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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2021	2020	*Change*
	RMB'000	*RMB'000*	*%*
	(Unaudited)	(Unaudited)	
Revenue	**5,424,320**	5,167,225	***5.0%***
Gross profit	**3,422,749**	3,430,433	*-0.2%*
EBITDA*	**929,616**	1,267,753	*-26.7%*
Adjusted EBITDA*	**1,066,385**	1,146,247	***-7.0%***
Net profit	**501,354**	718,005	*-30.2%*
Adjusted Net profit**	**660,171**	617,009	***7.0%***

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA + Non-cash losses of RMB151.7 million for the six months ended 30 June 2021 (six months ended 30 June 2020: gains of RMB80.1 million) – Non-recurring gains of RMB14.9 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB41.3 million)

** Adjusted net profit = Net profit + EBITDA adjustment items of losses of RMB136.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: gains of RMB121.5 million) + Other non-cash losses of RMB22.0 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB20.5 million)

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020, as follows:

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

Six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**5,424,320**	5,167,225
Cost of sales		**(2,001,571)**	(1,736,792)
Gross profit		**3,422,749**	3,430,433
Other income and gains	*5*	**87,444**	134,058
Selling and distribution costs		**(2,172,679)**	(2,066,521)
Administrative expenses		**(311,105)**	(284,285)
Other expenses		**(229,808)**	(72,562)
Finance costs		**(129,919)**	(150,124)
Share of profit of an associate		**3,445**	5,134
PROFIT BEFORE TAX	*6*	**670,127**	996,133
Income tax expense	*7*	**(168,773)**	(278,128)
PROFIT FOR THE PERIOD		**501,354**	718,005

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**117,261**	(17,419)
Reclassification adjustments for losses included in profit or loss	**(56,747)**	(36,753)
Income tax effect	**(11,540)**	22,405
	48,974	(31,767)
Hedge of net investments:		
Effective portion of changes in fair value of hedging instruments arising during the period	**(24,285)**	53,553
Exchange differences on translation of foreign operations	**(113,438)**	(71,310)
Exchange differences on net investment in foreign operations	**(107)**	(3,400)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(88,856)**	(52,924)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(61,325)**	66,472
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(150,181)**	13,548
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**351,173**	731,553
Profit attributable to owners of the parent		**501,354**	718,005
Total comprehensive income attributable to owners of the parent		**351,173**	731,553
		RMB	*RMB*
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**0.78**	1.12
Diluted		**0.78**	1.11

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2021

	Notes	**30 June 2021 *RMB'000* (Unaudited)**	31 December 2020 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**455,073**	433,896
Right-of-use assets		**162,733**	169,591
Goodwill		**6,461,479**	6,648,697
Intangible assets		**3,431,319**	3,579,673
Bonds receivable		**211,194**	220,504
Deposits		**33,082**	65,484
Investment in an associate		**70,226**	66,780
Deferred tax assets		**526,418**	587,539
Derivative financial instruments		**75,156**	91,345
Other non-current financial assets		**318,375**	386,363
Total non-current assets		**11,745,055**	12,249,872
CURRENT ASSETS			
Inventories		**2,032,816**	1,958,055
Trade and bills receivables	*10*	**677,135**	795,558
Prepayments, other receivables and other assets		**330,679**	341,629
Financial assets at fair value through profit or loss		**442**	–
Derivative financial instruments		**29,639**	38,022
Pledged deposits		**3,993**	4,416
Cash and cash equivalents		**1,971,344**	1,830,873
Total current assets		**5,046,048**	4,968,553
CURRENT LIABILITIES			
Trade and bills payables	*11*	**738,954**	637,822
Other payables and accruals		**1,575,634**	2,184,333
Contract liabilities		**138,830**	168,028
Lease liabilities		**45,280**	42,846
Derivative financial instruments		**7,363**	–
Senior notes		**19,621**	20,232
Tax payable		**216,014**	224,440
Dividend payables		**209,137**	–
Total current liabilities		**2,950,833**	3,277,701
NET CURRENT ASSETS		**2,095,215**	1,690,852

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
30 June 2021

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,840,270**	13,940,724
NON-CURRENT LIABILITIES		
Senior notes	**1,945,056**	1,965,327
Interest-bearing bank loans	**4,004,311**	4,038,793
Other payables and accruals	**4,315**	5,030
Lease liabilities	**75,596**	106,262
Derivative financial instruments	**573,567**	684,583
Deferred tax liabilities	**846,850**	938,042
Total non-current liabilities	**7,449,695**	7,738,037
Net assets	**6,390,575**	6,202,687
EQUITY		
Issued capital	**5,516**	5,510
Other reserves	**6,385,059**	5,987,832
Proposed dividend	**–**	209,345
Total equity	**6,390,575**	6,202,687

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

1. CORPORATE AND GROUP INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 (the "**Period**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the revised International Financial Reporting Standards ("**IFRSs**") (which also include International Accounting Standards ("**IASs**") and Interpretations) as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following IFRSs for the first time for the current period's financial information:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank loans with floating interest rates denominated in United States dollars and Australian dollars as at 30 June 2021. Since the interest rates of these bank loans were not replaced by RFRs during the Period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

The Group also has applied cash flow hedges to manage the cash flow interest rate risk of such interest-bearing bank loans. The Group expects to amend the formal designation of that hedging relationship upon modification (or other forms of changes that in substance result in a replacement of the benchmark interest rate) of the cross currency interest rate swaps or the interest-bearing bank loans. Provided that the modification or the change is a direct consequence of the interest rate benchmark reform, and the new basis for determining the contractual cash flows of the cross currency interest rate swap and the interest-bearing bank borrowing is economically equivalent to the previous basis immediately preceding the change, the modification or the change in the cross currency interest rate swap or the interest-bearing bank borrowing will not result in derecognition, and the related hedge relationship will remain and not be discontinued. The Group expects that any resulting ineffectiveness upon the modification or the change to be charged to profit or loss will be immaterial.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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 six months ended 30 June 2021 (Unaudited):

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Pet nutrition and care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	2,541,232	464,401	1,906,475	293,670	218,542	–	5,424,320
Segment results	1,611,739	363,049	1,205,167	151,747	91,047	–	3,422,749
Reconciliations:							
Interest income							7,095
Other income and unallocated gains							80,349
Share of profit of an associate							3,445
Corporate and other unallocated expenses							(2,713,592)
Finance costs							(129,919)
Profit before tax							670,127
Other segment information:							
Depreciation and amortisation	13,854	4,558	59,126	7,536	315	51,276	136,665
Impairment/(write-back of impairment) of trade receivables	–	–	40	1,873	(214)	–	1,699
Write-down/(write-back) of inventories to net realisable value	7,544	5,286	117,127	5,138	(380)	–	134,715
Capital expenditure*	19,047	2,737	8,711	4,341	–	46,285	81,121

Operating segment information for the six months ended 30 June 2020 (Unaudited):

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	2,338,258	856,131	1,640,161	332,675	–	5,167,225
Segment results	1,489,081	672,646	1,098,180	170,526	–	3,430,433
Reconciliations:						
Interest income						12,118
Other income and unallocated gains						121,940
Share of profit of an associate						5,134
Corporate and other unallocated expenses						(2,423,368)
Finance costs						(150,124)
Profit before tax						996,133
Other segment information:						
Depreciation and amortisation	13,236	3,702	51,101	7,199	58,376	133,614
(Write-back of)/ impairment of trade receivables	–	–	(57)	3,783	–	3,726
Write-down of inventories to net realisable value	12,210	737	21,724	1,833	–	36,504
Capital expenditure*	12,797	668	7,715	4,802	8,621	34,603

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**4,333,248**	4,268,938
Australia and New Zealand	**597,910**	587,334
Other locations#	**493,162**	310,953
	5,424,320	5,167,225

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

(b) Non-current assets

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Mainland China	**512,075**	507,418
Australia and New Zealand	**2,557,668**	2,699,656
Other locations[#]	**1,082,690**	1,108,350
	4,152,433	4,315,424

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

[#] Including the Hong Kong Special Administrative Region ("**Hong Kong SAR**") of the People's Republic of China (the "**PRC**")

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2021 *RMB'000* **(Unaudited)**	2020 *RMB'000* (Unaudited)
Revenue from contracts with customers		
Sale of goods	**5,424,320**	5,167,225

Disaggregated revenue information

For the six months ended 30 June 2021 (unaudited)

Segments	**Infant formulas** *RMB'000*	**Probiotic supplements** *RMB'000*	**Adult nutrition and care products** *RMB'000*	**Other pediatric products** *RMB'000*	**Pet nutrition and care products** *RMB'000*	**Total** *RMB'000*
Geographical markets						
Mainland China	**2,464,495**	**460,051**	**1,185,954**	**142,399**	**80,349**	**4,333,248**
Australia and New Zealand	**20,980**	**588**	**576,003**	**339**	**–**	**597,910**
Other locations*	**55,757**	**3,762**	**144,518**	**150,932**	**138,193**	**493,162**
Total	**2,541,232**	**464,401**	**1,906,475**	**293,670**	**218,542**	**5,424,320**
Timing of revenue recognition						
Goods transferred at a point in time	**2,541,232**	**464,401**	**1,906,475**	**293,670**	**218,542**	**5,424,320**

For the six months ended 30 June 2020 (unaudited)

Segments	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Total *RMB'000*
Geographical markets					
Mainland China	2,281,998	853,865	926,430	206,645	4,268,938
Australia and New Zealand	15,220	397	571,717	–	587,334
Other locations*	41,040	1,869	142,014	126,030	310,953
Total	2,338,258	856,131	1,640,161	332,675	5,167,225
Timing of revenue recognition					
Goods transferred at a point in time	2,338,258	856,131	1,640,161	332,675	5,167,225

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**2,518**	7,302
Interest income from loans and bonds receivables	**4,577**	4,816
Foreign exchange gains	**–**	31,046
Fair value gains on derivative financial instruments, net	**–**	48,848
Fair value gains on financial assets	**–**	277
Government subsidies*	**30,091**	36,642
Other investment income	**–**	714
Gains on sales of raw materials	**25,843**	–
Gains on early termination of leases	**19,249**	–
Others	**5,166**	4,413
	87,444	134,058

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

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,866,856**	1,700,288
Depreciation of property, plant and equipment	**42,653**	43,257
Depreciation of right-of-use assets	**27,525**	26,432
Amortisation of intangible assets	**66,487**	63,925
Research and development costs**	**59,696**	58,443
Lease payments not included in the measurement of lease liabilities	**8,216**	2,061
Gains on early termination of leases	**(19,249)**	–
Loss on disposal of items of property, plant and equipment and intangible assets	**738**	38
Employee benefit expenses:		
Wages and salaries	**574,885**	570,552
Pension scheme contributions (defined contribution schemes)	**59,741**	61,294
Staff welfare and other expenses	**24,590**	17,637
Equity-settled share option expense	**35,780**	32,654
	694,996	682,137
Foreign exchange differences, net	**98,752****	(31,046)*
Fair value losses/(gains) on derivative financial instruments, net	**47,787****	(48,848)*
Fair value losses/(gains) on financial assets	**5,147****	(277)*
Impairment of trade receivables**	**1,699**	3,726
Write-down of inventories to net realisable value#	**134,715**	36,504

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

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

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

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	**102,663**	352,697
Hong Kong SAR	**86,121**	67,461
Australia	**(392)**	(5,562)
Elsewhere	**1,195**	1,287
Deferred	**(20,814)**	(137,755)
Total tax charge for the period	**168,773**	278,128

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

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in mainland China has been calculated at the rate of 25% (six months ended 30 June 2020: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof.

Guangzhou Hapai Information Technology Co., Ltd and Biostime (Guangzhou) Health Products Limited, the Company's wholly-owned subsidiaries operating in mainland China, were recognised as high-technology enterprise, and are subject to EIT at a rate of 15% for the Period and the six months ended 30 June 2020.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits arising in Hong Kong SAR during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (six months ended 30 June 2020: HKD2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (six months ended 30 June 2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2020: 16.5%).

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2020: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

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

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

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

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

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

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

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

Income tax for other jurisdictions

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

8. DIVIDENDS

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends on ordinary shares declared after the interim reporting date:		
Interim – HKD0.37 (2020: HKD0.63) per ordinary share	**198,051**	359,002

On 24 August 2021, the board of directors declared an interim dividend of HKD0.37 (six months ended 30 June 2020: HKD0.63) per ordinary share, amounting to a total of approximately RMB198,051,000 (six months ended 30 June 2020: RMB359,002,000).

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

The calculation of the basic earnings per share amounts is based on the profit for the Period attributable to ordinary equity holders of the parent of RMB501,354,000 (six months ended 30 June 2020: RMB718,005,000), and the adjusted weighted average number of ordinary shares of 644,503,900 (six months ended 30 June 2020: 643,609,820) in issue during the Period.

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

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**501,354**	718,005

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**644,503,900**	643,609,820
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**1,809,157**	3,009,391
Adjusted weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**646,313,057**	646,619,211

10. TRADE AND BILLS RECEIVABLES

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Trade receivables	**667,087**	714,374
Bills receivable	**24,425**	94,307
	691,512	808,681
Less: Impairment provision	**(14,377)**	(13,123)
	677,135	795,558

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 provisions, is as follows:

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Within 1 month	**377,157**	466,228
1 to 3 months	**237,165**	289,211
Over 3 months	**62,813**	40,119
	677,135	795,558

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

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
At beginning of the Period/year	**13,123**	7,424
Acquisition of a subsidiary	**–**	188
Impairment losses recognised	**10,091**	10,516
Amount written off as uncollectible	**(21)**	(1,582)
Impairment losses reversed	**(8,392)**	(3,477)
Exchange realignment	**(424)**	54
At end of the Period/year	**14,377**	13,123

11. TRADE AND BILLS PAYABLES

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Trade payables	**732,270**	626,732
Bills payable	**6,684**	11,090
	738,954	637,822

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:

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Within 1 month	**626,988**	502,892
1 to 3 months	**78,712**	53,138
Over 3 months	**33,254**	81,792
	738,954	637,822

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

As at 30 June 2021, included in trade payables is an amount due to an associate of the Group of RMB20,525,000 (31 December 2020: Nil) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

CHAIRMAN'S STATEMENT

During the first half of 2021, we remained fully committed to delivering profitable growth, leveraging our high cash generation business model diversified across multiple product categories and territories. That said, we must also acknowledge the various challenges that we are encountering in this ongoing pandemic environment.

Our Baby Nutrition & Care ("**BNC**") segment faced pressure from intensifying competition in mainland China in both the infant milk formulas ("**IMF**") and probiotics categories, as well as from lower overall demand. However, we have no doubt that our distribution expansion strategy, which we launched in the latter part of 2020, is heading in the right direction. But it will take some more time to transform our entire distribution system.

Despite a high base in the same period last year and a much-diminished daigou business, our Adult Nutrition & Care ("**ANC**") segment returned to growth in the first half of the year, with mainland China being the main growth contributor. Meanwhile, we significantly narrowed our revenue decline in Australia and New Zealand ("**ANZ**") on a year-on-year basis compared with the same period of last year after a two-year-long adjustment effort brought about by the decline of our daigou business and COVID lockdown measures.

We are also highly satisfied with the development of our new Pet Nutrition & Care ("**PNC**") segment. Following our acquisition of Solid Gold Holdings, LLC ("**Solid Gold**") and its smooth integration into our business, it is delivering the growth we expected in both the United States of America ("**US**") and mainland China markets. We are very enthusiastic about the potential of the pet nutrition market globally and look forward to PNC becoming a new growth driver for the Group.

In light of our healthy cash position and net debt leverage year on year, we are pleased to announce that we have resolved to an interim dividend of 30% of the adjusted net profit. We remain committed to maintaining a strong cash position and steady dividend policy in the long run.

Mainland China: strong growth in ANC offsetting headwinds faced by BNC due to a high base last year and intensifying competition due to the low birth rate

Sales in mainland China dropped by 2.5% year-on-year on a like-for-like*Note* basis during the period under review due to a decline in BNC revenue, while our ANC segment saw double-digit growth momentum despite a slow start to the year. The weak performance of our BNC business was attributed to high-base pressures that stemmed from surging demand for immunity support products in the first half of last year and intensifying competition due to the low birth rate.

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

Despite these headwinds, which are affecting the entire industry, we made steady progress in implementing our new channel expansion strategy in mainland China. Our store network in the first half of 2021 grew by more than 10,000 sales points year-on-year as we entered more baby specialty stores and other offline channels in lower-tier cities. Following the implementation of a new bonus stock policy in the later part of 2020, gross sales of our IMF products (including the bonus stock granted) grew by double digits during the period under review. This enabled us to maintain a stable market share in the cow milk IMF market in mainland China at 6.1%.

Continued premiumization saw demand for goat milk – one of the most dynamic parts of mainland China's overall IMF market – further accelerate with sales of our goat milk IMF recording impressive growth of 71.8% during the period under review. This category now accounts for 9.4% of our total IMF revenue.

Other areas of our BNC business in mainland China were heavily challenged during the period under review. This was particularly true for our probiotics products segment, the performance of which was doubly impacted: firstly by a high base due to unprecedented demand for immunity support products in the first quarter of 2020 following the outbreak of COVID-19, and secondly by a substantial sell-in of our Biostime branded probiotics product range in the second quarter of 2020, during which sales grew by more than 50% year-on-year, ahead of a scheduled price increase in July 2020. Intensifying competition also placed extra pressure on probiotics sales across all channels.

Our other pediatric products segment, which mainly comprises of our Dodie diaper products, also faced pressure during the period under review following a conscious decision to shift focus from volume growth to profitability improvement in this category.

In the ANC segment, we continued to introduce new blue hat SKUs and localized products, which saw us deliver high double-digit growth in our normal trade business – the channel through which the majority of vitamin, herbal, and mineral supplements ("**VHMS**") sales in mainland China are made. We also overcame weakness in our cross-border e-commerce ("**CBEC**") channel in the beginning of the year to deliver overall growth in ANC sales in mainland China during the period under review.

Swisse's strong performance during the 618 shopping festival once again proved the brand's growth potential in the mainland China market, particularly in the normal trade e-commerce channel. In the twelve months ended 30 June 2021, Swisse continued to maintain its No. 1 position in mainland China's online VHMS market with a market share of 5.7%.

ANZ: gradual recovery in the first half with a focus on the domestic consumer market

Following the collapse of daigou activity in the ANZ market in 2020 resulting from border controls during the pandemic, we focused on developing our domestic business to capture the local consumer demand for wellness and immunity support products. This strategy is delivering, with sales returning to growth in the period under review. However, near-term uncertainties remain as population lockdowns of major cities in Australia continue.

Our drive to rapidly expand our presence in offline retail and pharmacies in ANZ is significantly increasing coverage. Our first nutraceutical range available in pharmacy-only-channels – Swisse Nutra+ – is now available in over 1,000 pharmacies. This allowed Swisse to gain further market share in the ANZ market – which remains a significant market for us – in the twelve months ended 30 June 2021.

Elsewhere, BNC revenue in the ANZ market benefited from positive sales development targeting the domestic market, which resulted particularly from our innovation strategy. Biostime recently became the first brand to launch IMF and infant supplements with advanced nutrient Human Milk Oligosaccharides ("**HMO**") in the Australian market, another example of how we are better capturing local demand for baby nutrition and immunity.

Other territories: strong growth amid prolonged COVID impact in the first half of 2021

We continued to see encouraging double-digit growth and a higher contribution from other territories, including sustained growth momentum for our Swisse VHMS products and Biostime IMF series.

Growth in the France and United Kingdom ("**UK**") markets was particularly strong with Biostime retaining its No.1 position in the organic IMF category within the French pharmacy channel. The India and Malaysia markets also contributed meaningful revenue despite our brands only entering these markets in 2020.

PNC: solid growth of Solid Gold in both the US and mainland China, plus the recently announced acquisition of Zesty Paws, a leading online premium pet supplement brand in the US, placing new PNC segment in good stead for profitable growth

We announced on 23 August 2021 the successful signing of the acquisition of Zesty Paws, LLC, a leading online premium pet supplement brand and highly disruptive category pioneer in the US. This modern, digital, and trusted brand provides a unique platform opportunity in the rapidly growing pet supplement category and will further strengthen our existing PNC product portfolio and accelerate the growth in this promising business segment both online and offline.

Solid Gold recorded double-digit growth of 18.1% in its home market the US, in the first half of 2021, performing strongly both online and offline thanks to tailwinds from high rates of pet adoption and growing consumer spending on premium pet nutrition. We also officially launched Solid Gold online and offline in the mainland China market during the period under review, transitioning the brand from a sole distributor model to one focused on active sales. Despite still being in the very early stage of marketing and branding in mainland China and recording no sales in this market until April 2021, the PNC segment grew 64.2% year-on-year on a LFL basis during the period under review, fuelled by a strong debut at the 618 shopping festival.

Continuing to grow with our unique positioning

The rest of 2021 will continue to be full of challenges. However, we are confident our unique brand positioning and diversification strategy across different territories and categories will ensure sustainable growth in the long run. We will strive to maintain overall revenue growth for the full 2021 financial year, with improved margins in the ANC segment alongside margin pressure in the BNC segment due to unfavourable product mix changes and raw material cost increases.

In mainland China, our largest market, our strategy of expanding the penetration of our diversified BNC and ANC products remains the lynchpin for achieving overall revenue growth in 2021, as well as our main source of profit. Our diversification is also a key differentiator from our peers: our position as a whole-family nutrition and care provider enables us to capture opportunities in the adult and premium pet-nutrition categories amid a declining birth rate. We expect to continue making great progress in both ANC and PNC to deliver sustained revenue growth in the Chinese market for the full year of 2021.

We aim to maintain a stable market share in the BNC segment in mainland China. It will, however, take some more time for our distribution expansion strategy to yield greater results under the current market dynamics. Our probiotics category will continue to face pressure in the second half of the year due to intensifying competition across the market. However, the overall probiotics market in mainland China still demonstrates great growth potential over the long term. We are confident that further sales points expansion will support long-term growth, alongside greater cross-selling opportunities with our IMF products and consumer education efforts that leverage Biostime's No. 1 positioning in the global pediatric probiotic and probiotics supplements market.

In the ANC segment, we will continue to capture more of the fast-growing normal trade e-commerce market channel in mainland China by introducing more new blue hat SKUs and localized products. We expect the sales contribution from the PNC segment to grow quickly as Solid Gold expands both online and offline in mainland China.

Another strategic priority is to reclaim Swisse's leadership in the domestic ANZ market, with the daigou channel unlikely to return in any significant form. We will continue to further expand our sales channels and invest in driving domestic demand in this market. We also expect to see more contribution from our other overseas markets as we continue to strategically globalize our Biostime and Swisse brands.

We will continue to leverage on synergies created with the rest of our business to rapidly scale up our PNC segment in mainland China to tap the premiumization of the pet nutrition space and the shift of pet-related purchases online. In the US market, we believe that product innovation and the rapid development of pet care e-commerce will further drive our business there.

By expanding the range and availability of our premium products and aspirational brands, we will continue to realize our vision of becoming a global leader in premium nutrition and wellness.

Sustainability: nourishing people and the planet

In line with our philosophy of continuous improvement, in the first six months of 2021, we made further progress in building strong governance around our management across the Group. Sustainability is now a standing item at each of our Executive and Board meetings, monitoring our progress and maintaining accountability towards our sustainability goals.

Within our first impact area – 'Advancing the Story of Good Health' – we launched over 45 new products (focused on positive consumer health outcomes and community impact) and won 11 awards for our products in the first half of 2021. Additionally, we invested over US$750,000 into community programs in the first half of 2021, including support to COVID-19 impacted communities around the world. We have actively Reduced our Footprint on the Planet – our second impact area – by introducing recycling heat technology and more energy-efficient refrigeration at our factories, introducing rail freight as an alternative to air freight from Europe to China (which will reduce transport-related emissions on these routes by nearly 90%), and placing environmental performance at the forefront of all our newly launched products, including raising our benchmarks for packaging and the use of sustainable raw materials. In our third impact area – Honouring Human Rights and Fairness – we expanded our 'Celebrate Life Every Way' initiative to promote diversity and inclusion, filling 40%-44% of vacant roles in China and ANZ with internal candidates. We now have the highest female representation in middle management than in any time of our history at 57%.

In the area of 'Governance' – our fourth impact area – we completed the 'Pre-Screen' phase for B-Corp certification and are now in the 'Scoping' phase, having commenced a fast-track process for two of our regions. We maintained our MSCI ESG Research rating of 'A' and HKQAA rating of 'A' for ESG performance. We are also very proud to share that our Biostime, Dodie and Good Goût brands have been recognized as an "Entreprise à Mission" (purpose-led company) in France.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2021, the Group's revenue decreased by 2.0% on a LFL basis to RMB5,424.3 million as compared with the same period in 2020, mainly due to a high base in the first half of 2020 following the outbreak of COVID-19, and intensifying competition. While on reported basis, the Group's revenue increased by 5.0% comparing with the same period in 2020.

	Six months ended 30 June				% to revenue	
	2021	2020	*Reported Change*	*LFL Change*	**2021**	2020
	RMB'000	*RMB'000*	*%*	*%*	*%*	*%*
Revenue by product segment						
Baby nutrition and care products	**3,299,303**	3,527,064	*-6.5%*	*-6.5%*	**60.9%**	68.3%
– Infant formulas	**2,541,232**	2,338,258	*8.7%*	*8.7%*	**46.9%**	45.3%
– Probiotic supplements	**464,401**	856,131	*-45.8%*	*-45.8%*	**8.6%**	16.6%
– Other pediatric products	**293,670**	332,675	*-11.7%*	*-11.7%*	**5.4%**	6.4%
Adult nutrition and care products	**1,906,475**	1,640,161	*16.2%*	*7.5%*	**35.1%**	31.7%
Pet nutrition and care products	**218,542**	–	*N/A*	*N/A*	**4.0%**	–
Revenue by geography						
Mainland China	**4,333,248**	4,268,938	*1.5%*	*-2.5%*	**79.9%**	82.6%
ANZ	**597,910**	587,334	*1.8%*	*-5.5%*	**11.0%**	11.4%
Other territories	**493,162**	310,953	*58.6%*	*10.7%*	**9.1%**	6.0%
Total	**5,424,320**	5,167,225	*5.0%*	*-2.0%*	**100.0%**	100.0%

Mainland China: Strong growth in ANC mitigating headwinds faced by BNC due to a high base in the first half of last year and intensifying competition due to the low birth rate

Revenue from mainland China amounted to RMB4,333.2 million for the six months ended 30 June 2021, which slightly decreased by 2.5% compared with the same period of last year on a LFL basis. The decrease was mainly due to a decline in BNC segment, while ANC segment saw double-digit growth momentum despite a slow start to the year. Revenue from the mainland China market now accounted for 81.7% of the Group's total revenue excluding PNC segment for the six months ended 30 June 2021, compared with 82.6% in the same period of last year.

In BNC segment, total revenue was RMB3,066.9 million for the six months ended 30 June 2021, decreasing by 8.2% compared with the same period of last year mainly attributing to high-base pressures that stemmed from surging demand for immunity products in the first half of last year and intensifying competition due to the lower birth rate. For the six months ended 30 June 2021, the revenue from IMF in mainland China increased by 8.0% to RMB2,464.5 million, compared with same period of last year, which included 4.1% growth for cow milk IMF series and 71.8% growth for goat milk IMF series. This growth was driven by the successful implementation of the channel expansion strategy for the Group's multi-category product offering and the ongoing market segmentation trend in mainland China both online and offline. Following the implementation of a new bonus stock policy in the later part of 2020, gross sales of the IMF products being sold in the mainland China market (including the bonus stock granted) grew by double digits during the six months ended 30 June 2021.

For the six months ended 30 June 2021, the Group recorded revenue from probiotic supplements in mainland China of RMB460.1 million, decreasing by 46.1% compared with the six months ended 30 June 2020 due to intensifying competition and the high base in the first half of 2020 following COVID-19 outbreak and a substantial sell-in of the Group's Biostime branded probiotics product range, during which sales grew by more than 50% year-on-year, ahead of a price increase in July 2020.

Revenue from other pediatric products segment in mainland China decreased by 31.1% to RMB142.4 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. Sales of Dodie branded diaper in mainland China decreased by 29.3% to RMB135.5 million for the six months ended 30 June 2021 compared with the same period of last year. The decrease was mainly due to the focus shift from volume growth to profitability improvement for this category.

In ANC segment, on a LFL basis, mainland China active sales achieved double-digit growth of 18.4% in the six months ended 30 June 2021 as compared with the same period of last year, with normal trade business recorded high double-digit growth. Revenue from mainland China, as the main growth contributor of ANC segment, accounted for 62.2% of total ANC revenue for the six months ended 30 June 2021, compared with 56.5% for the six months ended 30 June 2020. Revenue from normal trade business deliver year-on-year growth of 47.0% and accounted for 14.5% of ANC revenue in mainland China for the six months ended 30 June 2021.

ANZ: Gradual recovery achieved in the first half with a focus on the domestic consumer market

On a LFL basis, revenue from ANZ market segment amounted to AUD119.8 million for the six months ended 30 June 2021, decreasing 5.5% compared with the six months ended 30 June 2020. This year over year decline significantly narrowed after a two-year-long adjustment effort brought about by the reduction of daigou trading activities and COVID-relate lockdown measures. Revenue from the corporate daigou channel and retail channels decreased by 4.5% and 6.5% respectively, and accounted for 32.9% and 67.1% of the total ANZ business, respectively.

Note: The exchange rates of AUD1=RMB4.9922 and AUD1=RMB4.6183 were used for the six months ended 30 June 2021 and 2020, respectively.

Other territories: Strong growth amid prolonged COVID-19 impact in the first half of 2021

Revenue contributed from other territories increased by 10.7% on a LFL basis in the six months ended 30 June 2021. Growth in France, Italy and UK markets was particularly strong, contributing 23.8% of the Group's total revenue growth on reported basis. The India and Malaysia markets also contributed meaningful revenue despite our brands only entering these markets in 2020.

Solid Gold: solid growth in both the US and mainland China, placing new PNC segment in good stead for profitable growth

Revenue of Solid Gold achieved strong growth of 31.7% in the first half year of 2021 on a LFL basis thanks to tailwinds from high rates of pet adoption and growing spends on premium pet nutrition in both the US and mainland China. Revenue of PNC segment from mainland China market, which was transited from a sole distributor model to one focused on active sales, grew 64.2% year-on-year on a LFL basis in the six months ended 30 June 2021, fueled a strong debut on the 618 shopping festival. Revenue from US market increased by 18.1% year-on-year on a LFL basis in the six months ended 30 June 2021.

Gross profit and gross profit margin

In the first half of 2021, the Group recorded gross profit of RMB3,422.7 million, remained flat compared with the same period of last year. The Group's gross profit margin decreased to 63.1% in the first half of 2021 from 66.4% in the first half of 2020, mainly due to the product mix changes in BNC and increased stock provision in ANC.

The gross profit margin of the BNC segment decreased to 64.5% in the first half 2021 from 66.1% in the first half of 2020 mainly due to the lower revenue proportion from the high-margin probiotic supplements. The respective gross profit margin levels of IMF, probiotic supplements and other pediatric products remained stable.

The gross profit margin of the ANC segment decreased from 67.0% in the first half of 2020 to 63.2% in the first half of 2021, mainly due to the increased stock provision resulting from the lower than expected sales for immunity-focused ranges post the peak time of COVID-19 pandemic. If excluding the impact of increased stock provision, with the stock provision as a percentage of the gross stock balance remained the same at 10.9% with 30 June 2020, the gross profit margin of the ANC segment was 68.0%.

The gross profit margin of PNC segment was 41.7% in the first half of 2021, which was higher than 30.5% in the first half of 2020 mainly due to the higher gross profit margin from mainland China active sales.

Other income and gains

Other income and gains amounted to RMB87.4 million for the six months ended 30 June 2021. Other income and gains primarily consisted of gains on sales of raw materials of RMB25.8 million, government subsidies of RMB30.1 million, non-cash gains on early termination of leases of RMB19.2 million in relation to the early terminated lease of warehouse in Sydney, Australia and others.

Selling and distribution costs

Excluding depreciation of property, plant and equipment and right-of-use assets, and amortization of intangible assets ("**D&A**"), selling and distribution costs increased by 4.9% to RMB2,097.1 million in the six months ended 30 June 2021, as compared with same period of 2020. Selling and distribution costs excluding D&A as a percentage of the Group's revenue remained stable at 38.7% in the first half of 2021.

BNC

Selling and distribution costs of BNC business amounted to RMB1,278.6 million in the six months ended 30 June 2021, represented an increase of 1.2% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased by 3.0 percentage points from 35.8% in the first half of 2020 to 38.8% in the first half of 2021.

Advertising and marketing expense of BNC business as a percentage of its revenue decreased slightly from 11.8% in the first half of 2020 to 11.3% in the first half of 2021. But selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of revenue increased to 27.5% in the first half of 2021 from 24.0% of the same period of last year mainly due to a low base in the first half of last year when many selling activities in offline channels were paused or postponed during the peak time of COVID-19 pandemic and also owing to the implementation of the channel expansion strategy in mainland China which started from the second half of last year. BNC's store network in mainland China in the first half of 2021 grew by more than 10,000 sales points year-on-year as the Group penetrated into more baby specialty stores and other offline channels in lower-tier cities.

ANC

Selling and distribution costs of ANC business amounted to RMB763.0 million in the six months ended 30 June 2021, represented an increase of 3.6% as compared with the same period of last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business decreased by 4.9 percentage points from 44.9% in the first half of 2020 to 40.0% in the first half of 2021, thanks to the continued effective spending control in all markets and gradual recovery in ANZ market.

Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue decreased from 31.4% in the first half of 2020 to 28.3% in the half of 2021. Advertising and marketing expense ratio in markets other than mainland China was improved. While advertising and marketing expense ratio in mainland China remained stable compared with the same period of last year, in order to further enhance brand awareness and build up scale both online and offline.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue decreased from 13.5% in the first half of 2020 to 11.7% in the first half of 2021 resulting from the effective measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

Administrative expenses

Administrative expenses increased by 9.4% from RMB284.3 million in the six months ended 30 June 2020 to RMB311.1 million for the six months ended 30 June 2021. Administrative expenses as a percentage of the Group's revenue increased slightly by 0.2 percentage point to 5.7% in the first half of 2021, as compared with 5.5% in the first half of 2020. The increase was mainly due to the reclassification of business tax and surcharges from sales discount to administrative expenses. If without this one-time accounting treatment change, administrative expenses as a percentage of the Group's revenue decreased slightly to 5.4% compared with the same period of last year.

Other expenses

Other expenses for the six months ended 30 June 2021 amounted to RMB229.8 million. Other expenses mainly included net foreign exchange losses of RMB98.8 million, research and development ("**R&D**") expenditure of RMB59.7 million and net fair value losses on the financial instruments of RMB52.9 millions.

During the period under review, R&D expenditure increased by 2.2% as compared with the same period of last year.

The non-cash fair value losses on financial instruments of RMB52.9 million was mainly caused by the fair value loss on early redemption option embedded in the senior notes, the cross currency swap and cross currency interest rate swap agreements for the Group's long-term debt, and the warrants issued by Else Nutrition Holdings Inc.. The net foreign exchange losses of RMB98.8 million mainly represented non-cash losses from the revaluation on intragroup loans.

EBITDA and EBITDA margin

Adjusted EBITDA achieved RMB1,066.4 million in the six months ended 30 June 2021, decreased by 7.0% compared with the six months ended 30 June 2020. Adjusted EBITDA margin for the first half of 2021 was 19.7%, decreased by 2.5 percentage points as compared with the same period of last year. The decrease in Adjusted EBITDA margin was mainly due to the decrease in gross profit margin resulting from the unfavorable product mix changes in BNC and increased stock provision in ANC.

EBITDA for the six months ended 30 June 2021 amounted to RMB929.6 million, decreased by 26.7% from RMB1,267.8 million in the six months ended 30 June 2020.

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

	Six months ended 30 June	
	2021	2020
	RMB million	*RMB million*
EBITDA	**929.6**	1,267.8
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange losses/(gains)	**98.8**	(31.0)
(2) Net fair value losses/(gains) on financial instruments	**52.9**	(49.1)
Non-recurring items*:		
(3) One-time restructuring costs including gains on early termination of leases	**(14.9)**	–
(4) One-time employment relief benefits received from government authorities following COVID-19 outbreak	**–**	(41.3)
Adjusted EBITDA	**1,066.4**	1,146.2

* 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 six months ended 30 June 2021, the Group incurred finance costs of RMB129.9 million, representing a decrease of 13.5% compared with the same period of 2020. The finance costs for the six months ended 30 June 2021 included interests for the term loan and senior notes of RMB104.1 million, which were reduced by 16.9% compared with the same period of last year mainly due to the depreciation of USD against RMB. The finance costs for the six months ended 30 June 2021 also included the one-off amortized loss of interest rate swap in relation to the previous term loan of RMB22.0 million, which was fully amortized by 30 June 2021.

Income tax expense

Income tax expense decreased from RMB278.1 million in the six months ended 30 June 2020 to RMB168.8 million in the six months ended 30 June 2021. Thanks to the continuing optimization of the Group's tax structure, the effective tax rate decreased from 27.9% in the first half of 2020 to 25.2% in the first half of 2021.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2021	2020
	RMB million	*RMB million*
Net profit	**501.4**	718.0
Reconciled by:		
EBITDA adjusted items as listed above	**136.8**	(121.5)
Non-cash items*:		
One-off amortized loss of interest rate swap for previous term loan	**22.0**	20.5
Adjusted net profit	**660.2**	617.0

* 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 six months ended 30 June 2021, the Group recorded net cash generated from operating activities of RMB354.9 million, resulting from pre-tax cash from operations of RMB553.0 million, minus income tax paid of RMB198.0 million. The lower pre-tax cash from operations was mainly due to the reduction in other payables and accruals.

Investing activities

For the six months ended 30 June 2021, net cash flows used in investing activities amounted to RMB33.6 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB41.0 million, partially offsetting by proceeds from disposal of items of property, plant and equipment and intangible assets of RMB5.2 million.

Financing activities

For the six months ended 30 June 2021, net cash flows used in financing activities amounted to RMB148.2 million, primarily related to the interest paid for term loans and senior notes of RMB106.0 million and payment of lease liabilities of RMB32.8 million.

Cash and bank balances

As of 30 June 2021, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB1,971.3 million.

Term loan and senior notes

As of 30 June 2021, the Group's outstanding term loans amounted to RMB4,004.3 million, all are payable after one year. The total carrying amount of the senior notes was RMB1,964.7 million, including current portion of RMB19.6 million.

As of 30 June 2021, the net leverage ratio increased to 1.92 from 1.38 of the same period of last year, calculated by dividing the net debts[Note] by accumulated adjusted EBITDA for the last twelve months ended 30 June 2021. Gearing ratio decreased to 35.5% from 37.7% as of 30 June 2020, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

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

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 decreased by 7 day from 31 days for the six months ended 30 June 2020 to 24 days for the six months ended 30 June 2021. The decrease in average turnover days for trade and bills receivables was mainly due to the stricter credit terms control post COVID-19 pandemic. The average turnover days of trade payables were 62 days for the six months ended 30 June 2021, representing a decrease of 31 days from 93 days for the six months ended 30 June 2020 mainly due to the different cut-off days and the trade payable balance reduction as compared with 30 June 2020 along with supply chain agility improvement. In comparison with the average turnover days of trade payables for the year ended 31 December 2020, there was only a slight decrease of 4 days.

The inventory turnover days were 179 days for the six months ended 30 June 2021, representing a decrease of 5 days from 184 days for the six months ended 30 June 2020. The inventory turnover days of BNC products increased 59 days from 132 days for the six months ended 30 June 2020 to 191 days for the six months ended 30 June 2021, mainly due to the store up of new packaged IMF under Biostime brand which will be launch in the second half of 2021 in mainland China market. The inventory turnover days of ANC products decreased 120 days from 298 days for the six months ended 30 June 2020 to 178 days for the six months ended 30 June 2021, mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic. The inventory turnover days of PNC products was 77 days for the six months ended 30 June 2021.

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

INTERIM DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board has resolved to declare an interim dividend of HKD0.37 per ordinary share, representing approximately 30% of the Group's Adjusted net profit for the period of six months ended 30 June 2021. The interim dividend will be paid on or about Tuesday, 12 October 2021 to the shareholders whose names appear on the register of members of the Company on Monday, 13 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 9 September 2021 to Monday, 13 September 2021, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 8 September 2021.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

On 23 August 2021, the Company announced the successful signing of the acquisition of 100% equity interest in Zesty Paws, LLC, a leading online premium pet supplement brand and highly disruptive category pioneer in the US. The total purchase consideration for the acquisition is approximately US$610,000,000 (subject to adjustment) and will be settled in form of cash. Please refer to the announcement of the Company dated 22 August 2021 for further details.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. The Company has complied with all the code provisions contained in the CG Code for the six months ended 30 June 2021.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2021.

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

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2021.

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

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim results announcement complies with Appendix 16 of the Listing Rules. The Audit Committee has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021.

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2021 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, 24 August 2021

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