healthy Australia, and its wholly-owned subsidiaries within the income tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the income tax consolidated 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 the unused tax losses and unused tax credits assumed from subsidiaries in the income tax consolidated 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 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 is recognised as a contribution to (or distribution from) the 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.

8. DIVIDENDS

No interim dividend was proposed during the Period (six months ended 30 June 2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent of RMB713,078,000 (six months ended 30 June 2018: RMB384,312,000), and the adjusted weighted average number of ordinary shares of 640,144,212 (six months ended 30 June 2018: 636,595,218) 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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**713,078**	384,312
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**640,979,549**	638,395,052
Weighted average number of shares held for the share award schemes	**(835,337)**	(1,799,834)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**640,144,212**	636,595,218
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**8,899,281**	13,396,812
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**649,043,493**	649,992,030

10. TRADE AND BILLS RECEIVABLES

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Trade receivables	**826,783**	756,876
Bills receivable	**106,397**	110,379
	933,180	867,255
Less: Impairment provision	**(6,176)**	(5,393)
	927,004	861,862

Advance payment is normally required for sales to customers in Mainland China except in limited circumstances for credit sales. Credit sales are usually allowed for customers outside Mainland China with credit terms of 30 to 60 days from end of month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

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

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Within 1 month	**543,725**	532,291
1 to 3 months	**336,138**	307,943
Over 3 months	**47,141**	21,628
	927,004	861,862

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

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
At beginning of the Period/year	**5,393**	4,744
Acquisition of subsidiaries	**–**	1,109
Impairment losses recognised	**3,138**	2,241
Amount written off as uncollectible	**(562)**	(739)
Impairment losses reversed	**(1,798)**	(2,011)
Exchange realignment	**5**	49
	6,176	5,393

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

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

11. TRADE AND BILLS PAYABLES

	30 June 2019 *RMB'000* (Unaudited)	31 December 2018 *RMB'000* (Audited)
Trade payables	**978,677**	813,659
Bills payable	**5,451**	15,948
	984,128	829,607

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 2019 *RMB'000* (Unaudited)	31 December 2018 *RMB'000* (Audited)
Within 1 month	**608,018**	499,252
1 to 3 months	**306,480**	287,672
Over 3 months	**69,630**	42,683
	984,128	829,607

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

As at 30 June 2019, included in trade payables is an amount due to an associate of the Group of RMB33,697,000 (31 December 2018: RMB1,925,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

BUSINESS REVIEW

During the first half of 2019, Health and Happiness (H&H) International Holdings Limited's ("**H&H**" or the "**Company**", together with its subsidiaries, the "**Group**") contended with a volatile environment of slowing economic growth and intense market competition. Despite this, the Group achieved double-digit revenue growth and continued to expand its product portfolio and international presence in premium nutrition and wellness. At the same time, the Group also increased its reported net profitability.

During the first half of 2019, the Group's revenue grew 11.4% to RMB5,095.3 million, compared with the same period of last year, with the Baby Nutrition and Care ("**BNC**") and Adult Nutrition and Care ("**ANC**") businesses accounting for approximately 64.0% and 36.0% of total revenue respectively. Adjusted EBITDA slightly decreased by 4.4% to RMB1,194.5 million, while reported EBITDA during the period increased by 34.5% to RMB1,298.6 million compare to the same period of last year. The Group's adjusted net profit decreased by 13.1% to RMB609.0 million, while reported net profit increased 85.5% to RMB713.1 million compared to same period of last year. The Group's adjusted earnings per share ("**EPS**") decreased by 13.6% to RMB0.95, while the reported EPS increased by 85.0% to RMB1.11. The difference between adjusted and reported financial results narrowed thanks to the significant reduction of the number of non-cash and non-recurring adjustment items.

Thanks to the multi-brand/category strategy and several initiatives launched in the first half to drive consumer demand for premium BNC product categories, revenue derived from the BNC business reached RMB3,261.4 million during the first half of the year, an increase of 17.4% compared to the same period of last year. These initiatives include effectively recruiting new consumers and retaining existing consumers through the Group's proprietary MAMA100 loyalty program; and stepping up digital and social media marketing and professional endorsements to enhance brand awareness and word-of-mouth effect.

The infant milk formula ("**IMF**") market in China remained intensely competitive due to the declining birth rate in China last year, with market growth starting to slow from the beginning of this year. The IMF industry demonstrated a slower growth rate of 11.6% for the twelve months ended 30 June 2019, although growth was still strong in the premium and super premium segments. Despite this trend, the Group's IMF segment still grew faster than the market with sales growth of 14.7% compared to the same period last year, and continued to maintain a strong position in the outperformed and super premium segments. The Group has also seen its Healthy Times IMF series outperformed the wider organic IMF market with sales growth of 42.7%, accounting for 5.1% of its total IMF business.

According to Nielsen, an independent market research company, the Group's share of the overall IMF market in China remained stable at 5.9% for the twelve months ended 30 June 2019.

The Group also stepped up its presence in other markets such as Australia, Hong Kong SAR and France. This included launching Biostime's organic IMF products and probiotics products in the Australia and New Zealand ("**ANZ**") market at the beginning of 2019, and appointing Miranda Kerr, a well-known supermodel and mother of two children, as Biostime's brand ambassador. It also successfully expanded its IMF product range with the launch of its goat IMF series under the Biostime brand on the Group's Cross-border E-commerce ("**CBEC**") platforms as well as in the Hong Kong SAR market, enabling it to tap into China's fast-growing goat milk market. In France, the largest organic baby food market in Europe, the organic IMF market has shown robust sales momentum in recent years. In line with this growth trend, Biostime already ranks no.2 among organic infant formula brands in the pharmacy channel, demonstrating very solid growth and a strong acceptance by French mothers, according to an independent research data provider GERS.

Meanwhile, the Group's probiotics product segment grew at a slower rate of 6.3% compared to the same period of last year, with revenue reaching RMB588.7 million. The growth was partially affected by a high base in the first quarter of 2018, as well as intensified market competition as new brands gradually enter this segment. Despite this, the Group continued to leverage its no. 1 position and carry out consumer education on the benefits of probiotic products so as to maintain the sustainable growth of its probiotic business.

The Group's other pediatric product segment continued to grow robustly during the first half of 2019, increasing 107.4% compared to the same period last year. In the first half of 2019, Dodie achieved revenue growth of 61.3%, which was attributed to the strong performance of the brand in both France and China, especially in the latter where sales of the Dodie premium diaper range grew rapidly. The growth was driven by investment in brand awareness and consumer education activities, as well as synergies from sales team and distribution channels leveraged with the Group's other BNC products. The growth of the Group's other pediatric product segment was also supported by the consolidation of Good Goût's sales into the Group's overall sales in 2019. Following its acquisition in July 2018, Good Goût achieved sales growth of 46.7% in the French market in the first half of 2019 compared to the same period last year. This growth was further supported by the appointment of French football celebrity, Kylian Mbappé as a brand ambassador. The Group has also added Good Goût to its baby categories sold through its Tmall flagship store in May this year, further capturing the fast-growing infant and kids healthy snacks market in China.

Regarding the Group's ANC business, the implementation of the new E-commerce law in China resulted in daigou traders destocking inventory and reducing trading, which has impacted business in the Australian market since the beginning of this year, while the ANC business in the China market continued to maintain double-digit growth momentum in the first half of 2019. This overall performance has been slower than the Group's expectations, including in China, mainly due to the lower-than-expected growth of the overall Chinese vitamin, herbal and mineral supplements ("**VHMS**") market, especially in the second quarter.

Revenue derived from the ANC business reached AUD383.1 million during the first half of the year, an increase of 4.8% on a currency-adjusted basis compared to the same period of last year. ANZ sales decreased by 11.7%, while China active sales increased by 21.9% during the period, respectively. The contribution of active sales in China continued to grow gradually in the first half of 2019, reaching 40.9% of total ANC revenue. To further drive consumer demand in the Australian market, the Group has worked closely with customers to manage inventory while also engaging daigou channels with continuous education about new products and through marketing campaigns. In addition, the Group will continue to focus on new product development in this market. According to research statistics by IRI, an independent market research company, Swisse continued to hold its no.1 position in the Australian VHMS market with a market share of 16.9% for the twelve months ended 30 June 2019.

Despite the headwinds faced, the revenue growth of Swisse products, particularly in the Chinese market, was supported by strong brand and product marketing campaigns on major CBEC platforms during the 618 e-commerce season. These included celebrity endorsements and the introduction of several new categories to the China CBEC and normal trade businesses. These new products included the launch of Swisse's K2 Bones product on the Group's CBEC platforms in China and the launch of Swisse's Chlorophyll liquid and Artichoke + Raisin Tree Seed liquid products in the normal trade channel.

Since launching these products in China's normal trade market, Swisse has demonstrated fast and sustainable growth within its offline business, which grew 79.6% compared to the same period last year. The normal trade business accounted for approximately 11.9% of total Swisse sales in China in the first half of 2019 with Swisse products currently available for sale in 19,482 offline retail stores. Furthermore, the Group obtained approval for Swisse's globally best-selling Vitamin C effervescent product from the State Administration for Market Regulation ("**SAMR**") through its filing process in late June this year.

In addition, according to research statistics by Earlydata, an independent market research data provider, Swisse maintained its no.1 position in the VHMS market on Chinese online platforms with a market share of 6.0% for the twelve months ended 30 June 2019.

Outside of its core markets, Swisse demonstrated robust revenue growth in other markets, including Italy, Hong Kong SAR, Singapore, the Netherlands and the United States, which accounted for 8.3% of total ANC revenue in the first half. Swisse currently ranked no.1 in the vitamin category in the Hong Kong SAR market. Moreover, the Group's brand awareness was also boosted by the appointment of influential and recognized Hollywood actor Chris Hemsworth, and his wife Elsa Pataky, an actress and model, as Swisse's new global brand ambassadors. 2019 also marks Swisse's 50th anniversary and the Group expanded its share in core markets, as well as other markets, utilizing Swisse's new "The Quest Continues" campaign and new celebrity images.

To further grow the care segment of its ANC business, the Group has integrated a new brand, Aurelia Probiotic Skincare ("**Aurelia**"), into its overall business following its acquisition. The Group recently launched Aurelia products on the RED (Xiaohongshu) CBEC platform in China, inviting KOLs to France and London to further experience the luxuriousness of the premium and natural BioOrganic ingredients used in Aurelia's products. Aurelia is currently sold globally through its own dynamic DTC (Direct-to-Consumer) platform, as well as beauty e-commerce platforms, prestigious retail channels, hotels and spas.

To better drive innovation and access to disruptive technologies within its relevant industries, the Group has sought new partnership opportunities with promising start-ups and entrepreneurs through its NewH^2 fund. Building on its cooperation with Genclis, announced last September, the Group has acquired a minority stake in two more start-ups: Meta Flow in Israel, which has created breakthrough innovations in real-time metabolic tracking; and Proven Skincare in North America, which uses AI to personalize skincare – further growing these entrepreneurial and disruptive brands with the same vision of delivering health and wellness to both infants and adults.

In June 2019, the Group published its second annual Environmental, Social and Governance (ESG) report, which unveiled key achievements and progress in its sustainability agenda through 2018. Over the past eight months, the Group published the H&H Group Supplier Code of Conduct, its Responsible Marketing of Breast Milk Substitutes Policy and its Group Health and Safety Policy, as well as joining with leading international associations such as the UN Global Compact, The Sustainability Consortium and the Shared Value Project to better incorporate sustainable business practices into ongoing operations and strategy.

PROSPECTS

Looking ahead to the second half of the year, the Group foresees a similar degree of macro volatility and market uncertainty, which may affect consumer sentiment in many of the key markets in which the Group operates. The Group will aim to sustain positive revenue growth with healthy profits despite the headwinds ahead. The Group will continue to implement its 'Premium, Proven, Aspirational and Engaging' ("**PPAE**") model to positively convey the images of its brands globally, and will target consumers by further sharing and leveraging its distribution network and brand assets to facilitate the exposure of its brands in different markets.

For the BNC segment, the Group expects the Chinese IMF market to remain intensively competitive while still anticipating some business growth in the BNC segment. To strengthen its market share, the Group will further implement its multi-brand/category strategy, leverage on its strong position in the premium and super premium segments of the Chinese IMF market, and continue to invest in branding and consumer education, acquire more new end-users with improved repurchase rates as well as enhance its strategic partnerships with key customers to strengthen its market share. In order to capture the fast growth momentum of the goat milk and organic categories in China, the Group will launch a goat milk IMF series with its Biostime trademark in the offline market in the second half of 2019, having recently obtained approval from SAMR, while also expanding the sales presence of Healthy Times IMF products.

For the ANC segment, despite the current headwinds, the Group remains confident about delivering positive growth for the rest of the year. Business growth opportunities remain in the ANZ market where the Group will continue to drive domestic consumption through strong branding, product innovation and channel expansion. From a China perspective, the Group will also carry on its strategy of transitioning its Swisse business from a passive sales model driven by individual daigou traders to a more manageable and sustainable active sales model in China.

In China, albeit slowing online VHMS market growth, the Group remains confident about the healthy and sustainable growth of the overall VHMS industry in light of its still low but growing penetration supported by China Government's 'Healthy China 2030' Initiative. The Group believes in healthy and sustainable growth prospects of its ANC business in China in light of the strength of the Swisse brand among Chinese consumers on CBEC and the opportunities to further grow in the normal trade channel. Swisse will be launching several new products in the second half of the year and will soon announce a new Chinese celebrity as a brand ambassador. The expansion of the brand in the normal trade channel will further be supported by the filing of more "blue hat" licenses, including Swisse's Kids Vitamin D3 (Liquid), which was recently approved by SAMR.

The Group will also launch product categories under the new sub-brand Swisse Me™ in the United Kingdom in August, which aims to embrace fast growing consumer segments and shopping trends through the launch of a new direct-to-consumer product range.

Following its recent investments in three start-up companies, the Group's NewH^2 fund has invested a minority stake of 16.75% in Bod Australia Limited (ASX: BDA) in July 2019 for an exclusive worldwide license to commercialize Bod's CBD (cannabinoid) products, which are non-addictive and non-psychoactive, to further extend its product categories in the health supplements segment and seize the growth trend and increasing global demand for these products. The Group believes this investment aligns with its sustainability journey while allowing it to lead the way with innovated product categories in different global markets.

Over the past several years, the Group has been gradually building a strong track record in successfully integrating its acquisitions, as well as consolidating and growing its business across different categories and markets. Going forward, the Group remains confident about the growth potential within its two core ANC and BNC segments and its ability to establish a global leading position in premium nutrition and wellness. The Group will also continue to increase operational efficiency and realize synergies within the businesses, strengthening its multi-brand, multi-category and multi-channel strategy, to maintain profitable growth and ensure stable and consistent returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2019, the Group's revenue increased by 11.4% to RMB5,095.3 million as compared with the same period in 2018. Even along with a volatile environment of slowing down economic growth and intense market competition, the Group still strived to achieve double-digit revenue growth for the six months ended 30 June 2019, supported by growth in both segments.

	Six months ended 30 June				
				% to revenue	
	2019	2018	*Change*	**2019**	2018
	RMB'000	*RMB'000*			
Baby nutrition and care products	**3,261,351**	2,777,974	17.4%	**64.0%**	60.7%
– Infant formulas	**2,401,324**	2,093,242	14.7%	**47.1%**	45.8%
– Probiotic supplements	**588,748**	553,942	6.3%	**11.6%**	12.1%
– Other pediatric products	**271,279**	130,790	107.4%	**5.3%**	2.8%
Adult nutrition and care products	**1,833,914**	1,795,600	2.1%	**36.0%**	39.3%
Total	**5,095,265**	4,573,574	11.4%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB2,401.3 million for the six months ended 30 June 2019. Despite the continuing intensive competition in Chinese IMF market due to the declining birth rate last year, the Group still managed to achieve a sales growth of 14.7% compared with the same period of 2018. The growth was mainly driven by the multi-brand/category strategy and several initiatives launched in the first half of 2019 to drive consumer demand for premium BNC product categories, including exercising a multi-brand/category strategy; effectively recruiting new consumers and retaining existing consumers through the Group's proprietary MAMA100 loyalty program; and stepping up digital and social media marketing and professional endorsements to enhance brand awareness and word-of-mouth effect. The Group has also seen its revenue from Healthy Times branded organic IMF grew by 42.7% in the six months ended 30 June 2019 compared with the same period of last year, and accounted for 5.1% of its total IMF revenue. The growth was also attributable to the successful launch of Biostime organic IMF products in Australia at the beginning of 2019, and the launch of goat IMF series under Biostime brand on the Group's CBEC platforms as well as in Hong Kong SAR market.

Probiotic Supplements

For the six months ended 30 June 2019, the Group recorded revenue from probiotic supplements of RMB588.7 million, a growth of 6.3% compared with RMB553.9 million in the same period of 2018. This slowing growth was partially affected by a high base in the first quarter of 2018, as well as intensified market competition as new brand players gradually entering this segment. Despite this, the Group continued to leverage its no. 1 position and carry out consumer education on the benefits of probiotic products so as to maintain sustainable growth of its probiotic business.

Other pediatric products

Revenue from other pediatric products segment increased by 107.4% to RMB271.3 million for the six months ended 30 June 2019 from RMB130.8 million in the same period of last year. Sales of Dodie branded products achieved a growth of 61.3% from RMB115.6 million in the six months ended 30 June 2018 to RMB186.4 million in the six months ended 30 June 2019. The rapid growth was mainly attributed to the strong performance of Dodie branded products across both France and China. Sales of Dodie branded diaper increased by 137.0% to RMB122.7 million for the six months ended 30 June 2019 as compared with the same period in 2018, supported by investment in brand awareness and consumer education activities as well as synergies of sales team and distribution channel leveraged with other BNC products of the Group. The consolidation of Good Goût sales since the acquisition in last July also contributed for the growth of the Group's other pediatric product segment. For the six months ended 30 June 2019, revenue from Good Goût products amounted to RMB80.7 million.

Adult nutrition and care products

On currency adjusted basis[*Note*], revenue from the adult nutrition and care products segment amounted to AUD383.1 million for the six months ended 30 June 2019, representing an increase of 4.8% from AUD365.6 million in the first half of 2018. ANZ sales decreased by 11.7%, following the implementation of new China E-commerce law on 1 January 2019, which resulted in 'daigou' traders destocking inventory and reducing trading.

China active sales increased by 21.9% and accounted for 40.9% of total ANC revenue for the six months ended 30 June 2019. The growth of China active sales was supported by strong brand and product marketing on major CBEC platforms during the 618 e-commerce season, including celebrity endorsements and the introduction of several new categories in China CBEC and normal trade businesses.

In addition to the core markets, other markets also saw a robust revenue growth. Revenue from the markets of Hong Kong SAR, Singapore, Italy, Netherlands and United States reached AUD31.8 million for the six months ended 30 June 2019 which accounted for 8.3% of total ANC revenue during this period.

Note: The exchange rates of AUD1 = RMB4.7871 and AUD1 = RMB4.9119 were used for the six months ended 30 June 2019 and 2018, respectively.

Gross profit and gross profit margin

In the first half of 2019, the Group recorded gross profit of RMB3,423.3 million, an increase of 11.3% compared with the same period of last year. During the period under review, the Group's gross profit margin remained stable at 67.2%, same as that of the corresponding period in 2018.

The gross profit of baby nutrition and care segment increased by 15.7% to RMB2,197.9 million in the first half of 2019 compared with that of last year. The gross profit margin of baby nutrition and care segment slightly decreased to 67.4% in the first half of 2019 from 68.4% in the six months ended 30 June 2018. The lowered gross profit margin was mainly caused by (i) the decrease in gross profit margin of probiotic supplements due to higher cost for the upgraded formulation; and (ii) the product mix towards higher revenue proportion from the lower-margin Dodie branded diaper and Good Goût products. The gross profit margin of IMF remained stable, resulted from the favorable exchange rate of EUR against RMB which was offset by the increased cost of raw materials and packaging materials.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 6.9% to AUD256.0 million in the first half of 2019, compared with AUD239.5 million in the first half of 2018. The gross profit margin of the adult nutrition and care segment increased to 66.8% in the first half of 2019, as compared with 65.5% in the first half of 2018. The increase of gross profit resulted from an improved product mix towards higher proportion of sales from the higher-margin stock keeping units ("**SKUs**"), and the increase of sales prices of certain SKUs.

Other income and gains

Other income and gains amounted to RMB126.8 million for the six months ended 30 June 2019. Other income and gains primarily consisted of net foreign exchange gain of RMB58.1 million, fair value gain on derivative financial instruments of RMB45.5 million and others.

The net foreign exchange gain of RMB58.1 million mainly represented non-cash gain from the revaluation on intragroup loans between the Company and its subsidiaries resulting from historical intra-group transaction.

The non-cash fair value gain on derivative financial instruments of RMB45.5 million was mainly caused by the fair value gain on the early redemption option embedded in the Group's senior notes.

Selling and distribution costs

Selling and distribution costs amounted to RMB1,971.6 million in the six months ended 30 June 2019, an increase by 27.5% as compared with the same period of 2018. Selling and distribution costs as a percentage of the Group's revenue was 38.7% in the first half of 2019, increased by 4.9 percentage points as compared with 33.8% in the comparable period in 2018, mainly driven by the strategic investments in new markets and new product categories.

Selling and distribution costs of BNC business amounted to RMB1,259.9 million in the six months ended 30 June 2019, representing an increase of 28.4% 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 increased from 35.3% in the first half of 2018 to 38.6% in the first half of 2019. Advertising and marketing expense of BNC business as a percentage of its revenue increased from 9.0% in the six months ended 30 June 2018 to 9.9% in the same period of 2019. The increase was mainly due to the strategic investments in new markets and new product categories, including launch of Biostime's organic IMF products and probiotics products in Australia at the beginning of 2019, appointing new celebrity endorsements and the consolidation of Good Goût since the completion of acquisition in the second half of 2018. Selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of BNC revenue increased from 26.3% in the first half of 2018 to 28.7% in the same period of 2019. The increase was mainly due to (i) the step-up investment in new markets and (ii) the increased amortization costs for intangible assets identified in the acquisition of Good Goût. Excluding these strategic investments and depreciation and amortization cost, selling and distribution costs of BNC business in the Group's core BNC market in China as a percentage to the BNC revenue decreased slightly resulting from the spending efficiency improvement.

Selling and distribution costs of ANC business amounted to RMB711.6 million in the six months ended 30 June 2019, representing an increase of 26.0% 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 from 31.5% in the first half of 2018 to 38.8% in the first half of 2019. Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 18.4% in the first half of 2018 to 25.7% during the period under review. The increase was mainly due to the investments in Italy, Netherlands, Hong Kong SAR and Singapore markets since the completion of the transfer of Swisse's distribution rights from PGT Healthcare LLP, and the consolidation of Aurelia since the completion of the transaction in January 2019. The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue remained stable at 13.1% resulting from the efficiency improvement in core markets while partially offset by strategic investments in new markets. Excluding these strategic investments and depreciation and amortization cost, selling and distribution costs of ANC business in the Group's core ANC markets in China and Australia as a percentage to the ANC revenue slightly increased, resulting from the increasing revenue proportion from Chinese markets which required higher advertising and marketing investments to boost brand awareness both online and offline as the overall penetration among Chinese consumers is still low.

Administrative expenses

Administrative expenses slightly increased by 1.2% from RMB295.9 million for the six months ended 30 June 2018 to RMB299.4 million for the six months ended 30 June 2019. Administrative expenses as a percentage of the Group's revenue improved to 5.9% in the first half of 2019, decreased slightly by 0.6 percentage point as compared with 6.5% in the comparable period in 2018 resulted from the improved spending efficiency.

Other expenses

Other expenses for the six months ended 30 June 2019 amounted to RMB94.7 million. Other expenses mainly included R&D expenditure of RMB74.2 million and others.

During the period under review, R&D expenditure increased by 22.2% as compared with the corresponding period of last year. The increase in R&D expenditure mainly resulted from the continuing investment in new product development in order to sustain the long-term growth of the Group.

EBITDA and EBITDA margin

EBITDA for the six months ended 30 June 2019 amounted to RMB1,298.6 million, increased by 34.5% from RMB965.7 million for the six months ended 30 June 2018. EBITDA margin was 25.5% during the period under review.

Adjusted EBITDA decreased by 4.4% from RMB1,249.0 million in the first half of 2018 to RMB1,194.5 million during the period under review. Adjusted EBITDA margin for the first half of 2019 was 23.4%, decreased by 3.9 percentage points as compared with the same period of last year. The lower Adjusted EBITDA and Adjusted EBITDA margin were mainly due to the Group's strategic stepped up investments in branding, product and channel development, as well as deeper penetration in different global markets.

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

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
EBITDA	**1,298.6**	965.7
Reconciled by:		
Non-cash items:		
(1) Net foreign exchange losses/(gains)	**(58.1)**	218.1
(2) Net fair value losses/(gains) on the financial instruments	**(46.0)**	70.1
(3) Gain on deemed disposal of partial interest in an associate	**–**	(9.5)
Non-recurring items:		
(4) Non-recurring integration costs	**–**	4.6
Adjusted EBITDA	**1,194.5**	1,249.0

Finance costs

During the six months ended 30 June 2019, the Group incurred finance costs of RMB185.6 million, including interests for the term loan and senior notes of RMB181.1 million. Thanks for the improved capital structure, finance costs for the six months ended 30 June 2019 decreased by 23.5% compared with the same period of 2018.

Income tax expense

Income tax expense increased from RMB272.3 million in six months ended 30 June 2018 to RMB288.5 million in the six months ended 30 June 2019.

Thanks to the tax initiatives launched by the Group, the effective tax rate decreased from 41.5% in the first half of 2018 to 28.8% in the first half of 2019. The Group's normalized effective tax rate in the first half of 2019 was 32.1%, excluding the impact from net foreign exchange gain and net fair value gain on the financial instruments.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Net profit	**713.1**	384.3
Reconciled by:		
EBITDA adjusted items as listed above	**(104.1)**	283.3
Non-cash items:		
Write-off of transaction costs upon refinancing for the term loan	**–**	33.4
Adjusted net profit	**609.0**	701.1

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2019, the Group recorded net cash generated from operating activities of RMB447.4 million, resulting from pre-tax cash from operations of RMB960.0 million, minus income tax paid of RMB512.6 million.

Investing activities

For the six months ended 30 June 2019, net cash flows used in investing activities amounted to RMB179.3 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB77.5 million, subscription of bond issued by one of the Group's IMF suppliers of RMB78.5 million, investments with the Group's NewH^2 fund of RMB24.0 million and others.

Financing activities

For the six months ended 30 June 2019, net cash flows used in financing activities amounted to RMB121.7 million. The cash outflows were primarily related to interest paid for term loans and senior notes of RMB177.3 million, which was partially offset by the proceed from the EUR10 million bank loan of RMB78.5 million.

Cash and bank balances

As of 30 June 2019, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,057.7 million.

Term loan and senior notes

As of 30 June 2019, the Group's outstanding term loans amounted to RMB2,779.3 million, all are payable after one year. The total carrying amount of the senior notes was RMB3,279.7 million, including current portion of RMB171.4 million.

As of 30 June 2019, the annualized net leverage ratio slightly increased to 1.65 from 1.62 as of 30 June 2018, calculated by dividing the net debts[Note] by accumulated adjusted EBITDA for the last twelve months ended 30 June. Gearing ratio decreased to 38.9% from 42.9%, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

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

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 increased by 5 day from 27 days for the six months ended 30 June 2018 to 32 days for the six months ended 30 June 2019 mainly due to the temporary credit terms granted to certain customers. The average turnover days of trade payables were 96 days for the six months ended 30 June 2019, representing an increase of 14 days from 82 days for the six months ended 30 June 2018, mainly due to the different cut-off days.

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

The inventory turnover days were 181 days for the six months ended 30 June 2019, representing an increase of 39 days from 142 days for the six months ended 30 June 2018. The average turnover days of BNC products were 139 days for the six months ended 30 June 2019, which was stable compared with 138 days for the six months ended 30 June 2018. The average turnover days of ANC products increased 106 days from 148 days for the six months ended 30 June 2018 to 254 days for the six months ended 30 June 2019. The increase was mainly caused by the lower-than-expected growth of revenue from ANC segment. Despite the increased inventory turnover days, the overall slow-moving inventory provision decreased from RMB49.3 million for the six months ended 30 June 2018 to RMB31.8 million for the six months ended 30 June 2019.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

In order to reduce financing cost and optimize capital structure, USD50 million in principal amount of the senior notes, representing approximately 10.53% of the outstanding principal amount of the senior notes, was redeemed on 15 August 2019.

The Group's NewH2 fund has invested a minority stake of 16.75% with an amount of AUD5.5 million in Bod Australia Limited (ASX: BDA) in July 2019 for an exclusive worldwide license to commercialize Bod's CBD (cannabinoid) products, which are non-addictive and non-psychoactive, to further extend its product categories in the health supplements segment and seize the growth trend and increasing global demand for these products.

To the best of the knowledge of the Directors having made all reasonable enquiries, Bod Australia Limited is independent of the Company and its connected persons. The Directors confirm that as all the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of the transactions contemplated under the exclusive global agreement were less than 5% and did not involve the issue of any securities by the Company, the transactions contemplated under the exclusive global agreement did not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules.

Based on the actual sales performance of July, the total Group revenue for the first seven months ended 31 July 2019 increased 5.3% compared with the same period of last year. The July year-to-date growth is lower than that in the first half of 2019 on the back of strong online and offline-channel promotion on VHMS products and maternal and baby products during the 618 sales season, while continuing to face the impact of "Daigou" traders reducing trading in the Australia market and the growth headwinds of both BNC and ANC industries.

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. Except for the deviation from code provision A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2019.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Luo Fei, the Chairman of the Company, was also the Chief Executive Officer of the Company until 19 March 2019. The Board believed that vesting the roles of both Chairman and Chief Executive Officer in the same person could ensure consistent leadership within the Group, as well as effective and efficient overall strategic planning for the Group. The Board was also of the view that such arrangement did not impair the balance of power and authority in the Group, which had been adequately ensured by the Board comprising experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Nonetheless, in light of the significant expansion of the Group in recent years, the Board is of the view that having two separate individuals performing each of these two roles will be conducive to the further development of the Group because such change will enable each of the Chairman and the Chief Executive Officer to devote more time and energy to and to focus on their respective roles. Accordingly, on 19 March 2019, Mr. Luo Fei resigned from and ceased to act in the concurrent role of the Chief Executive Officer of the Company while he continued to serve as an executive Director and the Chairman, and Mrs. Laetitia Garnier, an executive Director of the Company and the chief strategy officer of the Group, succeeded Mr. Luo and was appointed as the Chief Executive Officer of the Company. Please refer to the announcement of the Company dated 19 March 2019 titled "Change of Chief Executive Officer" for further details.

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 2019.

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 2019.

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, Dr. Ngai Wai Fung, 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. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim results announcement complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019.

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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

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 2019.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2019 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 20 August 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong; the non-executive Directors of the Company are Dr. Zhang Wenhui and Mr. Luo Yun; and the independent non-executive Directors of the Company are Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun.