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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1112)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	% of Change
	RMB'000	*RMB'000*	
Revenue	**10,925,217**	10,132,498	7.8%
Gross profit	**7,228,541**	6,739,720	7.3%
EBITDA*	**2,222,155**	2,158,566	2.9%
Adjusted EBITDA*	**2,235,400**	2,480,738	-9.9%
Net profit	**1,005,049**	843,148	19.2%
Cash flows from operating activities**	**2,175,452**	2,409,670	-9.7%
Basic earnings per share	**RMB1.57**	RMB1.32	18.9%

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB2.9 million for the year ended 31 December 2019 (2018: losses of RMB305.9 million) + Non-recurring losses of RMB16.1 million for the year ended 31 December 2019 (2018: losses of RMB16.2 million)

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

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the corresponding period in 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	*5*	**10,925,217**	10,132,498
Cost of sales		**(3,696,676)**	(3,392,778)
Gross profit		**7,228,541**	6,739,720
Other income and gains	*5*	**131,873**	75,375
Selling and distribution expenses		**(4,493,378)**	(3,703,414)
Administrative expenses		**(638,018)**	(619,577)
Other expenses		**(249,541)**	(486,103)
Finance costs		**(420,757)**	(479,377)
Share of profit of an associate		**6,480**	1,300
PROFIT BEFORE TAX	*6*	**1,565,200**	1,527,924
Income tax expense	*7*	**(560,151)**	(684,776)
PROFIT FOR THE YEAR		**1,005,049**	843,148
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(46,514)**	118,609
Reclassification adjustments for gains/(losses) included in profit or loss		**16,574**	(142,993)
Income tax effect		**(10,221)**	4,649
Exchange realignment		**(743)**	(932)
		(40,904)	(20,667)
Hedges of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**36,159**	(3,182)
Exchange differences on translation of foreign operations		**(81,891)**	21,526
Exchange differences on net investments in foreign operations		**(1,704)**	(309,655)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(88,340)**	(311,978)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of an equity investment designated at fair value through other comprehensive income		**(12,183)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(100,523)**	(311,978)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**904,526**	531,170
Profit attributable to owners of the parent		**1,005,049**	843,148
Total comprehensive income attributable to owners of the parent		**904,526**	531,170
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**1.57**	1.32
Diluted		**1.55**	1.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**472,981**	480,288
Prepaid land lease payments		**–**	57,331
Right-of-use assets		**205,937**	–
Goodwill		**5,467,488**	5,295,242
Intangible assets		**3,611,088**	3,588,823
Bonds receivable		**214,747**	137,148
Deposits		**45,414**	191,232
Investment in an associate		**58,362**	51,882
Deferred tax assets		**407,081**	362,559
Derivative financial instruments		**51,105**	95,388
Pledged deposits		**–**	3,924
Other non-current financial assets		**129,569**	58,205
Total non-current assets		**10,663,772**	10,322,022
CURRENT ASSETS			
Inventories		**1,550,350**	1,565,152
Trade and bills receivables	*10*	**1,106,815**	861,862
Prepayments, other receivables and other assets		**307,859**	159,230
Loans receivable		**5,306**	13,678
Derivative financial instruments		**1,058**	4,301
Pledged deposits		**8,878**	15,948
Cash and cash equivalents		**2,217,335**	1,912,394
Total current assets		**5,197,601**	4,532,565
CURRENT LIABILITIES			
Trade and bills payables	*11*	**837,752**	829,607
Other payables and accruals		**1,958,610**	1,736,521
Contract liabilities		**134,614**	100,880
Lease liabilities		**47,426**	–
Senior notes		**21,533**	236,351
Tax payable		**203,115**	298,333
Total current liabilities		**3,203,050**	3,201,692
NET CURRENT ASSETS		**1,994,551**	1,330,873

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2019

	2019	2018
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**1,994,551**	1,330,873
TOTAL ASSETS LESS CURRENT LIABILITIES	**12,658,323**	11,652,895
NON-CURRENT LIABILITIES		
Senior notes	**2,103,246**	3,038,335
Interest-bearing bank loans	**3,751,563**	2,692,250
Lease liabilities	**114,928**	–
Other payables and accruals	**7,217**	7,423
Derivative financial instruments	**121,329**	77,042
Deferred tax liabilities	**966,234**	988,298
Total non-current liabilities	**7,064,517**	6,803,348
Net assets	**5,593,806**	4,849,547
EQUITY		
Issued capital	**5,500**	5,473
Other reserves	**5,085,781**	4,579,488
Proposed dividend	**502,525**	264,586
Total equity	**5,593,806**	4,849,547

NOTES TO FINANCIAL STATEMENTS

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

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

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

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments and other non-current financial assets which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year'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

Except for the amendments to IFRS 9 and IAS 19, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 16

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

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

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 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 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.

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, office buildings, vehicles and office equipment. 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 leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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. 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:

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

Financial impact at 1 January 2019

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

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	219,807
Decrease in prepaid land lease payments	(57,331)
Decrease in prepayments, other receivables and other assets	(1,478)
Increase in total assets	160,998
Liabilities	
Increase in lease liabilities	171,071
Decrease in other payables 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
Operating lease commitments as at 31 December 2018	170,710
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,608)
	169,102
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	160,998
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

Amendments to IAS 28

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

IFRIC 23

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 impact on the financial position or performance of the Group.

Amendments under Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

- IFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The Group has had no joint operation and therefore, the amendments are not applicable to the Group's financial statements.

- IFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The Group has not participated in any joint operation and therefore, the amendments are not applicable to the Group's financial statements.

- IAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any impact on the Group's financial statements.

- IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the Group's 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains, share of results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

Operating segment information for the year ended 31 December 2019:

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

Operating segment information for the year ended 31 December 2018:

	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	4,508,539	1,044,614	4,244,206	335,139	–	10,132,498
Segment results	3,013,265	805,844	2,738,172	182,439	–	6,739,720
Reconciliations:						
Interest income						24,116
Other income and unallocated gains						51,259
Share of profit of an associate						1,300
Corporate and other unallocated expenses						(4,809,094)
Finance costs						(479,377)
Profit before tax						1,527,924
Other segment information:						
Depreciation and amortisation	11,244	5,383	90,212	10,029	58,513	175,381
Impairment/(write-back of impairment) of trade receivables	785	–	9	(564)	–	230
Write-down of inventories to net realisable value	34,648	2,216	37,117	6,554	–	80,535
Capital expenditure*	147,362	15,025	19,003	156,973	16,312	354,675

* 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

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**8,449,504**	7,176,707
Australia and New Zealand	**1,833,662**	2,508,751
Other locations*	**642,051**	447,040
	10,925,217	10,132,498

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

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**570,218**	543,504
Australia and New Zealand	**2,721,681**	2,695,995
Other locations*	**1,101,883**	1,130,057
	4,393,782	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").

Information about a major customer

During the year ended 31 December 2019, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**10,925,217**	10,132,498

(i) Disaggregated revenue information

For the year ended 31 December 2019

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

For the year ended 31 December 2018

Segments	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Total *RMB'000*
Geographical markets					
Mainland China	4,490,339	1,028,700	1,512,789	144,879	7,176,707
Australia and New Zealand	–	–	2,508,751	–	2,508,751
Other locations*	18,200	15,914	222,666	190,260	447,040
Total	4,508,539	1,044,614	4,244,206	335,139	10,132,498
Timing of revenue recognition					
Goods transferred at a point in time	4,508,539	1,044,614	4,244,206	335,139	10,132,498

* Including the special administrative regions of the PRC.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**100,880**	98,735

(ii) *Performance obligations*

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

Other income and gains

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**10,457**	15,787
Interest income from loans and bonds receivables	**9,772**	8,329
Foreign exchange gains	**48,024**	–
Fair value gains on derivative financial instruments	**–**	5,968
Fair value gains on financial assets	**2,329**	1,103
Government subsidies*	**42,152**	26,615
Gain on deemed disposal of partial interest in an associate	**–**	9,487
Others	**19,139**	8,086
	131,873	75,375

* 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):

	2019 *RMB'000*	2018 *RMB'000*
Cost of inventories sold	**3,617,223**	3,312,243
Depreciation of property, plant and equipment	**80,450**	74,302
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	**51,099**	1,478
Amortisation of intangible assets	**124,878**	99,601
Auditor's remuneration	**7,007**	6,894
Research and development costs**	**163,700**	151,179
Minimum lease payments under operating leases	**–**	68,725
Lease payments not included in the measurement of lease liabilities	**2,863**	–
Loss on disposal of items of property, plant and equipment**	**472**	4,408
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,068,993**	1,039,010
Pension scheme contributions (defined contribution schemes)	**158,243**	124,185
Staff welfare and other expenses	**78,085**	75,949
Equity-settled share option expense	**53,596**	48,776
Equity-settled share award expense	**3,929**	23,078
	1,362,846	1,310,998
Foreign exchange (gains)/losses, net	**(48,024)***	275,854**
Fair value losses on derivative financial instruments, net**	**13,829**	21,580
Derecognition of early redemption option**	**33,555**	9,498
Fair value gains on financial assets*	**(2,329)**	(1,103)
Impairment of trade receivables**	**2,076**	230
Write-down of inventories to net realisable value#	**79,453**	80,535
Premium paid for early redemption of senior notes	**56,212**	29,986

* 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

	2019 *RMB'000*	2018 *RMB'000*
Current		
– Charge for the year		
Mainland China	**460,032**	506,341
Hong Kong	**69,420**	17,371
Australia	**90,851**	228,822
Elsewhere	**2,117**	4,601
– Underprovision/(overprovision) in the prior year	**17,691**	(41,207)
Deferred	**(79,960)**	(31,152)
Total tax charge for the year	**560,151**	684,776

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% (2018: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. Biostime (Guangzhou) Health Products Limited ("**Biostime Health**") and Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**"), the Company's wholly-owned subsidiaries operating in Mainland China, were recognised as high-technology enterprises in December 2017 and 2019, respectively, and are subject to EIT at a rate of 15% for three years from 2017 to 2019 and from 2019 to 2021, respectively. Therefore, Biostime Health and Guangzhou Hapai were subject to EIT at a rate of 15% for the year ended 31 December 2019.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HKD2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Australia corporate income tax

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

Tax consolidation legislation

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

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

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

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

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

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

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**1,565,200**	1,527,924
Tax at the applicable PRC enterprise income tax rate	**391,300**	381,981
Overseas tax differences	**(911)**	41,816
Tax effects on preferential tax rates	**(22,992)**	(33,144)
Expenses not deductible for tax	**94,695**	129,096
Effect of lower enacted tax rate used for the recognition of deferred tax	**2,371**	(57)
Tax losses utilised from previous periods	**(2,594)**	(24,300)
Income not subject to tax	**(14,912)**	(26,268)
Tax losses not recognised	**50,438**	55,018
Adjustment in respect of current tax of previous periods	**17,691**	(41,207)
Tax on internal transfer of assets	**–**	113,446
Effect of withholding tax at 5% (2018: 5% or 10%) on the distributable profits of the Group's subsidiaries in Mainland China	**45,065**	88,395
Tax charge at the Group's effective rate	**560,151**	684,776

8. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Proposal final – HKD0.85 (2018: HKD0.48) per ordinary share	**502,525**	264,586

No interim dividend was proposed during the year ended 31 December 2019 (2018: Nil).

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 641,104,643 (2018: 637,645,122) in issue during the year.

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

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,005,049**	843,148

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**641,651,744**	639,181,952
Weighted average number of shares held for the share award schemes	**(547,101)**	(1,536,830)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**641,104,643**	637,645,122
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**6,964,416**	12,573,245
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**648,069,059**	650,218,367

10. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**1,013,533**	756,876
Less: Impairment provision	**(7,424)**	(5,393)
	1,006,109	751,483
Bills receivable	**100,706**	110,379
	1,106,815	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 ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**613,965**	532,291
1 to 3 months	**362,644**	307,943
Over 3 months	**130,206**	21,628
	1,106,815	861,862

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

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**5,393**	4,744
Acquisition of subsidiaries	**–**	1,109
Impairment losses recognised	**7,910**	2,241
Amount written off as uncollectible	**(52)**	(739)
Impairment losses reversed	**(5,834)**	(2,011)
Exchange realignment	**7**	49
At end of year	**7,424**	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, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

As at 31 December 2019

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

As at 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	0.23%	1.51%	3.48%	10.81%	0.71%
Gross carrying amount (RMB'000)	641,355	65,413	33,957	16,151	756,876
Expected credit losses (RMB'000)	1,476	988	1,183	1,746	5,393

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

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**826,505**	813,659
Bills payable	**11,247**	15,948
	837,752	829,607

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

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**610,362**	499,252
1 to 3 months	**200,553**	287,672
Over 3 months	**26,837**	42,683
	837,752	829,607

As at 31 December 2019, included in the trade payables was an amount due to the Group's associate of RMB20,687,000 (2018: RMB1,925,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

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

BUSINESS REVIEW

In 2019, the Group confronted external regulatory changes, fierce market competition and slowing economic growth. Despite these challenges, the Group achieved moderate revenue growth, while maintaining a healthy EBITDA margin and strong operating cash flow. Besides, the Group continued to invest in new markets and products that will support its long-term growth and sustainable profitability.

During the year under review, the Group's revenue grew 7.8% to RMB10,925.2 million, compared with the previous year, with the Baby Nutrition and Care ("**BNC**") and Adult Nutrition and Care ("**ANC**") businesses accounting for approximately 63.5% and 36.5% of total revenue respectively. Adjusted EBITDA for the year under review decreased by 9.9% to RMB2,235.4 million, which was mainly attributed to a sales decline in the Australia and New Zealand ("**ANZ**") market, as well as the Group's continued investment in new markets and products. Reported EBITDA increased by 2.9% to RMB2,222.2 million due to a reduction of the special adjustment amount. The reported net profit increased 19.2% to RMB1,005.0 million year-over-year and reported earnings per share increased by 18.9% to RMB1.57. This strong growth was mostly attributed to improved operational efficiency, lower finance costs and the reduction of several one-off adjustment items.

The Group's largest market, China[1], accounted for 77.3% of its revenue and saw robust growth of 17.7% in 2019. In China, the Group realized profitable and strong double-digit growth in both its BNC and ANC business segments, supported by new product launches, ongoing online and offline consumer education, and a growing base of new customers. In the ANZ market, the Group's ANC business was negatively impacted by the implementation of the new E-commerce law in China, which saw daigou traders destock inventory and reduce trading. Sales in ANZ market fell by 24.7% on a currency-adjusted basis year-over-year. In response to this, the Group has proactively managed inventory and quickly deployed strategic measures to stabilize the business. Outside of the China and ANZ markets, the Group saw continued sales growth in both its existing and newly-entered international markets, with revenue growing by 43.6% compared with the previous year. This encouraging result was underpinned by the Group's entry into new markets and new product launches, demonstrating the viability and potential of its business strategy.

Baby Nutrition and Care

Globally, revenue derived from the BNC business reached RMB6,933.8 million, increasing 17.8% compared to the previous year, which was in line with the Group's expectation of reaching double-digit growth in both China and other international markets. This growth was supported by the consistent implementation of the Group's strategic initiatives, including reinforcing its digital branding, targeting premium and post 90's consumers; various initiatives that supported the continued robust performance of the Group's core infant milk formula ("**IMF**") series as well as new products launch, particularly in the super premium category; and strategic collaborations with key customers in both the Group's online and offline channels, leveraging synergies across its BNC product portfolios.

Note 1: China mentioned in this announcement refers to Mainland China

The IMF market in China remained intensely competitive due to the nation's declining birth rate, with market growth slowing markedly to 7.6% during the twelve months ended 31 December 2019. However, premium and super premium segments were still growing at double-digit levels. Thanks to the Group's strong market position in this area, revenue attributed to the IMF segment increased by 12.5% year-over-year.

In particular, the Group's Healthy Times IMF series outperformed the wider organic IMF market with sales growing 33.8%, accounting for 5.6% of overall IMF revenue. Meanwhile, despite only launching in the China normal trade market in the final quarter of 2019 (having already launched in Hong Kong SAR, the Group's Cross-border E-commerce ("**CBEC**") platforms and ANZ market earlier in the year), the Group's new goat milk IMF series posted revenue of RMB146.5 million and accounted for 2.9% of the Group's total IMF business. This new series – called "Cute Betty's" under the Biostime brand – has already received positive feedback from consumers keen to experience the health benefits of goat milk, demonstrating the category's potential as a future growth driver.

According to Nielsen, an independent market research company, the Group's share of the overall IMF cow milk market in China was resilient at 5.9% for the twelve months ended 31 December 2019.

Outside of China, the Group rapidly expanded its presence in other IMF and baby nutrition markets, especially Australia and France. At the beginning of 2019, it launched Biostime's organic IMF products and probiotics products in the ANZ market and appointed Miranda Kerr, a supermodel, an organic foods advocate and mother of two children, as a brand ambassador. The Group later introduced a goat milk IMF in the ANZ market, undertaking a multi-layered campaign to drive awareness and educate consumers about the product's nutritional benefits. In France, the largest organic baby food market in Europe, sales of Biostime's organic IMF series continued to grow robustly and has achieved a thriving following among local mothers. Consequently, the series was the highest-selling organic infant formula brand sold in French pharmacies in January 2020, according to GERS, an independent research data provider.

The Group's probiotics product segment also grew well with sales increasing 20.1% year-over-year to RMB1,255.0 million. This growth was driven by leveraging Biostime's position as the world's number one pediatric probiotic supplements brand, as well as the introduction of a new Biostime-branded probiotic liquid drop in several markets, including China, in the second half of 2019. This new product format greatly supported market penetration and is favored by young mothers for its convenience.

The Group's other pediatric product segment grew robustly, with sales increasing 81.2% compared to the previous year. Dodie (the Group's French babycare brand) achieved revenue growth of 70.4%, which was mostly driven by the brand's robust performance in China, following the launch of new diaper categories and strong sales revenue achieved in both online and offline markets. According to Nielsen, an independent market research company, Dodie ranked third in China's super premium-tier diaper market, with a market share of 10.2% for the twelve months ended 31 December 2019.

The growth of the Group's other pediatric product segment was also boosted by the consolidation of Good Goût's (the Group's French infants and kids healthy food brand) sales into the Group's overall sales in 2019, which rose 175.2% compared to the previous year. This in turn was supported by the appointment of French football celebrity, Kylian Mbappé as a brand ambassador and the launch of Good Goût products in the Chinese online and offline markets, where it is now well positioned to capture a share of China's fast-growing infants and kids healthy food market.

Adult Nutrition and Care

The overall performance of the Group's ANC business was weaker than expected in 2019. Revenue derived from the Group's ANC business reached AUD832.3 million, a decrease of 3.1% on a currency-adjusted basis compared to the previous year. The weaker performance was mainly attributed to the sales decline in the ANZ market, which resulted from the new E-commerce regulations in China that impacted daigou traders who destocked inventory and reduced trading.

As a result of this, the Group has been working closely with its distributors and retailing partners to drive further consumer demand in the ANZ market, while also engaging daigou channels with continuous product and brand education. The Group is also focusing heavily on introducing new products that will drive incremental demand growth in the ANZ market. Consequently, according to research statistics by IRI, an independent market research company, Swisse's share of the Australian vitamin, herbal and mineral supplements ("**VHMS**") market remained resilient at 15.6% for the twelve months ended 31 December 2019.

Due to the Group's earlier strategy of kicking off active sales and forging partnerships with major CBEC platforms, the Group's ANC business in China continued to maintain its double-digit growth momentum, with revenue growing 29.7% year-over-year and active sales revenue gradually increasing throughout the year. In 2019, China overtook the ANZ market to become the largest contributor of ANC revenue, accounting for 47.7% of total ANC revenue during the year under review.

This strong result in China was driven by a number of factors, including continued consumer engagement; successful brand and product campaigns on major e-commerce platforms, especially during the Double 11 Campaign and "618" E-commerce shopping festivals; and the appointment of Chinese brand ambassadors Dilraba and Chun Wu. Sales through physical stores also expanded significantly with the normal trade business growing 52.3% during the year under review, accounting for approximately 10.7% of total Swisse sales in China. Swisse products were available for sale in 22,369 offline retail stores across China by the end of 2019, as the Group widened its penetration of the normal trade market through the launch of global best sellers such as Calcium + Vitamin D and beauty range such as collagen drinks and hyaluronic tablets.

Through these initiatives, Swisse continued to maintain its No. 1 position in the Chinese online VHMS market, with a market share of 5.7% for the twelve months ended 31 December 2019, according to research statistics by Earlydata, an independent market research data provider.

Outside of China and Australia, the ANC business continued to grow, particularly in Italy, Singapore, Netherlands and United States. The oversea markets except China and ANZ accounted for 7.4% of total ANC revenue during the year under review.

To further expand its global rollout and development, the Group leveraged the milestone of Swisse's 50th anniversary and utilized "The Quest Continues" campaign with celebrity endorsements in different markets, including the recognized Hollywood actor Chris Hemsworth, as well as actress and model Elsa Pataky.

The Group also launched Aurelia (its new UK-based ANC brand) on the RED (Xiaohongshu) CBEC platform in China and invited KOLs to France and London to further experience the luxuriousness of Aurelia products, including premium and natural probiotics and sustainably-sourced botanicals. Aurelia is currently sold globally through its own dynamic DTC (Direct-to-Consumer) platform, as well as through beauty e-commerce platforms, prestigious retail channels, hotels and spas.

To better drive innovation and access to disruptive technologies in the health and wellness industries, the Group sought new partnership opportunities with promising start-ups and entrepreneurs that align with its corporate vision through its NewH^2 fund. Already, the NewH^2 fund has strategically invested in personalized health and skincare, as well as in innovative technologies that prevent allergies. On top of these programs, the NewH^2 fund recently invested in Else Nutrition, a TSXV-listed company that is focusing on developing innovative, clean and plant-based food and nutrition products for infants, toddlers, children and adults.

The Group also completed the refinancing of its entire syndicated loan and senior notes in the second half of 2019, attaining a more stable capital structure that provides sufficient liquidity and finance cost savings for the coming five years. The Group's stronger liquidity position and healthy cash flow will ensure that it can carry out its business strategy while still being able to capture promising growth and investment opportunities, as well as provide continuous returns to shareholders.

PROSPECTS

Starting from 2020, the Group anticipates that it will be able to sustain positive revenue growth with healthy profitability, despite the headwinds ahead. It will also continue to implement its 'Premium, Proven, Aspirational and Engaging' ("**PPAE**") model to positively convey the images of its brands globally. It will also continue to drive consumer demand for its nutrition and wellness products by further sharing and leveraging its distribution network and brand assets to accelerate the exposure of its brands in different markets.

Following the severe novel coronavirus ("**COVID-19**") outbreak in January, the Group took immediate action to protect the safety and health of its employees and ensure business continuity. The Group's supply chain for its BNC and ANC segments are so far on track and our key partner manufacturers are operating with limited disruption. However, the Group has identified potential risks in the supply of some raw materials and logistics, and will closely monitor how the situation evolves in the coming weeks. Furthermore, thanks to the Group's high cash flow generation business model, it is well-positioned to maintain a healthy liquidity position with sufficient debt covenants headroom throughout this challenging period.

With COVID-19 disrupting retail and logistics businesses across China, the Group has proactively adjusted its marketing plans and the way it communicates and engages with customers to respond to the changed retail landscape. It is leveraging its propriety MAMA100 CRM platform to support its business and target customers through live webcast during this challenging period. Following the outbreak, the Group has also witnessed a strong increase in demand for probiotic supplements and immune-related products, such as Swisse Vitamin C effervescent, across different markets. The Group is confident that COVID-19 will be favorable to its business in the long run, resulting from rising consciousness around proactive health management and diseases prevention.

Despite the ongoing headwinds and challenges in 2020, the Group remains confident about the growth potential of its core ANC and BNC segments and its ability to establish a leading position globally in premium nutrition and wellness. The Group will also streamline its management capabilities and increase operational efficiency, thus improving the Group's profitability as a whole and maintaining sustainable returns to its shareholders.

Baby Nutrition and Care

The Group expects the Chinese IMF market to remain intensively competitive while still anticipating strong growth in emerging sectors, particularly the goat milk IMF market. The Group believes its IMF products, which are clinically proven to be effective, will continue to stand out in the market with premium and quality ingredients that effectively enhance and improve immunity. To strengthen market share, the Group will continue to implement its multi-brand category strategy to tap fast-growing segments of the market, invest further in branding and consumer education, acquire new customers and increase retention rate, as well as enter into more strategic partnerships with key customers both online and offline. To further expand its current IMF categories, the Group successfully obtained approval from China's State Administration for Market Regulation ("**SAMR**") in March of this year for its new French-made Terroir series under the Biostime brand.

Moreover, the Group will also continue to leverage the strong positioning of Biostime's world leading claim of pediatric probiotic supplements brand, taking full advantage of the robust and growing demand it continues to see in this category.

Adult Nutrition and Care

The Group will continue to seek positive growth despite the ongoing headwinds. In China, the Group will carry on with 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, while also further developing its omni channels on top of its CBEC platforms. The Group remains convinced that Swisse will continue to grow in a healthy and sustained manner in China as consumers become more aware of the brand through major CBEC channels, which will translate into further opportunities to grow the normal trade channel. For these reasons, the Group anticipates that China will remain the ANC business' largest market.

The Group will support further expansion of Swisse's normal sales channel by filing more "blue hat" licenses in 2020 with SAMR, and the launch of more comprehensive products in the Chinese offline market. The Group remains confident about the healthy and sustainable growth of the overall VHMS market in China in light of its still-low-but-growing penetration level. This will be further supported by the government's 'Healthy China 2030' Initiative, as well as heightened health consciousness due to the COVID-19 outbreak.

In the ANZ market, the COVID-19 outbreak will further challenge demand from daigou in the short term. However, the Group anticipates that demand from domestic sources will continue to increase and it will seek to drive further domestic consumption through strong branding, product innovation and channel expansion. The Group will also launch Swisse in new international markets, including in India where Swisse was launched in February, as well as in Malaysia, Thailand and Taiwan later this year.

SOCIAL RESPONSIBILITY

Throughout 2019, the Group demonstrated its high level of commitment to sustainability and how it can create shared value. The Group has published its second annual Environmental, Social and Governance ("**ESG**") report, and also published the H&H Group Supplier Code of Conduct and has joined leading international associations such as the United Nations Global Compact, The Sustainability Consortium and the Shared Value Project. It is also one of the top 90 companies of the Hang Seng Corporate Sustainability Benchmark Index. Furthermore, the Group regularly undertakes a range of sustainability initiatives, including community days and through the H&H Foundation, which has a mission to make people around the world healthier and happier.

In line with its continued commitment to sustainable farming practices, the Group is committed to incentivizing the rearing of the Normande breed of cow, which produces exceptional quality milk and at the same time reduces cost to the environment. The Group is also supporting bushfire recovery efforts in Australia, as well as COVID-19 prevention and safety control measures, through donations to the Red Cross and hospitals via the H&H Foundation.

The Group will continue to work towards its goal of improving its ESG performance across all areas of its business, and has set a clear roadmap in order to fulfill its commitment to become a B Corp certified organization by 2025.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2019, the Group's revenue increased by 7.8% to RMB10,925.2 million as compared with the same period in 2018. The Group confronted external regulatory changes, fierce market competition and slowing economic growth, while still managing to achieve moderate revenue growth throughout the year ended 31 December 2019.

	Year ended 31 December				
				% to revenue	
	2019	2018	*Change*	**2019**	2018
	RMB'000	*RMB'000*			
Baby nutrition and care products	**6,933,762**	5,888,292	17.8%	**63.5%**	58.1%
– Infant formulas	**5,071,511**	4,508,539	12.5%	**46.4%**	44.5%
– Probiotic supplements	**1,255,011**	1,044,614	20.1%	**11.5%**	10.3%
– Other pediatric products	**607,240**	335,139	81.2%	**5.6%**	3.3%
Adult nutrition and care products	**3,991,455**	4,244,206	-6.0%	**36.5%**	41.9%
Total	**10,925,217**	10,132,498	7.8%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB5,071.5 million for the year ended 31 December 2019. The IMF market in China remained intensely competitive due to the nation's declining birth rate, with market growth slowing markedly. Thanks to the Group's strong position in the premium and super premium segments, it still managed to achieve a sales growth of 12.5% compared with the year ended 31 December 2018. The strong growth was boosted by several initiatives aimed at further maximizing the average purchase amount per consumer, including recruiting new consumers, providing more differentiated premium product categories and enhancing brand awareness through continued investment in digital and social media marketing and professional endorsements. The Group's revenue from Healthy Times branded organic IMF outperformed the wider organic IMF market with sales growth of 33.8% in year ended 31 December 2019 compared with last year, and accounted for 5.6% of its total IMF revenue. Meanwhile, despite only launching in the China normal trade market in the fourth quarter in 2019 (having already launched in the Hong Kong SAR, the Group's CBEC platforms and ANZ market earlier in the year), the Group's new goats milk IMF series posted revenue of RMB146.5 million and accounted for 2.9% of the Group's total IMF revenue, demonstrating its potential as a future growth driver within China's under-developed but fast-growing goats milk market. The growth was also attributable to the successful launch of Biostime organic IMF products at the beginning of 2019 and goat milk IMF products in September 2019 in Australia, and the robust growth of Biostime organic IMF products in France.

Probiotic Supplements

For the year ended 31 December 2019, the Group recorded revenue from probiotic supplements of RMB1,255.0 million, a growth of 20.1% compared with the year ended 31 December 2018. This strong growth was mostly driven by leveraging Biostime's world leading claim of pediatric probiotic supplements brand, as well as the introduction of a new Biostime-branded probiotic liquid drop in several markets, including China, in the second half of 2019.

Other pediatric products

Revenue from other pediatric products segment increased by 81.2% to RMB607.2 million for the year ended 31 December 2019 compared with the year ended 31 December 2018. Sales of Dodie branded products achieved a growth of 70.4% to RMB434.3 million in 2019 compared with last year. The rapid growth was mainly attributed to the robust performance of Dodie branded products across China, following the launch of new diaper categories and the strong sales revenue achieved from both online and offline markets. Sales of Dodie branded diaper increased by 136.0% to RMB311.3 million for the year ended 31 December 2019 as compared with last year, supported by investment in brand awareness and consumer education activities as well as synergies of sales team and distribution channels 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 year ended 31 December 2019, revenue from Good Goût products amounted to RMB163.8 million, which increased by 175.2% from last year thanks to strong growth in both original French market and newly launched Chinese market.

Adult nutrition and care products

On currency-adjusted basis[Note], revenue from the adult nutrition and care products segment amounted to AUD832.3 million for the year ended 31 December 2019, representing a decrease of 3.1% compared with the year ended 31 December 2018. The decrease was mainly attributed to 'daigou' traders destocking inventory and reducing trading post implementation of China's new E-commerce law, which negatively impacted the Australian business. ANZ sales thus decreased by 26.3% for the year ended 31 December 2019 compared with last year.

However, China active sales continued to maintain its double-digit growth momentum of 29.7% and accounted for 47.7% of total ANC revenue for the year ended 31 December 2019. China active sales thus became the largest revenue contributor in the entire ANC business for the first time in history. The growth of China active sales was supported by strong brand and product marketing campaigns on major CBEC platforms especially during the Double 11 Campaign and "618" E-commerce shopping festivals, 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 demonstrated strong revenue growth, particularly in Singapore, Italy, Netherlands and United States. Revenue from oversea markets other than China and ANZ grew by 35.8% to AUD61.2 million for the year ended 31 December 2019 as compared with last year, accounting for 7.4% of total ANC revenue during this period.

Note: The exchange rates of AUD1 = RMB4.7956 and AUD1 = RMB4.9407 were used for the year ended 31 December 2019 and 2018, respectively.

Gross profit and gross profit margin

In 2019, the Group recorded gross profit of RMB7,228.5 million, an increase of 7.3% compared with last year. The Group's gross profit margin remained relatively stable in 2019 at 66.2% in comparison with 66.5% in 2018.

The gross profit of baby nutrition and care segment increased by 15.3% to RMB4,614.1 million in 2019 compared with that of last year. The gross profit margin of baby nutrition and care segment decreased to 66.5% in 2019 from 68.0% in 2018 mainly due to (i) 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, and (ii) the slight decrease in gross profit margin of probiotic supplements due to formula upgrade and depreciation of RMB against USD.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment decreased by 1.6% to AUD545.2 million in 2019, compared with last year. The gross profit margin of the adult nutrition and care segment increased from 64.5% in 2018 to 65.5% in 2019, resulting from the more favorable product and market mix as well as the increase of sales prices of certain stock keeping units.

Other income and gains

Other income and gains amounted to RMB131.9 million for the year ended 31 December 2019. Other income and gains primarily consisted of net foreign exchange gain of RMB48.0 million, government subsidies of RMB42.2 million, interest income of RMB20.2 million and others.

The net foreign exchange gain of RMB48.0 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 21.0% to RMB4,362.2 million in 2019, as compared with 2018. Selling and distribution costs excluding D&A as a percentage of the Group's revenue was 40.0% in 2019, increased by 4.4 percentage points as compared with 35.6% in 2018, mainly driven by the strategic investments in new markets and new product categories.

Selling and distribution costs of BNC business amounted to RMB2,871.6 million in 2019, representing an increase of 22.5% as compared with last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased by 1.6 percentage points from 39.8% in 2018 to 41.4% in 2019. Advertising and marketing expense of BNC business as a percentage of its revenue increased from 10.6% in 2018 to 12.3% in 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, as well as the launch of Good Goût's product categories in the Chinese market since May 2019. 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 remained stable at 29.1% in 2019 despite strategic channel investments made in new markets and new categories.

Selling and distribution costs of ANC business amounted to RMB1,490.6 million in 2019, representing an increase of 18.0% as compared with last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business increased by 7.6 percentage points from 29.7% in 2018 to 37.3% in 2019. Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 20.3% in 2018 to 27.5% during the period under review. 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 increase was also 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 ("**PGT**"), 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 increased from 9.4% in 2018 to 9.8% in 2019 resulting from the strategic investments in new markets, and the increasing revenue proportion from Chinese normal trade markets which required higher selling and distribution costs. Thanks to operation efficiency improvement, selling and distribution costs other than advertising and marketing expense as a percentage of the revenue in Swisse's home market, ANZ remained relatively stable despite the lower revenue base there.

Administrative expenses

Administrative expenses increased by 3.0% from RMB619.6 million in 2018 to RMB638.0 million for the year ended 31 December 2019. Administrative expenses as a percentage of the Group's revenue improved slightly by 0.3 percentage point to 5.8% in 2019, as compared with 6.1% in 2018. The Group enhanced its operational capability to support global expansion while still managed to improve the spending efficiency.

Other expenses

Other expenses for the year ended 31 December 2019 amounted to RMB249.5 million. Other expenses mainly included R&D expenditure of RMB163.7 million and net fair value losses on derivative financial instruments including derecognition of early redemption option embedded in the senior note of RMB47.4 million.

During the year under review, R&D expenditure increased by 8.3% as compared with 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.

The non-cash net fair value losses on derivative financial instruments of RMB47.4 million was mainly caused by the derecognition of the early redemption option embedded in the Group's USD600 million 7.25% senior notes after the refinancing of senior notes was successfully completed in the fourth quarter of 2019.

EBITDA and EBITDA margin

EBITDA for the year ended 31 December 2019 amounted to RMB2,222.2 million, increased by 2.9% from RMB2,158.6 million in 2018. EBITDA margin was 20.3% in 2019.

Adjusted EBITDA decreased by 9.9% from RMB2,480.7 million in 2018 to RMB2,235.4 million in 2019. Adjusted EBITDA margin for 2019 was 20.5%, decreased by 4.0 percentage points as compared with last year. The lower Adjusted EBITDA and Adjusted EBITDA margin were mainly due to the Group's strategic stepped-up investments in new markets and products that will support its long-term prospects, and the revenue decline of the high-margin Australian business which has been impacted by the implementation of China's new E-commerce law leading daigou traders to destock inventory and reduce trading.

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

	Year ended 31 December	
	2019	2018
	RMB million	*RMB million*
EBITDA	**2,222.2**	2,158.6
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange (gains)/losses	**(48.0)**	275.9
(2) Net fair value losses on financial instruments including derecognition of early redemption option embedded in the senior notes	**45.1**	30.0
Non-recurring items*:		
(3) One-time restructuring costs in certain markets	**16.1**	
(4) Non-recurring transaction costs in relation to attempted refinancing of senior notes and mergers and acquisitions	**–**	16.2
Adjusted EBITDA	**2,235.4**	2,480.7

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

Finance costs

During the year ended 31 December 2019, the Group incurred finance costs of RMB420.8 million, including interests for the term loan and senior notes of RMB354.3 million and premium of RMB56.2 million paid for early redemption of part of the senior notes. Thanks to the improved capital structure, finance costs for the year ended 31 December 2019 decreased by 12.2% compared with 2018.

Income tax expense

Income tax expense decreased from RMB684.8 million in 2018 to RMB560.2 million in 2019. Thanks for the tax initiatives launched by the Group, as well as the reduction of several adjustment items, the effective tax rate decreased from 44.8% in 2018 to 35.8% in 2019.

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:

	Year ended 31 December	
	2019	2018
	RMB million	*RMB million*
Net profit	**1,005.0**	843.1
Reconciled by:		
EBITDA adjusted items as listed above	**13.2**	322.1
Non-cash items*:		
Write-off of transaction costs upon refinancing for the term loan	**–**	34.0
Non-recurring items*:		
(1) One-time net capital gain tax in relation to the intellectual property transferred within the Group's subsidiaries and accelerated amortization of intangible assets of PGT royalty agreement	**–**	93.8
(2) Premium paid for early redemption of part of the senior notes and loss on redemption of the convertible bonds	**56.2**	30.0
Adjusted net profit	**1,074.4**	1,323.0

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2019, the Group recorded net cash generated from operating activities of RMB1,439.3 million, resulting from pre-tax cash from operations of RMB2,175.5 million, minus income tax paid of RMB736.2 million.

Investing activities

For the year ended 31 December 2019, net cash flows used in investing activities amounted to RMB277.2 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB132.7 million, subscription of bond issued by one of the Group's IMF suppliers of RMB78.5 million, strategic investments made by the Group's solely-owned NewH^2 fund of RMB78.5 million and others.

Financing activities

For the year ended 31 December 2019, net cash flows used in financing activities amounted to RMB869.1 million. The cash outflows were primarily related to the repayment of term loans of RMB77.3 million, early redemption of remaining part of the Group's USD600 million 7.25% senior notes of RMB3,405.0 million and interest paid for term loans and senior notes of RMB328.3 million. The cash outflows were partially offset by the net proceed from the successful refinancing of new term loan of RMB1,056.2 million and senior notes of RMB2,098.2 million.

Cash and bank balances

As of 31 December 2019, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB2,217.3 million.

Term loan and senior notes

As of 31 December 2019, the Group's outstanding term loans amounted to RMB3,751.6 million, all are payable after one year. The total carrying amount of the senior notes was RMB2,124.8 million, including current portion of RMB21.5 million.

As of 31 December 2019, the net leverage ratio remained stable at 1.64 as compared with that of 31 December 2018, calculated by dividing the net debts[*Note*] by adjusted EBITDA. Gearing ratio decreased to 37.0% from 40.2% as of 31 December 2018, calculated by dividing the sum of the carrying amount of senior notes and interest bearing term loan by total assets.

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables increased by 4 day from 28 days for the year ended 31 December 2018 to 32 days for the year ended 31 December 2019 mainly due to temporary credit term extensions granted to certain customers in Australia. The average turnover days of trade payables were 81 days for the year ended 31 December 2019, representing an increase of 3 days from 78 days for the year ended 31 December 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 152 days for the year ended 31 December 2019, representing an increase of 15 days from 137 days for the year ended 31 December 2018. The average turnover days of BNC products decreased 15 days from 133 days for the year ended 31 December 2018 to 118 days for the year ended 31 December 2019. The average turnover days of ANC products increased 67 days from 141 days for the year ended 31 December 2018 to 208 days for the year ended 31 December 2019. The increase was mainly caused by the lower-than-expected growth of revenue from ANC segment even though the average turnover days of ANC products have come down gradually from the peak of 254 days at end of the first half of 2019 thanks to the implementation of a series of improvement measures.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HKD0.85 per ordinary share for the year ended 31 December 2019, accounting for approximately 50.0% of net profit for the year ended 31 December 2019.

Subject to approval at the forthcoming annual general meeting on Friday, 8 May 2020, the said final dividend will be payable on or about 8 July 2020 to shareholders whose names appear on the register of members of the Company on Monday, 18 May 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the Group's business and some are from external sources. The major risks faced by the Group are set out in the section headed "PROSPECTS" of this announcement.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

The Group's NewH^2 fund entered into an investment agreement with Else Nutrition Holdings Inc. (TSXV: BABY), an Israel-based food and nutrition company focused on developing innovative, clean and plant-based food and nutrition products for infants, toddlers, children, and adults, for a minority stake of 11.15% with an amount of C$5.75 million in February 2020. The Group also signed a Memorandum of Understanding with Else Nutrition Holdings Inc. for the future distribution of non-dairy non-soy Baby formula and children nutrition drinks in the following markets: France, Hong Kong SAR, Cross-Border China, Australia, Italy, and China.

To the best of the knowledge of the Directors having made all reasonable enquiries, Else Nutrition Holdings Inc. is independent of the Company and its connected persons. The Directors confirmed that as all the applicable percentage ratios under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") in respect of the transactions contemplated under the investment 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.

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2019 and up to the date of this announcement, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

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

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

Relationship with Employees

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

Relationship with Customers

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

Relationship with Suppliers

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

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2020 Annual General Meeting

The forth coming annual general meeting will be held on Friday, 8 May 2020 (the "**2020 AGM**"). The register of members of the Company will be closed from Tuesday, 5 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 May 2020.

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Thursday, 14 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 May 2020.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. Throughout the year ended 31 December 2019, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1 as disclosed below.

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

During the year ended 31 December 2018, Mr. Luo Fei, the Chairman of the Company, was also the Chief Executive Officer of the Company. The Board believed that vesting the roles of both Chairman and Chief Executive Officer in the same person could ensure consistent leadership within the Board and the Group, including an effective and efficient overall strategy, risk management and corporate governance 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 and the chief strategy officer of the Company, 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 throughout the year ended 31 December 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 year ended 31 December 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**") comprises three members, namely, Dr. Ngai Wai Fung (Chairman of the Audit Committee), Mr. Luo Yun and Mr. Tan Wee Seng (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2019 and the annual results for the year ended 31 December 2019, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and the Annual Report for the year ended 31 December 2019, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2019, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

On 15 August 2019, 23 November 2019 and 28 November 2019, the Company redeemed USD50 million and USD425 million respectively in principle amount of its 7.25% senior notes due 2021. Please refer to the announcement of the Company dated 15 July 2019, 24 October 2019 and 29 October 2019 for further details.

On 17 October 2019, the Company entered into a purchase agreement with Goldman Sachs (Asia) L.L.C., The Hong Kong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Coöperative Rabobank U.A., Hong Kong Branch, CMB International Capital Limited and Shanghai Pudong Development Bank Co., Ltd. Singapore Branch in connection with the issue of USD300 million 5.625% Notes due 2024. Please refer to the announcement of the Company dated 18 October 2019 and 24 October 2019 for further details.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 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, 23 March 2020

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.