

2022 INTERIM REPORT 中期報告

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

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1112)





CONTENTS

Corporate Information	2
Financial Highlights	4
Chairman's Statement	5
Management Discussion and Analysis	9
Corporate Governance and Other Information	17
Report on Review of Interim Condensed Consolidated Financial Statements	30
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	32
Interim Condensed Consolidated Statement of Financial Position	33
Interim Condensed Consolidated Statement of Changes in Equity	35
Interim Condensed Consolidated Statement of Cash Flows	37
Notes to Interim Condensed Consolidated Financial Statements	39



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

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

BOARD COMMITTEE

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Environmental, Social and Governance Committee

Mrs. Laetitia Albertini (*Chairman*)
Mr. Luo Fei
Mrs. Pascale Laborde

COMPANY SECRETARY

Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mrs. Laetitia Albertini
Ms. Yang Wenyun

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

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

* Commonly known as Laetitia Albertini. Name change of Laetitia Garnier with effect from 30 May 2022.

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

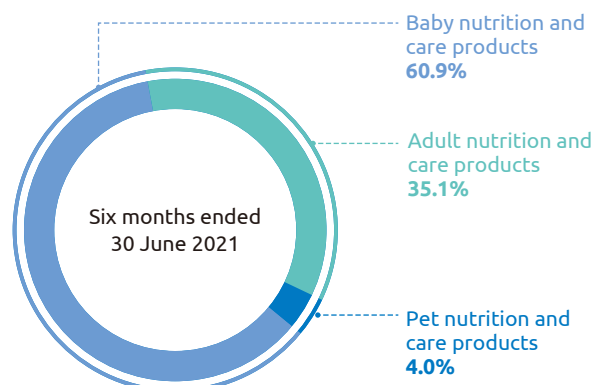
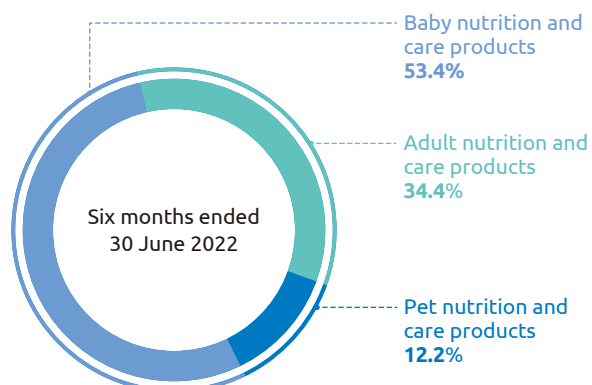
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2022 RMB million (Unaudited)	2021 RMB million (Unaudited)	
Revenue	5,955.4	5,424.3	9.8%
Gross profit	3,691.5	3,422.7	7.9%
EBITDA*	1,079.4	929.6	16.1%
Adjusted EBITDA*	1,056.1	1,066.4	-1.0%
Adjusted EBITDA margin	17.7%	19.7%	-2.0 pts
Net profit	475.1	501.4	-5.2%
Adjusted net profit**	482.9	660.2	-26.9%
Adjusted net profit margin	8.1%	12.2%	-4.1 pts

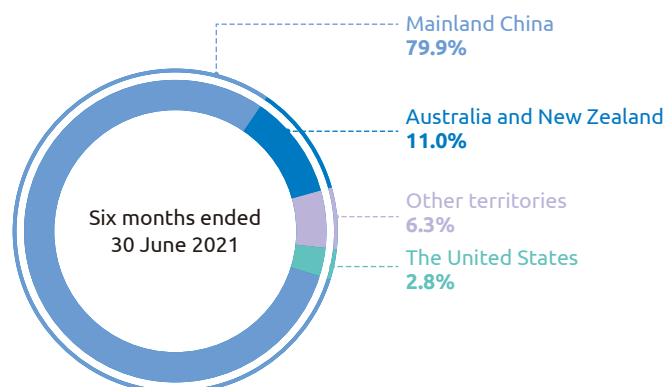
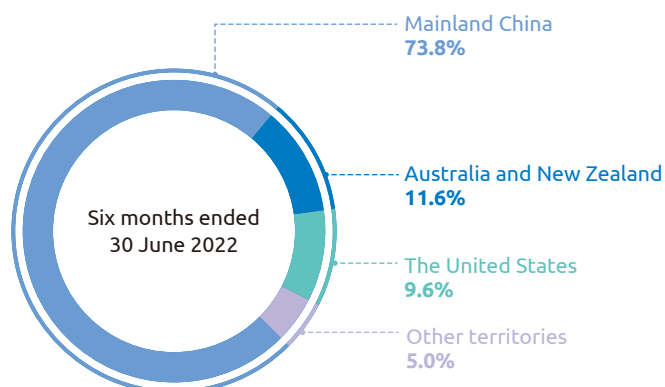
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB46.8 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB151.7 million) + Non-recurring losses of RMB23.5 million for the six months ended 30 June 2022 (six months ended 30 June 2021: gains of RMB14.9 million)

** Adjusted net profit = Net profit – EBITDA adjustment items of gains of RMB23.3 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB136.8 million) + Other non-cash losses of RMB31.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB22.0 million)

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHY



CHAIRMAN'S STATEMENT

To our shareholders,

On behalf of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am pleased to present our interim report for the six months ended 30 June 2022.

In the first half of 2022, we made solid headway along our strategic path for accelerating our business growth, achieving both top-line and like-for-like ("**LFL**")¹ expansions, with overall sales developments being well in line with our expectations. Our strategies for channel expansion, geographical diversification, and product innovation continued to deliver, restoring our growth trajectory and supporting our overall margins while positioning each of our strategic business pillars – Baby Nutrition & Care ("**BNC**"), Adult Nutrition & Care ("**ANC**") and Pet Nutrition and Care ("**PNC**") – for the future, despite facing continued industry challenges and a volatile macroeconomic environment.

In addition, on 27 June 2022, the Group drew down a new 3-year term loan facility with an aggregate principal amount of US\$1.125 billion to refinance all of its existing loan facilities. This new loan facility is also sustainability-linked with 3 Environmental, Social and Governance ("**ESG**") performance targets that will unlock interest savings when each target is met. This successful refinancing arrangement has greatly improved our capital structure and liquidity position.

BABY NUTRITION & CARE

The overall performance in our BNC segment, our largest revenue contributor, aligned with our previous guidance. We continued to strengthen brand awareness and rapidly expand our reach in lower-tier cities through our channel expansion strategy, branding initiatives and focused investments in consumer education. In April, Biostime entered the children's formula (aged 3+) category to capture this demographic and tap more of the mainland China infant milk formula ("**IMF**") market – a move set to deliver new incremental sales growth opportunities to our overall IMF business. This narrowed revenue decline in the IMF category to low single digits with channel inventory levels remaining healthy – an encouraging result in the context of the long-term structural challenges facing all market players in mainland China, including declining birth rates, constrained demand, and increasing competition ahead of the implementation of new 'GB standards' (i.e. National Standards of the People's Republic of China) early next year.

We saw a clear turnaround in other parts of our BNC segment. Our probiotic supplements category delivered very strong momentum in the second quarter in particular as we expanded distribution and penetration within our existing IMF offline channels, introduced the functional benefits of our products to more consumers, and leveraged the efforts of our dedicated team to drive sales. This enabled a return to positive growth for the full six-month period, in line with our guidance and strategy. These efforts and our continued strong brand positioning also enabled us to maintain a stable share of mainland China's probiotics market and contributed to the healthy EBITDA level seen in the BNC segment.

Outside of mainland China, we witnessed robust double-digit growth in our Biostime branded business in France underpinned by our No.1 position in the organic IMF category within the French pharmacy channel where our market share is 43.0%. Even more encouragingly, our organic goat milk IMF already has a market share of 37.6% in the French pharmacy channel following its launch in November last year.

¹ 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.

CHAIRMAN'S STATEMENT

ADULT NUTRITION & CARE

In the ANC segment, we performed satisfactorily in many areas and delivered double-digit growth in our major markets despite supply chain challenges. In mainland China, consumer demand for supplement products remained resilient. Normal trade sales grew robustly, supported by the launch of more innovative categories, effective marketing, and a strong performance during the 618 shopping festival. Our omni-channel strategy and our efforts to enhance brand awareness also further strengthened sales growth.

We saw a continued turnaround in the Australia and New Zealand ("**ANZ**") market with sustained growth momentum in the domestic market and export channels. This strong growth was fueled by rising demand for immune-supporting products, a strategic refocus on the domestic market and the launch of new products in innovative categories, maintaining Swisse's leadership in key categories and channels. Innovation was also a key factor with the launch of revolutionary beauty products within our Nutra+ range targeting the pharmaceutical channel and new product launches including Swisse Collagen+ Hyaluronic Acid Tablets.

ANC growth momentum is also proving to be very robust in our new expansion markets in Asia where, over the past several years, we have entered several markets including Hong Kong SAR, Singapore, Malaysia, Thailand, Indonesia, and India. This business was further expanded in the first half of 2022 when we launched Swisse in the Vietnam retail channel. Swisse also continued to strengthen its No.1 beauty supplement brand status in Singapore. These markets will continue to be a key focus for us and, consequentially, we are diversifying into more channels to further bolster growth, especially in Southeast Asia where we see extremely promising potential.

PET NUTRITION & CARE

Within our PNC business, we are witnessing growing durable trends toward pet nutrition premiumization and pet humanization in both the United States ("**US**") and mainland China markets. Channel expansion in the US, which is now the Group's third largest market and a major new source of growth, is one of our major priorities. Leveraging local expertise to expand both brands online and offline, Zesty Paws maintained its leading position on Amazon and Chewy and has been launched on Costco's online store. Zesty Paws and our other PNC brand, Solid Gold, are now present in more than 7,744 stores and 4,200 stores respectively, including major chains such as Walmart, Target, Petco and PetSmart, creating stronger channel synergies and brand awareness that will propel future growth.

Meanwhile, PNC sales in mainland China, led by Solid Gold, continued to deliver robust double-digit growth, leveraging increasing pet adoption rates and growing spending on premium pet nutrition. Our best-selling SKU, Indigo Moon, ranked first in the imported cat food category on Tmall during the 618 shopping festival, and Solid Gold now ranks 2nd in the premium cat dry food category with an 18.8% share. This enabled us to further improve brand exposure to consumers in both the online and offline markets. So far, we have reached approximately 5,000 pet stores and pet hospitals in the offline Chinese market.

On the financial side, we continued to deleverage our balance sheet through the continued generation of strong cash flow, with 90.6% of our adjusted EBITDA being converted into operating cash flow in the first half. We aim to achieve a healthy level in the coming three years while maintaining a consistent dividend payout ratio of 30% of adjusted net profit to reward our shareholders.

OUTLOOK: SUSTAIN GROWTH MOMENTUM AS WE AIM FOR GLOBAL LEADERSHIP IN PREMIUM NUTRITION AND WELLNESS

The fast-moving global macroeconomic environment is making conditions even more challenging, with existing supply chain and inflationary pressures. In mainland China, the industry environment confronting our BNC business, particularly the IMF segment, is set to become even more demanding as more small brands exit the market and seek to offload their inventory.

However, we are continuing to pursue expanded top-line growth compared to last year, with our ANC and PNC segments continuing their growth momentum and our BNC segment gradually returning to positive growth. We have stayed at the forefront of these segments of our business, attentive to changing consumer needs whilst capitalizing on new opportunities for growth. As we contend with ongoing competition in the second half, we will continue to stabilize our IMF market position through prioritizing our channel expansion strategy, as well as branding initiatives and focused investment in consumer education. Meanwhile, with probiotics having already returned to growth, we aim to expand into new categories and extend our penetration into Chinese offline channels, utilizing Biostime's world's No.1 brand positioning in mainland China's children's probiotics and prebiotics supplements market to further power growth momentum.

In the ANC category, we will push forward our normal trade business in mainland China with branding initiatives that target both the online and offline markets, while introducing more 'blue hat' (i.e. supplements registered with the State Administration for Market Regulation) and localized products to drive sales momentum. Meanwhile, we expect domestic sales and other export channel sales in ANZ to remain resilient as we launch more products in innovative categories and maintain Swisse's leadership in this market.

In the PNC segment, we will exploit strong industry momentum to further expand our business on online and offline platforms in the US, sustaining our leadership on the Amazon and Chewy e-commerce platforms. We will continue to develop Solid Gold in the mainland China market, having recently received seven new licenses to sell pet food products offline, with further plans to launch new products in the second half of this year.

Rising inflation and supply chain challenges will also squeeze margins in the second half of the year. However, we will continue to position the business for sustainable growth while combating these margin pressures through product mix optimization, increasing the price of selected SKUs, as well as with spending efficiency improvements and alternative sourcing.

SUSTAINABILITY: MAKING PURPOSEFUL STRIDES TOWARDS OUR SUSTAINABILITY GOALS

Sustainability touched every aspect of our business in the first half of 2022. Within our first impact area – 'Advancing the Story of Good Health' – we launched over 104 new products, won 23 awards for our products, and translated our investment in H&H Science into three innovative product opportunities in maternal and infant health. Additionally, we donated over US\$1.0 million to community programs in the first half of the year, including supporting the Red Cross in response to the Australian flooding crisis.

In 'Reducing Our Footprint on the Planet' – our second impact area – we completed our Group-wide global carbon footprint assessment. Our next steps are to define our greenhouse gas emissions reduction targets, following the Science Based Targets initiative (SBTi) framework, to be approved in 2023. We confirmed our goal to combat climate change, aligning with our commitment to complete climate risks scenario analysis according to Task Force on Climate-related Financial Disclosures (TCFD) recommendations by the end of 2022. We are also proud to share that our Swisse Earth range of sustainably sourced supplements, packaged using recycled and recyclable paper, has won a Packaging Innovation and Design Award (PIDA) from the Australian Institute of Packaging.

CHAIRMAN'S STATEMENT

In 'Honoring Human Rights and Fairness' – our third impact area – we developed our Diversity Equity and Inclusion Policy and launched the #IAmRemarkable program, a Google initiative that empowers women and underrepresented groups in the workplace and beyond. We held workshops in the UK and China, with plans to expand across our offices globally. We also became a new member of the Women's Empowerment Principles (WEPs) community, founded by the United Nations to promote gender equality in the workplace. Sharing societal concerns about animal welfare, we developed and approved company-wide Animal Welfare and Animal Testing policies, defining our principles to protect the health and safety of all animals in our value chain.

In the area of 'Good Governance' – our fourth impact area – we have established an ESG committee to manage the Group's management of sustainability issues and to enhance the quality of disclosure. We have also incorporated ESG key performance indicators into senior managers' performance reviews. Fostering transparency for our stakeholders, we maintained our MSCI ESG rating of 'A' for ESG performance. Our teams in Australia, New Zealand and China also submitted B Corp applications, while our UK, France and US teams are currently completing the application process. This progress moves us closer to our commitment to achieve Group-wide B-Corp certification by 2025.

ACKNOWLEDGEMENTS

Going forward, we remain confident about the long-term prospects of our product and geographic diversification strategy, as well as our ability to sustain our current profitable growth momentum, while continuing to use our healthy cash flow to deleverage our balance sheet. I would like to express my sincere gratitude for the continued support from our employees, business partners, creditors and investors. Despite the short-term external challenges, we look forward to delivering for shareholders while helping people all around the world become healthier and happier.

Luo Fei

Chairman

Hong Kong, 29 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2022, the Group's revenue increased by 9.8% on reported basis to RMB5,955.4 million as compared with the same period in 2021, mainly driven by the healthy growth of the ANC and Solid Gold businesses as well as the consolidation of Zesty Paws' revenue since the completion of acquisition on 4 October 2021. On a LFL basis, the Group's revenue increased by 5.1% comparing with the same period in 2021.

	Six months ended 30 June				% to revenue	
	2022 RMB million	2021 RMB million	Reported Change ¹	LFL Change	2022	2021
Revenue by product segment						
Baby nutrition and care products	3,183.8	3,299.3	-3.5%	-3.5%	53.4%	60.9%
– Infant formulas	2,462.0	2,541.2	-3.1%	-3.1%	41.3%	46.9%
– Probiotic supplements	494.3	464.4	6.4%	6.4%	8.3%	8.6%
– Other pediatric products	227.5	293.7	-22.5%	-22.5%	3.8%	5.4%
Adult nutrition and care products	2,046.4	1,906.5	7.3%	14.9%	34.4%	35.1%
Pet nutrition and care products	725.2	218.5	231.9%	35.4% ²	12.2%	4.0%
Revenue by geography						
Mainland China	4,394.6	4,333.2	1.4%	3.4%	73.8%	79.9%
ANZ	692.5	597.9	15.8%	24.0%	11.6%	11.0%
US	571.0	151.5	276.9%	21.9% ²	9.6%	2.8%
Other territories	297.3	341.7	-13.0%	-10.7%	5.0%	6.3%
Total	5,955.4	5,424.3	9.8%	5.1%	100.0%	100.0%

Mainland China: Focusing on channel expansion and consumer education to protect market share and margins

Revenue from mainland China amounted to RMB4,394.6 million for the six months ended 30 June 2022, increasing by 3.4% compared with the same period of last year on a LFL basis. The increase mainly thanks to strong growth in ANC and PNC segment, which was partially offset by a single-digit decrease in BNC segment. On reported basis, revenue from mainland China accounted for 73.8% of the Group's total revenue for the six months ended 30 June 2022, compared with 79.9% in the same period of last year.

¹ The exchange rates used for the six months ended 30 June 2022 and 2021 were AUD1 = RMB4.6639 and USD1 = RMB6.4835, AUD1 = RMB4.9922 and USD1 = RMB6.4718, respectively.

² The LFL change of PNC and US are on pro forma basis as if the revenue of Zesty Paws for the six months ended 30 June 2022 and 2021 were consolidated.

MANAGEMENT DISCUSSION AND ANALYSIS

In BNC segment, the total revenue was RMB2,976.1 million for the six months ended 30 June 2022, decreasing by 3.0% compared with the same period of last year. For the six months ended 30 June 2022, the revenue from IMF in mainland China recorded a narrowing decline by 3.4% to RMB2,381.4 million, compared with same period of last year. All IMF players in mainland China are facing long-term structural challenges, including declining birth rates, constrained demand, increasing competition ahead of the implementation of new GB standards early next year. While the Group continued to strengthen brand awareness and rapidly expand its reach in lower-tier cities through its channel expansion strategy, branding initiatives and focused investments in consumer education. According to Nielsen, an independent research data provider, the Group continued to maintain a stable market position of 5.7% of the overall mainland China IMF market for the twelve months ended 30 June 2022.

For the six months ended 30 June 2022, the Group recorded revenue from probiotic supplements in mainland China of RMB490.0 million, increasing by 6.5% compared with the six months ended 30 June 2021. Such increase was driven by distribution expansion and penetration within the Group's existing IMF offline channels, introduction of the functional benefits of the Group's products to more consumers, and leveraging the efforts of the Group's dedicated team to drive sales.

Revenue from other pediatric products segment in mainland China, mainly sales of Dodie branded diaper, decreasing by 26.5% to RMB104.7 million for the six months ended 30 June 2022 compared with the six months ended 30 June 2021. 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 maintained double-digit growth of 12.9% as compared with the same period of last year, and accounted for 61.1% of the Group's total ANC revenue for the six months ended 30 June 2022. The growth was mainly driven by the Group's omni-channel strategy and its efforts to enhance brand awareness. For the six months ended 30 June 2022, normal trade sales continued to deliver robust year-on-year growth of 41.7% on a LFL basis, supported by the launch of more innovative categories, effective marketing, and a strong performance during the 618 shopping festival. In the twelve months ended 30 June 2022, Swisse continued to maintain its No. 1 position across major e-commerce platforms in mainland China with a market share of 7.0%.

Revenue from PNC segment in mainland China recorded a robust growth of 108.6% on a LFL basis in the six months ended 30 June 2022 as compared with the same period of last year. The strong growth was mainly contributed by the increasing pet adoption rates and growing spending on premium pet nutrition. The Group's best-selling SKU in mainland China market, Indigo Moon, ranked first in the imported cat food category on Tmall during the 618 shopping festival, and Solid Gold now ranks 2nd in the premium cat dry food category with an 18.8% market share. This enabled the Group to further improve its brand exposure to consumers in both the online and offline markets.

ANZ: Sustaining growth momentum in both the domestic market and export channels

On a LFL basis, revenue from ANZ market segment increased by 24.0% to AUD148.5 million for the six months ended 30 June 2022, contributing 11.6% of the Group's total revenue. This strong growth was fueled by the rising demand for immune-supporting products, as well as a strategic refocus on the domestic market and the launch of new products in innovative categories, maintaining Swisse's leadership in key categories and channels. For the six months ended 30 June 2022, revenue from the corporate daigou channel and retail channels increased by 27.4% and 22.3% respectively as compared with the same period in 2021, and accounted for 33.8% and 66.2% of the total ANZ business, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

US: Rapidly becoming the Group's third largest market

For the six months ended 30 June 2022, revenue contributed from the US achieved strong growth of 276.9% year-on-year on reported basis, and accounted for 9.6% of the Group's total revenue. The strong growth was mainly driven by the increasing pet population, alongside the pet nutrition premiumization and pet humanizing trends that are becoming well established in the US market. On a LFL and pro forma basis, assuming the revenue of Zesty Paws for the six months ended 30 June 2022 and 2021 were consolidated, revenue contributed from the US increased by 21.9% compared with the same period of last year.

On the standalone basis, revenue of Solid Gold and Zesty Paws achieved strong year-on-year growth of 13.6% and 26.3% for the six months ended 30 June 2022, respectively. Leveraging local expertise to expand online and offline, Zesty Paws maintained its leading position on Amazon and Chewy and was launched on Costco's online store.

Other territories: Strong growth momentum continued in Asian markets while facing pressure from EU markets

Revenue contributed from other territories decreased by 10.7% on a LFL basis in the six months ended 30 June 2022 as compared with the same period of last year. The decrease mainly resulted from the Group's strategic refocusing and restructuring particularly in EU markets aiming for profitability improvement. Following the expansion into Thailand, Indonesia, and Taiwan (China) in 2021, the Group also launched Swisse in Vietnam during the first half of 2022. These markets will continue to be a key focus for the Group and, consequentially, the Group is diversifying into more channels to further bolster growth in Southeast Asia, where it sees extremely promising potential.

Gross profit and gross profit margin

In the first half of 2022, the Group recorded gross profit of RMB3,691.5 million, representing an increase of 7.9% as compared with the same period of last year. The Group's gross profit margin decreased to 62.0% in the first half of 2022 from 63.1% in the first half of 2021, mainly due to the unfavorable product mix changes towards higher revenue proportion from the lower-margin PNC segment. The respective gross profit margin of BNC segment, ANC segment and PNC segment increased compared with the same period of last year. Various effective and timely supply chain optimization measures helped to mitigate the impact of sourcing cost increase to a large extent.

The gross profit margin of the BNC segment increased slightly to 64.6% in the first half 2022 from 64.5% in the first half of 2021 mainly due to the higher revenue proportion from the high-margin probiotic supplements.

The gross profit margin of the ANC segment increased from 63.2% in the first half of 2021 to 63.7% in the first half of 2022, mainly resulting from the decreased stock provision owing to continued improvement in inventory management and demand planning.

The gross profit margin of PNC segment increased to 45.8% in the first half of 2022 from 41.7% in the same period of last year. Excluding the impact on cost of goods sold ("COGS") of RMB23.5 million in relation to the one-time mark-to-market increase for the value of inventory in the acquisition of Zesty Paws, the gross profit margin of PNC segment was 49.0% for the six months ended 30 June 2022. The increased gross profit margin of PNC segment was mainly due to the higher gross profit margin from Zesty Paws and mainland China active sales of Solid Gold.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income and gains

Other income and gains amounted to RMB91.7 million for the six months ended 30 June 2022. Other income and gains primarily consisted of net fair value gain on the financial instruments of RMB31.3 million, net foreign exchange gain of RMB15.5 million, government subsidies of RMB16.2 million, gain on sales of raw materials of RMB10.6 million and others.

The non-cash fair value gain on financial instruments of RMB31.3 million was mainly caused by the fair value gain on the cross currency swap and cross currency interest rate swap agreements for the Group's long term debt, and the existing equity investments held by NewH2. The net foreign exchange gain of RMB15.5 million mainly represented non-cash gain from the revaluation on intragroup loans.

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 11.3% to RMB2,334.4 million in the six months ended 30 June 2022, as compared with same period of 2021. Selling and distribution costs excluding D&A as a percentage of the Group's revenue increased slightly from 38.7% in the first half of 2021 to 39.2% in the first half of 2022.

BNC

Selling and distribution costs of BNC business amounted to RMB1,253.5 million in the six months ended 30 June 2022, represented a decrease of 2.0% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased from 38.8% in the first half of 2021 to 39.4% in the first half of 2022.

Advertising and marketing expense of BNC business as a percentage of its revenue remained flat at 11.3% in the first half of 2022 as compared with the same period of 2021, whereas selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of revenue increased to 28.1% in the first half of 2022 from 27.5% of the same period of last year mainly due to higher channel investment required for BNC business in mainland China market amid declining birth rate, intensifying competition and constrained demand.

ANC

Selling and distribution costs of ANC business amounted to RMB825.6 million in the six months ended 30 June 2022, represented an increase of 8.2% as compared with the same period of last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business increased slightly from 40.0% in the first half of 2021 to 40.3% in the first half of 2022.

Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 28.3% in the first half of 2021 to 30.1% in the half of 2022. The increase was mainly from mainland China and ANZ markets in order to further enhance brand awareness and build up scale both online and offline. The Group's most influential brand-building investment, in particular, has been Biostime and Swisse's co-sponsoring of the supremely popular reality show *Sisters Who Make Waves* (乘風破浪的姐姐), which allowed the Group to reach and educate a highly-relevant audience for both brands.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue decreased from 11.7% in the first half of 2021 to 10.3% in the first half of 2022 resulting from the continuing measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

PNC

Following the consolidation of Zesty Paws' revenue since the completion of acquisition on 4 October 2021, selling and distribution costs of PNC business increased from RMB55.5 million for the six months ended 30 June 2021 to RMB255.3 million for the six months ended 30 June 2022. Selling and distribution costs of PNC business as a percentage of its revenue increased from 25.3% for the six months ended 30 June 2021 to 35.2% for the same period of 2022. The increase was mainly due to the consolidation of Zesty Paws' financial after the acquisition and the increased investment in Solid Gold business. Selling and distribution costs of Zesty Paws business as a percentage of revenue from sales of Zesty Paws products was 41.4% for the first half of 2022. Selling and distribution costs of Solid Gold business as a percentage of revenue from sales of Solid Gold products increased from 25.3% for the six months ended 30 June 2021 to 27.6% for the same period in 2022, mainly due to the investment in channel expansion and brand exposure in both online and offline markets in mainland China.

Advertising and marketing expense and selling and distribution costs other than advertising and marketing expense of PNC business as percentages of its revenue were 12.4% and 22.8%, respectively, for the six months ended 30 June 2022.

Administrative expenses

Administrative expenses increased by 1.2% from RMB311.1 million in the six months ended 30 June 2021 to RMB314.9 million for the six months ended 30 June 2022. Administrative expenses as a percentage of the Group's revenue decreased to 5.3% in the first half of 2022, as compared with 5.7% in the first half of 2021 thanks to the continued efforts made to optimize overall administrative cost structure.

Other expenses

Other expenses for the six months ended 30 June 2022 amounted to RMB101.0 million. Other expenses mainly included research and development ("R&D") expenditure of RMB68.5 million and others.

During the period under review, R&D expenditure increased by 14.7% as compared with the same period of last year attributable to the Group's determination for continued investment in product innovation. R&D expenditure as a percentage of the Group's revenue increased slightly from 1.1% in the six months end 30 June 2021 to 1.2% in the same period of 2022.

EBITDA and EBITDA margin

Adjusted EBITDA achieved RMB1,056.1 million in the six months ended 30 June 2022, decreased by 1.0% compared with the six months ended 30 June 2021. Adjusted EBITDA margin for the first half of 2022 was 17.7%, decreased from 19.7% for the same period of last year. The decrease in adjusted EBITDA margin was mainly due to (i) the dilution from lower-margin PNC business; and (ii) higher investment required to strengthen both channel and brand positioning particularly in mainland China market.

EBITDA for the six months ended 30 June 2022 amounted to RMB1,079.4 million, increased by 16.1% from RMB929.6 million in the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

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	
	2022	2021
	RMB million	RMB million
EBITDA	1,079.4	929.6
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange (gains)/losses	(15.5)	98.8
(2) Net fair value (gains)/losses on financial instruments	(31.3)	52.9
Non-recurring items*:		
(3) Impact on COGS in relation to the one-time mark-to-market increase for the value of inventory in the acquisition of Zesty Paws	23.5	–
(4) One-time restructuring costs including gains on early termination of leases	–	(14.9)
Adjusted EBITDA	1,056.1	1,066.4

* 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 2022, the Group incurred finance costs of RMB252.3 million, representing an increase of 94.2% compared with the same period of 2021. The finance costs for the six months ended 30 June 2022 included interests for the term loan and senior notes of RMB216.0 million, which increased by 107.4% compared with the same period of last year mainly due to the incremental interest-bearing bank loans with principle of US\$550 million in relation to the acquisition of Zesty Paws. The finance costs for the six months ended 30 June 2022 also included the one-off write-off of unamortized transaction costs and losses on modification upon refinancing of the interest-bearing bank loans of RMB31.1 million.

Income tax expense

Income tax expense increased from RMB168.8 million in the six months ended 30 June 2021 to RMB206.3 million in the six months ended 30 June 2022. The effective tax rate increased from 25.2% in the first half of 2021 to 30.3% in the first half of 2022, mainly due to the increase in non-deductible interest of the incremental interest-bearing bank loans with principle of US\$550 million in relation to the acquisition of Zesty Paws.

MANAGEMENT DISCUSSION AND ANALYSIS

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	
	2022 RMB million	2021 RMB million
Net profit	475.1	501.4
Reconciled by:		
EBITDA adjusted items as listed above	(23.3)	136.8
Non-cash items*:		
One-off write-off of unamortized transaction costs and losses on modification upon refinancing of the interest-bearing bank loans	31.1	–
One-off amortized loss of interest rate swap for previous term loan	–	22.0
Adjusted net profit	482.9	660.2

* 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 2022, the Group recorded net cash generated from operating activities of RMB555.8 million, resulting from pre-tax cash from operations of RMB956.4 million, minus income tax paid of RMB400.6 million.

Investing activities

For the six months ended 30 June 2022, net cash flows used in investing activities amounted to RMB46.2 million, primarily resulted from purchases of property, plant and equipment, intangible assets of RMB48.3 million, partially offset by interest received of RMB6.7 million.

Financing activities

For the six months ended 30 June 2022, net cash flows used in financing activities amounted to RMB817.6 million, primarily related to the net of repayment of existing interest-bearing bank loans and proceed from new term loan of RMB383.7 million, the interest paid for interest-bearing bank loans and senior notes of RMB193.2 million, the transaction costs in relation to the refinancing of the interest-bearing bank loans of RMB144.2 million, the purchase of the Company's shares of RMB61.8 million under the share award scheme adopted by the Company on 11 January 2022 (the "2022 Share Award Scheme"), and payment of lease liabilities of RMB21.1 million.

Cash and bank balances

As of 30 June 2022, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,111.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Term loan and senior notes

As of 30 June 2022, the Group's outstanding term loans amounted to RMB7,319.3 million, including current portion of RMB374.2 million. The total carrying amount of the senior notes was RMB2,039.1 million, including current portion of RMB20.4 million.

As of 30 June 2022, the net leverage ratio increased to 3.93 from 1.92 of the same period of last year, calculated by dividing the net debts¹ by accumulated adjusted EBITDA for the last twelve months ended 30 June 2022. Gearing ratio increased to 47.0% from 35.5% as of 30 June 2021, 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 overseas markets outside mainland China, with average 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 from 24 days for the six months ended 30 June 2021 to 22 days for the six months ended 30 June 2022, mainly due to the stricter credit terms control post COVID-19 pandemic. The average turnover days of trade payables increased from 62 days for the six months ended 30 June 2021 to 67 days for the six months ended 30 June 2022, mainly due to the different cut-off days.

The inventory turnover days were 159 days for the six months ended 30 June 2022, representing a decrease of 20 days from 179 days for the six months ended 30 June 2021. The inventory turnover days of BNC products decreased from 191 days for the six months ended 30 June 2021 to 175 days for the six months ended 30 June 2022. The inventory turnover days of ANC products decreased from 178 days for the six months ended 30 June 2021 to 143 days for the six months ended 30 June 2022. The decrease in inventory turnover days of BNC products and ANC products were mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic. The inventory turnover days of PNC products was 143 days for the six months ended 30 June 2022.

¹ Net debts = term loan + senior notes – cash and bank balances

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 2022.

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 directors of the Company (“**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 2022.

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 2022.

In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

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

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

The human resources department of the Company is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the chairman and/or the chief executive officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

NOMINATION COMMITTEE

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The environmental, social and governance committee of the Board ("**ESG Committee**") was established on 29 August 2022 with a set of written terms of reference. The ESG Committee consists of three members, namely, Mrs. Laetitia Albertini, Mr. Luo Fei, and Mrs. Pascale Laborde (Global Director of Marketing, Communications & Sustainability). Mrs. Laetitia Albertini was appointed as the chairman of the ESG Committee.

CORPORATE GOVERNANCE AND OTHER INFORMATION

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE (CONTINUED)

The purpose of the establishment of the ESG Committee is to better position our Group for management of sustainability issues and enhance quality of disclosure in relation thereto. The ESG Committee is responsible for:

- (a) assisting the Board to oversee, review and make recommendations to the Board on the establishment and development of the Group's vision, objectives, targets and strategies on sustainability;
- (b) developing, reviewing and overseeing the implementation of the sustainability policies and procedures of the Group on their effectiveness and make recommendations to the Board;
- (c) identifying the relevant sustainability issues and relevant circumstances that significantly affect the operations of the Group and/or the interest of other important stakeholders;
- (d) reviewing major trends in sustainability and related risks and opportunities for alignment of the Group's position and performance on the sustainability issues are aligned with relevant requirements and standards, and make recommendations to the Board;
- (e) properly managing the risks associated with the sustainable development of the Group; and
- (f) supporting and working with the sustainability working group of the Group to improve the quality of sustainability information disclosure.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the six months ended 30 June 2022, the Company attended 11 investors' conferences and roadshows and approximately 300 individual and group meetings with analysts, institutional investors, and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2022 are summarized as follows:

Date	Event	Organizer	Location
Jan 2022	Morgan Stanley Virtual China New Economy Summit	Morgan Stanley	Virtual
Jan 2022	Citi China Consumer Corporate Day	Citi	Virtual
Jan 2022	Goldman Sachs Greater China Consumer & Leisure Corporate Day	Goldman Sachs	Virtual
Jan 2022	UBS Greater China Conference	UBS	Virtual
Jan 2022	BofA 2022 New York Asia Day	BofA	Virtual
Jan 2022	Jefferies China Consumer Corporate Access Conference	Jefferies	Virtual
Mar 2022	Post Annual Results Non-deal Roadshow	Citi/Goldman Sachs	Virtual
May 2022	Daiwa Consumer & Gaming Corporate Day	Daiwa	Virtual
May 2022	Morgan Stanley Virtual China Summit	Morgan Stanley	Virtual
Jun 2022	BofA Innovative China Conference	BofA	Virtual
Jun 2022	CLSA China Consumer Corporate Day	CLSA	Virtual

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

The last shareholders' meeting was the annual general meeting (the "AGM") held on 13 May 2022 at 29/F, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC") for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, and the re-election of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report complies with Appendix 16 to the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022.

The interim condensed consolidated financial statements for the six months ended 30 June 2022 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

During the six months ended 30 June 2022, based on the Company's instructions, the trustee of the 2022 Share Award Scheme has purchased a total of 6,536,500 ordinary shares of the Company on the Stock Exchange at a total consideration of HKD75,757,375. For more details, please refer to the Company's announcement dated 8 April 2022.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2022.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Main Board of the Stock Exchange. The details of the two share option schemes are as follows:

2020 Share Option Scheme

A share option scheme (the "2020 Share Option Scheme") of the Company was conditionally approved by resolutions of the shareholders of the Company on 8 May 2020 and the terms of such Share Option Scheme are disclosed in the circular of the Company dated 3 April 2020. Save as disclosed in the annual report of the Group for the year ended 31 December 2021, no other valuation on share options ("Share Options") granted under the 2020 Share Option Scheme was made for the six months ended 30 June 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2020 Share Option Scheme (continued)

Particulars and movements of Share Options under the 2020 Share Option Scheme during the six months ended 30 June 2022 by category of grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Outstanding as at 1 January 2022	Number of Share Options				Outstanding as at 30 June 2022
				Granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Lapsed during the six months ended 30 June 2022	Cancelled during the six months ended 30 June 2022	
Directors								
Mrs. Laetitia Albertini	30/11/2020	31.88	2,350,234	-	-	(190,369)	-	2,159,865
Mr. Wang Yidong	30/11/2020	31.88	988,154	-	-	(80,041)	-	908,113
Sub-total			3,338,388	-	-	(270,410)	-	3,067,978
Employees and others								
	30/11/2020	31.88	6,956,616	-	-	(1,587,463)	-	5,369,153
	13/07/2021	31.02	1,060,027	-	-	(119,849)	-	940,178
Sub-total			8,016,643	-	-	(1,707,312)	-	6,309,331
Total			11,355,031	-	-	(1,977,722)	-	9,377,309

No Share Options granted under 2020 Share Option Scheme were exercised and cancelled during the six months ended 30 June 2022.

All 12,729,256 Share Options granted on 30 November 2020 shall vest in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
1 April 2022	30% of the total number of Share Options granted
1 April 2023	30% of the total number of Share Options granted
1 April 2024	40% of the total number of Share Options granted

All 1,153,658 Shares Options granted on 13 July 2021 shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	30% of the total number of Share Options granted
1 April 2023	30% of the total number of Share Options granted
1 April 2024	40% of the total number of Share Options granted

The total number of shares available for issue under the 2020 Share Option Scheme as at 30 June 2022 was 64,405,486, representing approximately 9.98% of the Company's issued share capital as at 30 June 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme

A share option scheme (the “2010 Share Option Scheme”) of the Company was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such 2010 Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010. The 2010 Share Option Scheme was terminated with effect from 8 May 2020 upon the adoption of the 2020 Share Option Scheme and thus no share option has been granted under the 2010 Share Option Scheme since 8 May 2020. Save as disclosed in the annual report of the Group for the year ended 31 December 2021, no other valuation on share options granted under the 2010 Share Option Scheme was made.

Particulars and movements of Share Options under the 2010 Share Option Scheme during six months ended 30 June 2022 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Number of Share Options					Outstanding as at 30 June 2022
			Outstanding as at 1 January 2022	Granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Lapsed during the six months ended 30 June 2022	Cancelled during the six months ended 30 June 2022	
Directors								
Mr. Tan Wee Seng	19/04/2017	25.75	150,000	-	-	-	-	150,000
	25/03/2020	26.10	150,000	-	-	-	-	150,000
Mrs. Lok Lau Yin Ching	25/03/2020	26.10	100,000	-	-	-	-	100,000
Mr. Wang Can	25/03/2020	26.10	100,000	-	-	-	-	100,000
Mr. Luo Fei	24/08/2017	29.25	493,002	-	-	-	-	493,002
Mrs. Laetitia Albertini	24/08/2017	29.25	378,326	-	-	-	-	378,326
	15/11/2019	32.65	2,110,742	-	-	(2,110,742)	-	-
Mr. Wang Yidong	03/05/2016	21.05	181,157	-	-	-	-	181,157
	24/08/2017	29.25	378,326	-	-	-	-	378,326
	15/11/2019	32.65	628,536	-	-	(628,536)	-	-
Sub-total			4,670,089	-	-	(2,739,278)	-	1,930,811
Employees and others								
	29/12/2015	15.58	1,348,744	-	-	(59,421)	-	1,289,323
	30/09/2016	20.92	106,639	-	-	(29,492)	-	77,147
	23/12/2016	23.30	90,219	-	-	-	-	90,219
	19/04/2017	25.75	319,909	-	-	(22,450)	-	297,459
	07/07/2017	22.15	53,175	-	-	(8,981)	-	44,194
	24/08/2017	29.25	4,255,943	-	-	(1,005,814)	-	3,250,129
	05/12/2017	47.10	110,167	-	-	(62,075)	-	48,092
	20/04/2018	60.02	204,882	-	-	(75,931)	-	128,951
	26/07/2018	59.05	179,343	-	-	(11,800)	-	167,543
	28/09/2018	47.27	39,061	-	-	-	-	39,061
	29/03/2019	49.15	448,751	-	-	-	-	448,751
	09/07/2019	45.79	152,871	-	-	-	-	152,871
	15/11/2019	32.65	2,461,033	-	-	(2,461,033)	-	-
Sub-total			9,770,737	-	-	(3,736,997)	-	6,033,740
Total			14,440,826	-	-	(6,476,275)	-	7,964,551

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

All Share Options granted since the adoption of the 2010 Share Option Scheme have vested in accordance with the timetable with a 6-year exercise period.

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

No Share Options granted under 2010 Share Option Scheme were exercised and cancelled during the six months ended 30 June 2022.

Since the 2010 Share Option Scheme was terminated with effect from 8 May 2020, the total number of shares available for issue under the 2010 Share Option Scheme as at 30 June 2022 was the same as the number of outstanding Share Options, i.e. 7,964,551, representing approximately 1.23% of the Company's issued share capital as at 30 June 2022.

SHARE AWARD SCHEME

The Board adopted a share award scheme (the "**2022 Share Award Scheme**") on 11 January 2022. The purposes of the 2022 Share Award Scheme are to recognize the contributions by certain employees of the Group, to recognize the contributions by certain eligible participant(s) and to give incentives thereto in order to retain and motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group, by providing them with the opportunity to acquire equity interests in the Company.

The Board may from time to time at its absolute discretion select any eligible participant(s), i.e. any bona fide employee of the Company or of any subsidiary, for participation in the 2022 Share Award Scheme as selected participant(s) (the "**Selected Participant**"). Subject to the limit on the size of the 2022 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares to be granted pursuant to any award under the 2022 Share Award Scheme, or (b) instruct the trustee to allocate returned shares ("**Returned Shares**"), i.e. awarded shares which are not vested and/or forfeited in accordance with the terms of the 2022 Share Award Scheme, or such Shares being deemed to be Returned Shares in accordance with the terms of the 2022 Share Award Scheme, as awarded shares to any Selected Participant(s).

Awarded shares may be acquired by the trustee by way of (i) allotment and issue of new Shares by the Company pursuant to the relevant general mandate or specific mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time; or (ii) purchase of Shares in the open market by the trustee.

Such awarded shares shall then be held by the trustee for the Selected Participants in accordance with the provisions of the 2022 Share Award Scheme prior to vesting. The trustee shall not exercise any voting rights in respect of any Shares held under the trust (including but not limited to awarded shares, Returned Shares, any bonus Shares and scrip Shares).

The Trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Participants in such manners and under such conditions in accordance with the instructions from the Board.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE AWARD SCHEME (CONTINUED)

The Board shall not make any further award which will result in the number of Shares administered under the 2022 Share Award Scheme to exceed in total 10% of the Company's issued share capital as at the adoption date. Unless approved by the shareholders of the Company in a general meeting, the maximum number of awarded shares which may be subject to an award or awards made to a single Selected Participant at any time shall not in aggregate exceed 1.0% of the issued share capital of the Company as at the adoption date.

Subject to any early termination as may be determined by the Board, the 2022 Share Award Scheme shall be valid and effective for a term of ten years commencing on the adoption date of the same.

Details of the 2022 Share Award Scheme are set out in the Company's announcement dated 11 January 2022.

During the six months ended 30 June 2022, the Board resolved to pay HKD76,000,000 to the trustee of the 2022 Share Award Scheme, so that the trustee would then purchase and grant relevant shares to certain grantees under the 2022 Share Award Scheme.

During the six months ended 30 June 2022, based on the Company's instructions, the trustee of the 2022 Share Award Scheme has purchased a total of 6,536,500 ordinary shares of the Company on the Stock Exchange at a total consideration of HKD75,757,375.

Particulars and movements of awarded shares under the 2022 Share Award Scheme during six months ended 30 June 2022 by category of Grantees were as follows:

Category of Grantees	Date of grant	Number of Awarded Shares					Outstanding/ Unvested (held by the trustee for the grantees) as at 30 June 2022
		Outstanding/ Unvested (held by the trustee for the grantees) as at 1 January 2022	Granted during the six months ended 30 June 2022	Vested during the six months ended 30 June 2022	Lapsed during the six months ended 30 June 2022	Cancelled during the six months ended 30 June 2022	
Directors							
Mrs. Laetitia Albertini	08/04/2022	-	1,888,087	-	-	-	1,888,087
Mr. Wang Yidong	08/04/2022	-	793,845	-	-	-	793,845
Mr. Tan Wee Seng	08/04/2022	-	120,000	-	-	-	120,000
Mrs. Lok Lau Yin Ching	08/04/2022	-	120,000	-	-	-	120,000
Mr. Wang Can	08/04/2022	-	120,000	-	-	-	120,000
Sub-total		-	3,041,932	-	-	-	3,041,932
Other employees	08/04/2022	-	3,163,170	-	-	-	3,163,170
Sub-total		-	3,163,170	-	-	-	3,163,170
Total		-	6,205,102	-	-	-	6,205,102

The awarded shares granted on 8 April 2022 shall vest in accordance with the following schedule:

Vesting Date	Percentage of Awarded Shares to be vested (subject to fulfilment of vesting conditions)
1 April 2023	30%
1 April 2024	30%
1 April 2025	40%

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2022, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/ Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company (Note 5)
Mr. Luo Fei	Beneficial owner	Long position	1,185,196 (Note 1)	0.18%
	Beneficial owner	Long position	493,002 (Note 2)	0.08%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 (Note 3)	66.95%
Mrs. Laetitia Albertini	Beneficial owner	Long position	658,941 (Note 1)	0.10%
	Beneficial owner	Long position	2,538,191 (Note 2)	0.39%
	Beneficial owner	Long position	1,888,087 (Note 4)	0.29%
Mr. Wang Yidong	Beneficial owner	Long position	164,164 (Note 1)	0.03%
	Beneficial owner	Long position	1,467,596 (Note 2)	0.23%
	Beneficial owner	Long position	793,845 (Note 4)	0.12%
Mr. Luo Yun	Beneficiary of a trust (other than a discretionary interest)	Long position	432,000,000 (Note 3)	66.95%
Mr. Tan Wee Seng	Beneficial owner	Long position	60,000 (Note 1)	0.01%
	Beneficial owner	Long position	300,000 (Note 2)	0.05%
	Beneficial owner	Long position	120,000 (Note 4)	0.02%
Mr. Wang Can	Beneficial owner	Long position	100,000 (Note 2)	0.02%
	Beneficial owner	Long position	120,000 (Note 4)	0.02%
Mrs. Lok Lau Yin Ching	Beneficial owner	Long position	100,000 (Note 2)	0.02%
	Beneficial owner	Long position	120,000 (Note 4)	0.02%

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

Note 2: These are the shares subject to the exercise of the share options granted by the Company under the 2020 Share Option Scheme and/or the 2010 Share Option Scheme.

Note 3: As at 30 June 2022, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 100% by Flying Company Limited, and therefore, Coliving Limited is deemed to be controlled by Flying Company Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. As from 7 April 2022, Sailing Group Limited no longer held shares in Coliving Limited which is deemed to be interested in the Company's shares held by Biostime Pharmaceuticals (China) Limited. Mr. Luo Yun ceased to be interested in the shares as a founder of the relevant trust, but continued to be interested in the same shares in the capacity of a beneficiary of another trust which is indirectly interested in the relevant shares of the Company.

Note 4: These are awarded shares granted by the Company under the 2022 Share Award Scheme.

Note 5: As at 30 June 2022, the total number of the issued shares of the Company was 645,211,045.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2022, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding (Note 2)
Biostime Pharmaceuticals (China) Limited (Note 1)	Beneficial owner	Long position	432,000,000	66.95%
Flying Company Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.95%
Coliving Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.95%
UBS Trustees (BVI) Limited (Note 1)	Trustee	Long position	432,000,000	66.95%
Templeton Asset Management Ltd.	Investment manager	Long position	32,018,830	4.96%

Note 1: As at 30 June 2022, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 100% by Flying Company Limited, and therefore, Coliving Limited is deemed to be controlled by Flying Company Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. As from 7 April 2022, Sailing Group Limited no longer held shares in Coliving Limited which is deemed to be interested in the Company's shares held by Biostime Pharmaceuticals (China) Limited. Mr. Luo Yun ceased to be interested in the shares as a founder of the relevant trust, but continued to be interested in the same shares in the capacity of a beneficiary of another trust which is indirectly interested in the relevant shares of the Company.

Note 2: As at 30 June 2022, the total number of the issued shares of the Company was 645,211,045.

Save as mentioned above, as at 30 June 2022, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in this interim report, there is no changes in information of Directors of the Company required to be disclosed in this interim report pursuant to Rule 13.51B(1) of the Listing Rules.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS

On 27 September 2021:

- (1) the Company (as borrower) entered into a bridge loan agreement (the “**Bridge Loan Agreement**”) with Goldman Sachs (Asia) LLC (as arranger), Goldman Sachs Lending Partners LLC (“**Lender**”) (as lender), and The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) (as agent and security agent). Pursuant to the Bridge Loan Agreement, the Lender agrees to make available to the Company a bridge term loan facility (the “**Bridge Loan Facility**”) in the aggregate amount of US\$350 million. Any outstanding principal amount of the Bridge Loan Facility is to be repaid no later than the date falling 364 calendar days after the initial utilisation date of the Bridge Loan Facility;
- (2) the Company (as borrower) also entered into an incremental facility request with HSBC, as agent and security agent of the syndicated facilities agreement dated 21 June 2018 (as amended, restated and/or supplemented from time to time) (the “**Facilities Agreement**”) pursuant to which certain incremental term facility in the aggregate principal amount of US\$150 million (the “**Incremental Loan Facility**”) will be made available by the Lender to the Company under the Facilities Agreement. Any outstanding principal amount of the Incremental Loan Facility is to be repaid on 20 November 2023.

The amount to be borrowed under the Incremental Loan Facility and the Bridge Loan Facility are to be applied towards, amongst others, payment of the purchase price for the acquisition of Zesty Paws, LLC as disclosed in the announcement of the Company dated 22 August 2021 and above. Under the terms of each of the Incremental Loan Facility and the Bridge Loan Facility, if, among other things, Mr. Luo Fei and Mr. Luo Yun and their family members (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made under the Incremental Loan Facility and the Bridge Loan Facility, respectively, will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

On 29 October 2019, an incremental facility request (the “**Incremental Facility Request**”) was entered into between, amongst others, the Company and Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrowers of the Loan Facilities (as defined below) and HSBC as agent of the Facilities Agreement pursuant to which certain incremental term facilities and incremental revolving credit facilities equivalent in aggregate principal amount to US\$675 million (the “**Loan Facilities**”) arranged by Goldman Sachs (Asia) L.L.C., HSBC and J.P. Morgan Securities (Asia Pacific) Limited will be made available to the borrowers under the Facilities Agreement. The parties to the Incremental Facility Request entered into an amended and restated facilities agreement (the “**Amended and Restated Facilities Agreement**”) on 13 December 2019. Under the Amended and Restated Facilities Agreement, if, among other things, Mr. Luo Fei, Mr. Luo Yun and the family members of each of the foregoing (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made thereunder will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS (CONTINUED)

On 28 April 2022, the Company, Biostime Healthy Australia Investment Pty Limited and Health and Happiness (H&H) US International Incorporated (both being wholly-owned subsidiaries of the Company and together with the Company, the “**Borrowers**”) entered into an incremental facility request with HSBC, as agent and security agent of the syndicated facilities agreement dated 21 June 2018 (as amended, restated and/or supplemented from time to time) (the “**Facilities Agreement**”) pursuant to which the Refinancing Facilities in the aggregate principal amount of US\$1,200,000,000 will be made available by the credit parties to the Borrowers in the form of incremental facilities under the Facilities Agreement.

The Borrowers also entered into an amendment and restatement agreement (the “**Amendment and Restatement Agreement**”) with the credit parties pursuant to which the Facilities Agreement was amended and restated after the utilization of the Refinancing Facilities and satisfaction of certain conditions (such amended and restated Facilities Agreement being the “**Refinancing Facility Agreement**”).

Under the terms of the Refinancing Facility Agreement, in the event that Mr. Luo Fei and his family members (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made under the Refinancing Facility Agreement, will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

Save as disclosed in this interim report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

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 HKD0.25 per ordinary share, representing approximately 30.0% of the Group’s Adjusted net profit for the period of six months ended 30 June 2022. The interim dividend will be paid on or about Thursday, 13 October 2022 to the shareholders whose names appear on the register of members of the Company on Friday, 16 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Friday, 16 September 2022, 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 Tuesday, 13 September 2022.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 32 to 80, which comprise the interim condensed consolidated statement of financial position as at 30 June 2022, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “*Interim Financial Reporting*” (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”).

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

SCOPE OF REVIEW

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Ernst & Young
Certified Public Accountants
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

29 August 2022

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

Six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
REVENUE	5	5,955,447	5,424,320
Cost of sales		(2,263,980)	(2,001,571)
Gross profit		3,691,467	3,422,749
Other income and gains	5	91,660	87,444
Selling and distribution costs		(2,433,297)	(2,172,679)
Administrative expenses		(314,910)	(311,105)
Other expenses		(101,040)	(229,808)
Finance costs	6	(252,276)	(129,919)
Share of (loss)/profit of an associate		(200)	3,445
PROFIT BEFORE TAX	7	681,404	670,127
Income tax expense	8	(206,291)	(168,773)
PROFIT FOR THE PERIOD		475,113	501,354
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	23	281,951	117,261
Reclassification adjustments for losses included in profit or loss		(191,597)	(56,747)
Income tax effect		2,139	(11,540)
		92,493	48,974
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	23	3,041	(24,285)
Exchange differences on translation of foreign operations		33,498	(113,438)
Exchange differences on net investment in foreign operations		(134,549)	(107)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(5,517)	(88,856)
Other comprehensive loss 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		(40,855)	(61,325)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(46,372)	(150,181)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		428,741	351,173
Profit attributable to owners of the parent		475,113	501,354
Total comprehensive income attributable to owners of the parent		428,741	351,173
		RMB	RMB
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	10		
Basic		0.74	0.78
Diluted		0.74	0.78

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	425,161	444,378
Right-of-use assets	12(a)	138,594	144,917
Goodwill	13	7,581,836	7,471,994
Intangible assets	14	5,594,492	5,572,436
Bonds receivable		70,084	72,197
Deposits		57,140	42,305
Investment in an associate		67,513	67,712
Deferred tax assets	26	659,521	602,846
Derivative financial instruments	23	49,577	13,715
Other non-current financial assets	15	310,027	335,783
Total non-current assets		14,953,945	14,768,283
CURRENT ASSETS			
Inventories	16	1,907,570	2,087,720
Trade and bills receivables	17	687,901	739,257
Prepayments, other receivables and other assets	18	239,861	280,762
Derivative financial instruments	23	7,444	5,655
Cash and cash equivalents	19	2,111,750	2,400,070
Total current assets		4,954,526	5,513,464
CURRENT LIABILITIES			
Trade and bills payables	20	792,646	881,458
Other payables and accruals	21	2,177,367	2,175,358
Contract liabilities	22	52,596	264,215
Lease liabilities	12(b)	19,650	23,533
Derivative financial instruments	23	2,933	104
Senior notes	25	20,364	19,752
Interest-bearing bank loans	24	374,223	3,125,737
Tax payable		220,829	331,776
Dividend payables		92,828	–
Total current liabilities		3,753,436	6,821,933
NET CURRENT ASSETS/(LIABILITIES)		1,201,090	(1,308,469)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,155,035	13,459,814

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Senior notes	25	2,018,749	1,918,700
Interest-bearing bank loans	24	6,945,060	4,311,094
Other payables and accruals	21	3,998	8,851
Lease liabilities	12(b)	69,328	79,049
Derivative financial instruments	23	191,876	430,802
Deferred tax liabilities	26	800,348	826,132
Total non-current liabilities		10,029,359	7,574,628
Net assets		6,125,676	5,885,186
EQUITY			
Issued capital	27	5,516	5,516
Other reserves		6,120,160	5,791,865
Proposed dividend		-	87,805
Total equity		6,125,676	5,885,186

Luo Fei
Director

Wang Yidong
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2022

Notes	Issued capital RMB'000	Shares held					Fairvalue reserve of financial assets at fairvalue					Total RMB'000			
		Share premium account RMB'000	Share for the share award schemes RMB'000	Share award reserve RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Retained profits RMB'000		Proposed dividend RMB'000		
At 31 December 2021 (Audited)	5,516	688,995*	(1)*	26,992*	-*	95*	382,665*	192,751*	(475,903)*	(1,217,025)*	(5,900)*	(3,694)*	6,202,890*	87,805	5,885,186
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	475,113	-	475,113
Other comprehensive income/(loss) for the period:															
Changes in fair value of equity investment designated at fairvalue through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(40,855)	-	-	(40,855)
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	92,493	-	-	-	-	92,493
Hedge of net investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	3,041	-	-	-	-	-	3,041
Exchange differences on net investment in foreign operations	-	-	-	-	-	-	-	-	33,498	-	-	-	-	-	33,498
	-	-	-	-	-	-	-	-	(134,549)	-	-	-	-	-	(134,549)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	(98,010)	-	92,493	(40,855)	475,113	-	428,741
Transfer to statutory reserve	-	-	-	-	-	-	1,674	-	-	-	-	-	(1,674)	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	(43,287)	-	-	-	-	-	-	(43,287)
Transfer of share option reserve upon the forfeiture or expiry of the share options	-	-	-	-	-	-	-	(14,832)	-	-	-	-	14,832	-	-
Equity-settled share award arrangements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share purchased for the 2022 Share Award Scheme (as defined in note 29)	-	-	(61,776)	-	-	-	-	-	-	-	-	-	-	-	(61,776)
Final 2021 dividend declared	-	-	-	-	-	-	-	-	-	-	-	-	(6,081)	(87,805)	(93,886)
At 30 June 2022 (Unaudited)	5,516	688,995*	(61,777)*	26,992*	10,698*	95*	384,339*	134,632*	(573,913)*	(1,217,025)*	86,593*	(44,549)*	6,685,080*	-	6,125,616

* These reserve accounts comprise the consolidated other reserves of RMB6,120,160,000 (31 December 2021: RMB5,791,865,000) in these interim condensed consolidated statement of financial position as at 30 June 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2022

	Notes	Shares held			Capital surplus	Statutory reserve	Share option reserve	Exchange fluctuation reserve	Other reserve	Cash flow hedge reserve	Fair value reserve of financial assets at fair value through other comprehensive income		Proposed dividend	Total
		Issued capital	Share premium account	Share for the share award schemes							Contributed surplus	RMB'000		
At 31 December 2020 (Audited)		5,510	673,589	(1)	26,992	95	382,651	168,275	(91,387)	(1,217,025)	(87,575)	166,214	209,345	6,202,687
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	-	501,354
Other comprehensive income/(loss) for the period:														
Changes in fair value of equity investment designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-	-	(61,325)	-	(61,325)
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	48,974	-	-	-	48,974
Hedge of net investments	23	-	-	-	-	-	-	(24,285)	-	-	-	-	-	(24,285)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(113,438)	-	-	-	-	(113,438)
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	(107)	-	-	-	-	-	(107)
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	(137,830)	-	48,974	(61,325)	501,354	-	351,173
Equity-settled share option arrangements		6	12,919	-	-	-	-	32,877	-	-	-	-	-	45,802
Transfer of share option reserve upon the forfeiture or expiry of share options	28	-	-	-	-	-	-	(6,038)	-	-	-	6,038	-	-
Final 2020 dividend declared		-	-	-	-	-	-	-	-	-	-	238	(209,345)	(209,087)
At 30 June 2021 (Unaudited)		5,516	686,508	(1)	26,992	95	382,651	195,114	(229,217)	(1,217,025)	(38,601)	104,889	6,473,654	6,390,575

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		681,404	670,127
Adjustments for:			
Bank interest income	5	(8,242)	(2,518)
Interest income from loans and bonds receivables	5	(1,266)	(4,577)
Finance costs	6	252,276	129,919
Share of loss/(profit) of an associate		200	(3,445)
Depreciation of property, plant and equipment	7	36,363	42,653
Depreciation of right-of-use assets	7	20,589	27,525
Amortisation of intangible assets	7	98,335	66,487
Gains on early termination of leases	5	(3,213)	(19,249)
Loss on disposal of items of property, plant and equipment and intangible assets	7	1,063	738
(Reversal of)/equity-settled share option expense	7	(43,287)	35,780
Equity-settled share award expense	7	10,698	–
Fair value (gains)/losses on derivative financial instruments, net	7	(16,320)	47,787
Fair value (gains)/losses on financial assets	7	(14,985)	5,147
Impairment of trade receivables	7	30,994	1,699
Write-down of inventories to net realisable value	7	135,045	134,715
Foreign exchange differences, net	7	(15,501)	98,752
		1,164,153	1,231,540
Decrease/(increase) in inventories		75,311	(238,263)
Decrease in trade and bills receivables		23,279	95,866
Decrease in prepayments, other receivables and other assets		21,611	317
Decrease/(increase) in rental deposits		2,781	(96)
(Decrease)/increase in trade and bills payables		(60,173)	112,500
Decrease in other payables and accruals		(58,963)	(621,271)
Decrease in contract liabilities		(211,583)	(27,639)
Cash generated from operations		956,416	552,954
Corporate income tax paid		(400,553)	(198,034)
Net cash flows from operating activities		555,863	354,920

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(26,330)	(29,749)
Proceeds from disposal of items of property, plant and equipment and intangible assets		2,832	5,214
Additions to intangible assets		(22,001)	(11,203)
Addition to other financial assets		(1,181)	–
Additions to right-of-use assets		(6,242)	–
Addition to investment to a short-term financial instrument		–	(442)
Interest received		6,689	2,567
Net cash flows used in investing activities		(46,233)	(33,613)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		–	10,022
Payment of transaction costs for refinancing of interest-bearing bank loans		(144,193)	–
Repayment of interest-bearing bank loans		(383,651)	–
Payment of lease liabilities	12(b)	(21,071)	(32,811)
Interest paid		(193,247)	(105,998)
Proceeds from termination of CCSs (as defined in note 23)		5,912	–
Payment for certain CCSs	23	(19,583)	(19,413)
Purchase of ordinary shares for 2022 Share Award Scheme	29	(61,776)	–
Net cash flows used in financing activities		(817,609)	(148,200)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		2,400,070	1,830,873
Effect of foreign exchange rate changes, net		19,659	(32,636)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		2,111,750	1,971,344
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	2,111,750	1,971,344

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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 2022 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 2021, 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 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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 2021, except for the adoption of the following IFRSs for the first time for the current period's financial information:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs are described below:

Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there was no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. The amendments did not have significant impact on the financial position or performance of the Group.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

- **IFRS 9 *Financial Instruments*:** clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. The amendment did not have significant impact on the financial position or performance of the Group.
- **IFRS 16 *Leases*:** removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2022 (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	2,462,057	494,339	2,046,428	227,451	725,172	-	5,955,447
Segment results	1,551,426	391,288	1,302,854	113,841	332,058	-	3,691,467
<i>Reconciliations:</i>							
Interest income							9,508
Other income and unallocated gains							82,152
Share of loss of an associate							(200)
Corporate and other unallocated expenses							(2,849,247)
Finance costs							(252,276)
Profit before tax							681,404
Other segment information:							
Depreciation and amortisation	9,754	2,486	44,037	4,693	34,729	59,588	155,287
Impairment of trade receivables	-	-	21,109	9,885	-	-	30,994
Write-down/(write-back) of inventories to net realisable value	64,511	8,078	56,794	(8,711)	14,373	-	135,045
Capital expenditure*	10,210	1,658	8,382	3,018	8,182	1,193	32,643

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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
<i>Reconciliations:</i>							
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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Mainland China	4,394,592	4,333,248
Australia and New Zealand	692,539	597,910
United States	570,979	151,461
Other locations [#]	297,337	341,701
	5,955,447	5,424,320

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

(b) Non-current assets

	30 June	31 December
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Mainland China	498,971	502,838
Australia and New Zealand	2,343,232	2,391,368
United States	2,442,546	2,349,792
Other locations [#]	998,151	1,027,750
	6,282,900	6,271,748

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")

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	5,955,447	5,424,320

Disaggregated revenue information

For the six months ended 30 June 2022 (unaudited)

Segments	Infant	Probiotic	Adult	Other	Pet	Total
	formulas	supplements	nutrition	pediatric	nutrition	
	RMB'000	RMB'000	and care	products	and care	RMB'000
			products	RMB'000	products	RMB'000
Geographical markets						
Mainland China	2,381,436	489,988	1,250,602	104,682	167,884	4,394,592
Australia and New Zealand	18,823	628	673,088	–	–	692,539
United States	–	424	13,424	–	557,131	570,979
Other locations*	61,798	3,299	109,314	122,769	157	297,337
Total	2,462,057	494,339	2,046,428	227,451	725,172	5,955,447
Timing of revenue recognition						
Goods transferred at a point in time	2,462,057	494,339	2,046,428	227,451	725,172	5,955,447

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

Disaggregated revenue information (continued)

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
United States	–	134	13,134	–	138,193	151,461
Other locations*	55,757	3,628	131,384	150,932	–	341,701
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

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	8,242	2,518
Interest income from loans and bonds receivables	1,266	4,577
Foreign exchange gains	15,501	–
Fair value gains on derivative financial instruments, net	16,320	–
Fair value gains on financial assets	14,985	–
Government subsidies*	16,199	30,091
Gains on sales of raw materials	10,629	25,843
Gains on early termination of leases	3,213	19,249
Others	5,305	5,166
	91,660	87,444

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

6. FINANCE COSTS

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest on interest-bearing bank loans and senior notes	218,087	104,116
Interest expense on lease liabilities (note 12(b))	3,068	3,755
Write-off of unamortised transaction costs and losses on modification upon refinancing of interest-bearing bank loans	31,121	–
Amortised loss of interest rate hedge in relation to previous term loan	–	22,048
	252,276	129,919

7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold		2,128,935	1,866,856
Depreciation of property, plant and equipment	11	36,363	42,653
Depreciation of right-of-use assets	12(a)	20,589	27,525
Amortisation of intangible assets	14	98,335	66,487
Research and development costs**		68,474	59,696
Lease payments not included in the measurement of lease liabilities		7,947	8,216
Gains on early termination of leases*		(3,213)	(19,249)
Loss on disposal of items of property, plant and equipment and intangible assets		1,063	738
Employee benefit expenses:			
Wages and salaries		544,305	574,885
Pension scheme contributions (defined contribution schemes)		77,489	59,741
Staff welfare and other expenses		22,725	24,590
(Reversal of)/equity-settled share option expense	28	(43,287)	35,780
Equity-settled share award expense	29	10,698	–
		611,930	694,996
Foreign exchange differences, net		(15,501)*	98,752**
Fair value (gains)/losses on derivative financial instruments, net		(16,320)*	47,787**
Fair value (gains)/losses on financial assets		(14,985)*	5,147**
Impairment of trade receivables**		30,994	1,699
Write-down of inventories to net realisable value#		135,045	134,715

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

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

Included in "Cost of sales" in profit or loss

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	197,388	102,663
Hong Kong SAR	83,007	86,121
Australia	1,343	(392)
Elsewhere	1,273	1,195
Deferred (note 26)	(76,720)	(20,814)
Total tax charge for the period	206,291	168,773

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 2021: 25%) on the taxable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

Biostime (Guangzhou) Health Products Limited (“**Biostime Health**”), the Company’s wholly-owned subsidiary operating in mainland China, was recognised as high-technology enterprise in December 2020, and is subject to EIT at a rate of 15% for three years from 2020 to 2022. Therefore, Biostime Health was subject to EIT at a rate of 15% for the six months ended 30 June 2022 and 2021. Guangzhou Hapai Information Technology Co., Ltd (“**Guangzhou Hapai**”), the Company’s wholly-owned subsidiary, was recognised as high-technology enterprise in December 2019, and was subject to EIT at a rate of 15% for the three years from 2019 to 2021. As at 30 June 2022, Guangzhou Hapai was in the progress of re-application of high-technology enterprise and expected that it is highly probable to be recognised as a high-technology enterprise. Thus, Guangzhou Hapai calculated the income tax provision at the rate of 15% in the period.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 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 2021: HKD2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (six months ended 30 June 2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2021: 16.5%).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

8. INCOME TAX EXPENSE (CONTINUED)

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2021: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

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

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

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

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

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

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

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

Income tax for other jurisdictions

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

9. DIVIDENDS

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Final declared – HKD0.17 (2021: HKD0.39) per ordinary share	93,886	209,087
Dividends on ordinary shares declared after the interim reporting date: Interim – HKD0.25 (2021: HKD0.37) per ordinary share	144,869	198,051

On 29 August 2022, the board of directors declared an interim dividend of HKD0.25 (six months ended 30 June 2021: HKD0.37) per ordinary share, amounting to a total of approximately RMB144,869,000 (six months ended 30 June 2021: RMB198,051,000).

10. 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 six months ended 30 June 2022 attributable to ordinary equity holders of the parent of RMB475,113,000 (six months ended 30 June 2021: RMB501,354,000), and the adjusted weighted average number of ordinary shares of 641,531,668 (six months ended 30 June 2021: 644,503,900) 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.

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	475,113	501,354
		Number of shares
Shares		
Weighted average number of ordinary shares in issue	645,211,045	644,679,611
Weighted average number of shares held for the share award schemes	(3,679,377)	(175,711)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	641,531,668	644,503,900
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	2,845,434	1,809,157
Adjusted weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	644,377,102	646,313,057

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment with an aggregate cost of RMB22,568,000 (six months ended 30 June 2021: RMB72,433,000). Furthermore, depreciation of RMB36,363,000 (six months ended 30 June 2021: RMB42,653,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB3,895,000 (six months ended 30 June 2021: RMB5,950,000) were disposed of by the Group. Besides, exchange realignment with an amount of RMB1,527,000 (negative) was recognised in the period (six months ended 30 June 2021: RMB2,653,000 (negative)).

12. LEASE

(a) Right-of-use assets

The Group has lease contracts for various items of land, office buildings, vehicles and office equipment. During the period, the Group recognised the right-of-use assets, with an aggregate cost of RMB24,477,000 (six months ended 30 June 2021: RMB36,253,000). Depreciation of RMB20,589,000 (six months ended 30 June 2021: RMB27,525,000) was charged, and the right-of-use-assets of RMB9,334,000 (six months ended 30 June 2021: RMB13,390,000) were derecognised due to the early termination of leases. Furthermore, exchange realignment with an amount of RMB877,000 (negative) was recognised in the period (six months ended 30 June 2021: RMB2,196,000 (negative)).

(b) Lease liabilities

During the period, the Group recognised the new lease liabilities of RMB18,235,000 (six months ended 30 June 2021: RMB36,253,000) and interest expense of RMB3,068,000 (six months ended 30 June 2021: RMB3,755,000) was charged. Furthermore, the Group paid for the lease liabilities of RMB21,071,000 (six months ended 30 June 2021: RMB32,811,000), and the lease liabilities of RMB12,547,000 (six months ended 30 June 2021: RMB32,639,000) were derecognised due to the early termination of leases. Besides, exchange realignment with an amount of RMB1,289,000 (negative) was recognised in the period (six months ended 30 June 2021: RMB2,790,000 (negative)).

13. GOODWILL

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Cost and carrying amount:		
At 1 January	7,471,994	6,003,809
Acquisition of subsidiaries	–	2,011,782
Impairment during the period/year	–	(76,000)
Exchange realignment	109,842	(467,597)
At end of the period/year	7,581,836	7,471,994

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

14. INTANGIBLE ASSETS

During the period, the Group acquired intangible assets with an aggregate cost of RMB10,075,000 (six months ended 30 June 2021: RMB8,688,000). Furthermore, amortisation of RMB98,335,000 (six months ended 30 June 2021: RMB66,487,000) was charged by the Group, and no intangible asset (six months ended 30 June 2021: RMB2,000) was disposed of by the Group. Besides, exchange realignment with an amount of RMB110,316,000 was recognised in the period (six months ended 30 June 2021: RMB90,553,000 (negative)).

15. OTHER NON-CURRENT FINANCIAL ASSETS

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial assets at fair value through profit or loss	(a)		
– Unlisted equity investments		134,880	118,257
– Other unlisted investments		135,823	138,528
		270,703	256,785
Equity investment designed at fair value through other comprehensive income	(b)		
– Listed equity investment in BOD Australia Limited		4,802	18,074
– Listed equity investment in Else Nutrition Holdings Limited (“Else”)		33,354	60,924
– Unlisted equity investment in Arla Foods Arinco A/S (“Arla”)		1,168	–
		39,324	78,998
		310,027	335,783

Notes:

- (a) These equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

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

- (b) These equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers the investments to be strategic in nature.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

16. INVENTORIES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Raw materials	536,196	796,011
Goods in transit	392,150	409,028
Work in progress	9,411	4,140
Finished goods	969,813	878,541
	1,907,570	2,087,720

17. TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	704,337	716,027
Bills receivable	30,806	48,198
	735,143	764,225
Less: Impairment provision	(47,242)	(24,968)
	687,901	739,257

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 90 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 receivables represent bank acceptance notes issued by banks in mainland China which are non-interest-bearing.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

17. TRADE AND BILLS RECEIVABLES (CONTINUED)

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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	433,025	477,008
1 to 3 months	231,454	223,721
Over 3 months	23,422	38,528
	687,901	739,257

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At beginning of the period/year	24,968	13,123
Impairment losses recognised	31,804	21,760
Amount written off as uncollectible	(9,005)	(5,706)
Impairment losses reversed	(810)	(2,834)
Exchange realignment	285	(1,375)
At end of the period/year	47,242	24,968

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Prepayments	63,954	155,993
Deposits	5,318	6,154
Other receivables	128,696	95,935
Prepaid expenses	38,433	21,597
Right-of-return assets	3,460	1,083
	239,861	280,762

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 30 June 2022 and 31 December 2021, the loss allowance was assessed to be minimal.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

19. CASH AND CASH EQUIVALENTS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Cash and bank balance	2,111,750	2,400,070
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	2,111,750	2,400,070
Denominated in RMB (note)	1,310,117	1,189,190
Denominated in other currencies	801,633	1,210,880
	2,111,750	2,400,070

Note:

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents to its fair values. The bank balances is deposited with creditworthy banks with no recent history of default.

20. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	792,646	881,458

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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	669,979	671,096
1 to 3 months	98,522	171,715
Over 3 months	24,145	38,647
	792,646	881,458

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

As at 30 June 2022, included in trade payables is an amount due to an associate of the Group of RMB2,721,000 (31 December 2021: RMB1,248,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

21. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Salaries and welfare payables		194,518	219,080
Accruals		812,734	876,264
Other tax payables		116,669	120,718
Other payables	(a)	135,958	190,638
Refund liabilities	(b)	921,486	777,509
		2,181,365	2,184,209
Less: current portion		(2,177,367)	(2,175,358)
Non-current portion		3,998	8,851

Notes:

- (a) Other payables are non-interest-bearing and have an average term of three months.
- (b) Details of refund liabilities as at 30 June 2022 and 31 December 2021 are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Sales rebate	906,616	769,422
Sales return	14,870	8,087
	921,486	777,509

22. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2022 and 31 December 2021 are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Advances from customers	52,596	264,215

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

23. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2022		31 December 2021	
		Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Current					
Forward currency contracts	(a)	–	2,933	–	104
Warrants	(b)	465	–	3,751	–
The Swaps (as defined below)	(d)	6,979	–	1,904	–
		7,444	2,933	5,655	104
Non-current					
Early redemption option embedded in the senior notes	(c)	12,382	–	13,715	–
The Swaps (as defined below)	(d)	33,017	–	–	205,999
The CCSs (as defined below)					
– designated as hedge	(e)	4,178	146,942	–	172,384
– not designated as hedge	(e)	–	44,934	–	52,419
		49,577	191,876	13,715	430,802

Notes:

- (a) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The net fair value of the forward currency contracts as at 30 June 2022 was RMB2,933,000 (negative) (31 December 2021: RMB104,000 (negative)). A net loss of RMB2,831,000 was charged to profit or loss during the period (six months ended 30 June 2021: RMB7,363,000).
- (b) The Group was granted certain warrants entitling the Group to acquire, subject to adjustment, one common share in the capital of Else for each warrant. The fair value of the warrants as at 30 June 2022 was RMB465,000 (31 December 2021: RMB3,751,000). A fair value loss of RMB3,286,000 was charged to profit or loss for the period (six months ended 30 June 2021: RMB8,383,000).
- (c) An early redemption option is embedded in the senior notes, details of which are set out in note 25 to these interim condensed consolidated financial statements. The fair value of the early redemption option as at 30 June 2022 was RMB12,382,000 (31 December 2021: RMB13,715,000). A fair value loss of RMB1,899,000 was charged to profit or loss for the period (six months ended 30 June 2021: RMB15,187,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) Cash flow hedges

As at 30 June 2022 and 31 December 2021, the Group had certain cross currency interest rate swaps and cross currency swaps (collectively, the “**Swaps**”) in order to hedge the exposure arising from bank borrowings carried at floating rates and denominated in foreign currencies. Under the Swaps, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts (if applicable) calculated by reference to the agreed notional amounts in specified currencies denominated in foreign currencies.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the Swaps match the term of the term loans denominated in USD. The cash flow hedge relating to the expected interest and principal payments was assessed to be highly effective. The fair value of the Swaps as at 30 June 2022 was RMB39,996,000 (31 December 2021: RMB204,095,000 (negative)). A gain of RMB281,951,000 (six months ended 30 June 2021: RMB117,261,000) was included in the cash flow hedge reserve and a gain of the ineffective portion of RMB1,033,000 was recognised in profit or loss for the period (six months ended 30 June 2021: a loss of RMB395,000).

(e) Hedges of net investments in foreign operations

As at 30 June 2022 and 31 December 2021, the Company had certain cross currency swap and cross currency interest rate swap agreements (the “**CCSs**”) to hedge its exposure of foreign currency risks arising from its investment in mainland China and Australia. Under the CCSs, the Company agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and fixed or floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

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

During the period, in respect of the CCSs designated as hedging instruments, a net gain of RMB3,041,000 (six months ended 30 June 2021: a net loss of RMB24,285,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net gain of RMB18,542,000 (six months ended 30 June 2021: a net loss of RMB5,686,000) was recognised in profit or loss. For the CCSs not designated as hedging instruments, a net gain of RMB4,761,000 (six months ended 30 June 2021: a net loss of RMB10,773,000) was recognised in profit or loss during the period. During the period, the Company has paid net cash of RMB19,583,000 (six month ended 30 June 2021: RMB19,413,000) in respect of those CCSs.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

24. INTEREST-BEARING BANK LOANS

	30 June 2022			31 December 2021		
	Effective interest rate (%)	Maturity*	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current						
Secured bank loan	LIBOR+margin	Mar-2022	-	LIBOR+margin	Mar-2022	318,787
Secured bank loan	LIBOR+margin	Sep-2022	-	LIBOR+margin	Sep-2022	2,204,380
Secured bank loan	BBSY+margin	Nov-2022	-	BBSY+margin	Nov-2022	57,490
Secured bank loan	LIBOR+margin	Nov-2022	-	LIBOR+margin	Nov-2022	545,080
Secured bank loan	SOFR+margin	Jun-2023	265,377	-	-	-
Secured bank loan	HIBOR+margin	Jun-2023	108,846	-	-	-
			<u>374,223</u>			<u>3,125,737</u>
Non-current						
Secured bank loan	BBSY+margin	May-2023	-	BBSY+margin	May-2023	56,836
Secured bank loan	LIBOR+margin	May-2023	-	LIBOR+margin	May-2023	537,918
Secured bank loan	BBSY+margin	Nov-2023	-	BBSY+margin	Nov-2023	265,240
Secured bank loan	LIBOR+margin	Nov-2023	-	LIBOR+margin	Nov-2023	3,451,100
Secured bank loan	SOFR+margin	Dec-2023	387,698	-	-	-
Secured bank loan	SOFR+margin	Jun-2024	516,930	-	-	-
Secured bank loan	SOFR+margin	Dec-2024	1,938,488	-	-	-
Secured bank loan	SOFR+margin	Jun-2025	2,067,712	-	-	-
Secured bank loan	HIBOR+margin	Dec-2023	160,598	-	-	-
Secured bank loan	HIBOR+margin	Jun-2024	214,130	-	-	-
Secured bank loan	HIBOR+margin	Dec-2024	802,989	-	-	-
Secured bank loan	HIBOR+margin	Jun-2025	856,515	-	-	-
			<u>6,945,060</u>			<u>4,311,094</u>
			<u>7,319,283</u>			<u>7,436,831</u>

* These interest-bearing bank loans shall become due in full if the Senior Notes (as defined in note 25) have not been repaid or otherwise refinanced, refunded, replaced, exchanged, renewed, redeemed, defeased, discharged, or extended, in full on or prior to the date falling 3 months prior to the maturity of the Senior Notes.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

24. INTEREST-BEARING BANK LOANS (CONTINUED)

Analysed into:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Bank loans repayable		
within one year or on demand	374,223	3,125,737
in the second year	1,279,356	4,311,094
in the third to fifth years, inclusive	5,665,704	–
	7,319,283	7,436,831

BBSY stands for the Australian Bank Bill Swap Bid Rate.

LIBOR stands for the London InterBank Offered Rate.

SOFR stands for the Secured Overnight Financing Rate.

HIBOR stands for the Hong Kong InterBank Offered Rate.

Notes:

- (a) As at 30 June 2022 and 31 December 2021, the Group's interest-bearing bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges over present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.
- (b) The Group's interest-bearing bank loans are subject to the fulfilment of certain covenants relating to limitations on indebtedness. The Company regularly monitors its compliance with these covenants.
- (c) As at 30 June 2022, the Group's interest-bearing bank loans were denominated in USD, AUD and HKD at aggregate amounts of RMB5,176,205,000 (31 December 2021: RMB7,057,265,000), nil (31 December 2021: RMB379,566,000) and RMB2,143,078,000 (31 December 2021: nil), respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

25. SENIOR NOTES

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

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

25. SENIOR NOTES (CONTINUED)

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

As at 30 June 2022, the fair value of the early redemption option embedded in the Senior Notes amounted to RMB12,382,000 (31 December 2021: RMB13,715,000), details of which are set out in note 23(c) to these interim condensed consolidated financial statements.

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

The movements of the Senior Notes during the six months ended 30 June 2022 and the year ended 31 December 2021 are set out below:

	RMB'000
At 1 January 2021 (Audited)	1,985,559
Interest charged during the year	107,062
Interest paid during the year	(108,838)
Exchange realignment	(45,331)
At 31 December 2021 and 1 January 2022 (Audited)	1,938,452
Interest charged during the period	53,361
Interest paid during the period	(54,834)
Exchange realignment	102,134
At 30 June 2022 (Unaudited)	2,039,113
Less: current portion	(20,364)
Non-current portion	2,018,749

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the period and the year ended 31 December 2021 are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Tax losses recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022 (Audited)	2,942	431,498	68,303	80,090	4,721	15,292	602,846
Credited/(charged) to profit or loss for the period (note 8)	25,635	54,311	(9,020)	(8,121)	(5,470)	(2,062)	55,273
Credited to equity for the period	-	-	-	-	706	-	706
Exchange realignment	-	(175)	-	828	43	-	696
At 30 June 2022 (Unaudited)	28,577	485,634	59,283	72,797	-	13,230	659,521
At 1 January 2021 (Audited)	12,336	375,618	58,395	95,021	25,014	21,155	587,539
(Charged)/credited to profit or loss for the year (note 8)	(9,394)	61,139	9,908	(9,558)	6,614	(4,405)	54,304
Charged to equity for the year	-	-	-	-	(25,831)	-	(25,831)
Exchange realignment	-	(5,259)	-	(5,373)	(1,076)	(1,458)	(13,166)
At 31 December 2021	2,942	431,498	68,303	80,090	4,721	15,292	602,846

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022 (Audited)	171	61,864	756,532	-	7,565	826,132
(Credited)/charged to profit or loss for the period (note 8)	154	(18,765)#	(12,251)	11,096	(1,681)	(21,447)
Credited to equity for the period	-	-	-	(1,433)	-	(1,433)
Exchange realignment	(2)	29	(2,824)	(102)	(5)	(2,904)
At 30 June 2022 (Unaudited)	323	43,128	741,457	9,561	5,879	800,348
At 1 January 2021 (Audited)	111	81,466	848,665	-	7,800	938,042
(Credited)/charged to profit or loss for the year (note 8)	72	(18,924)#	(27,530)	-	143	(46,239)
Exchange realignment	(12)	(678)	(64,603)	-	(378)	(65,671)
At 31 December 2021	171	61,864	756,532	-	7,565	826,132

The amount represented a deferred tax provision of RMB19,768,000 (year ended 31 December 2021: RMB8,734,000) on the distributable profits of the Company's subsidiaries in mainland China after offsetting the realised deferred tax liabilities of RMB38,533,000 (year ended 31 December 2021: RMB27,658,000) arising from dividends declared by these subsidiaries to their foreign investors during the period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

27. SHARE CAPITAL

Shares

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Authorised:		
10,000,000,000 (31 December 2021: 10,000,000,000) ordinary shares of 0.01 each in Hong Kong dollars ("HKD")	HKD100,000,000	HKD100,000,000
Issued and fully paid:		
645,211,045 (31 December 2021: 645,211,045) ordinary shares of HKD0.01 each	HKD6,452,110	HKD6,452,110
Equivalent to	RMB5,516,000	RMB5,516,000

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

	Number of shares in issue	Share capital HKD'000	Equivalent to RMB'000
At 1 January 2021 (Audited)	644,433,102	6,444	5,510
Share options exercised (note (a))	777,943	8	6
At 31 December 2021 and 1 January 2022 (Audited)	645,211,045	6,452	5,516
Share options exercised (note (b))	-	-	-
At 30 June 2022 (Unaudited)	645,211,045	6,452	5,516

Notes:

- (a) During the year ended 31 December 2021, the subscription rights attaching to 777,943 share options were exercised at the subscription prices ranging from HKD2.53 to HKD29.25 per share, resulting in the issue of 777,943 ordinary shares for a total cash consideration, before expenses, of HKD14,275,000 (equivalent to approximately RMB11,832,000).
- (b) During the six months ended 30 June 2022, no share option was exercised.

Share options

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

28. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) on 12 July 2010 and a share option scheme (the “**2010 Share Option Scheme**”) on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The Pre-IPO Share Option Scheme and the 2010 Share Option Scheme expired on 17 December 2020 and 24 November 2020, respectively.

Pursuant to the resolution of the annual general meeting of the Company held on 8 May 2020, a new share option scheme (the “**2020 Share Option Scheme**”) has been adopted and in effect, and the 2010 Share Option Scheme was terminated upon the 2020 Share Option Scheme becoming unconditional. Thereafter, no further options shall be offered under the 2010 Share Option Scheme but in all other respects the provisions of the 2010 Share Option Scheme shall remain in full force and effect and options granted thereunder prior to such termination shall continue to be valid and exercisable in accordance with their terms of issue. Subject to the terms of the 2020 Share Option Scheme, the 2020 Share Option Scheme shall be valid and effective for a period of 10 years commencing on 8 May 2020.

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HKD2.53. In respect of the 2020 Share Option Scheme, as the same with the subscription price of options under the 2010 Share Option Scheme, the exercise price of the share options is determined by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

28. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options

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

Six months ended 30 June 2022

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		2020 Share Option Scheme		Total number of options
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2022	-	-	30.34	13,043	31.80	10,435	23,478
Forfeited during the period	-	-	32.31	(5,078)	31.85	(1,058)	(6,136)
At 30 June 2022	-	-	29.09	7,965	31.79	9,377	17,342

Six months ended 30 June 2021

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		2020 Share Option Scheme		Total number of options
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2021	2.53	57	30.68	17,020	31.88	12,729	29,806
Forfeited during the period	2.53	-	38.69	(995)	31.88	(1,155)	(2,150)
Exercised during the period	2.53	(26)	18.15	(663)	-	-	(689)
Expired during the period	2.53	(31)	22.60	(4)	-	-	(35)
At 30 June 2021	-	-	30.71	15,358	31.88	11,574	26,932

In the six months ended 30 June 2022, no share options was exercised, while in the six months ended 30 June 2021, the weighted average share prices at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme and the 2010 Share Option Scheme were HKD33.61 per share and HKD30.93 per share, respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

28. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options (continued)

Share option reserve of RMB14,832,000 related to the expired or forfeited shares that have been vested was transferred to retained profits during the period (six months ended 30 June 2021: RMB6,038,000).

During the period, the Group reversed share option reserve of RMB43,287,000 related to forfeited shares that have not been vested through profit or loss (six months ended 30 June 2021: nil) and no share option expense was recognised related to the share option schemes (six months ended 30 June 2021: RMB35,780,000).

29. SHARE AWARD SCHEME

2013 Share Award Scheme

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

29. SHARE AWARD SCHEME (CONTINUED)

2022 Share Award Scheme

The board of directors of the Company approved a share award scheme (the “**2022 Share Award Scheme**”) on 11 January 2022, from when the 2022 Share Award Scheme will remain in force for ten years unless otherwise cancelled or amended. The purposes of the 2022 Share Award Scheme are to recognise the contributions by certain employees of the Company or of any subsidiary and to give incentives thereto in order to retain and motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the 2022 Share Award Scheme and the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), the board of directors may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine.

Shares may be acquired by the independent trustee (the “**Trustee**”) by way of (i) allotment and issue of new ordinary shares by the Company pursuant to the relevant general mandate or specific mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time; or (ii) purchase of ordinary shares in the open market by the Trustee.

During the six months ended 30 June 2022, 6,536,500 ordinary shares of the Company on the Stock Exchange were purchased for the 2022 Share Award Scheme at a total consideration of HKD75,757,000 (equivalent to approximately RMB61,776,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

29. SHARE AWARD SCHEME (CONTINUED)

2022 Share Award Scheme (continued)

Summary of particulars of the shares granted under the 2022 Share Award Scheme (the “2022 Awarded Shares”) during the period is as follows:

Date of grant	Number of Outstanding Awarded Shares as at 31 December 2021	Shares newly granted during the period	Fair value	Vesting date	Number of Awarded Shares		
					Vested during the period	Forfeited during the period	Outstanding Awarded Shares at 30 June 2022
2022/4/8	-	1,861,531	21,575,144	2023/4/1	-	-	1,861,531*
2022/4/8	-	1,861,531	20,886,378	2024/4/1	-	-	1,861,531*
2022/4/8	-	2,482,040	26,830,863	2025/4/1	-	-	2,482,040*
	-	6,205,102	69,292,385		-	-	6,205,102

* Among these Awarded Shares granted, 3,041,932 of the Awarded Shares were granted to the executive directors and non-executive directors.

The Group recognised a share award expense of RMB10,698,000 during the six months ended 30 June 2022 (six months ended 30 June 2021: nil) in relation to the 2022 Share Award Scheme.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 35 and 36 of these interim condensed consolidated financial statements.

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

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

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

31. COMMITMENTS

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	10,450	10,950
Property, plant and equipment	4,528	1,257
	14,978	12,207

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

32. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

The Group purchases finished goods from an associate, amounted to RMB2,637,000 (six months ended 30 June 2021: RMB75,115,000) in the period. The transactions were conducted in accordance with mutually agreed terms.

(b) Outstanding balance with a related party

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

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Fees	3,200	3,200
Short-term employee benefits	52,272	46,724
Pension scheme contributions	348	716
(Reversal of)/equity-settled share option expense	(34,677)	26,124
Equity-settled share award expense	10,792	–
Total compensation paid to key management personnel	31,935	76,764

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	12,382	13,715	12,382	13,715
– Warrants	465	3,751	465	3,751
– The Swaps	39,996	1,904	39,996	1,904
– The CCSs	4,178	–	4,178	–
Other non-current financial assets	310,027	335,783	310,027	335,783
	367,048	355,153	367,048	355,153
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	(2,933)	(104)	(2,933)	(104)
– The CCSs	(191,876)	(224,803)	(191,876)	(224,803)
– The Swaps	–	(205,999)	–	(205,999)
Senior notes	(2,039,113)	(1,938,452)	(1,761,944)	(1,916,229)
	(2,233,922)	(2,369,358)	(1,956,753)	(2,347,135)

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

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

- (a) The fair values of bonds receivable, lease liabilities (non-current), and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for bonds receivables as at 30 June 2022 were assessed to be insignificant.
- (b) The financial assets of unlisted equity investments at fair value through profit or loss included in the other non-current financial assets are measured using the discount cash flow model and the market approach both with significant unobservable market inputs.
- (c) The financial assets of other unlisted investments at fair value through profit or loss included in the other non-current financial assets are measured using valuation technique of the discounted cash flow model and the binomial tree model using significant unobservable market inputs.
- (d) The fair values of equity investments designed at fair value through other comprehensive income included in other non-current financial assets, are based on quoted market prices or the recent transaction price method with significant unobservable market inputs.
- (e) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market observable input. The carrying amounts of forward currency contracts are the same as their fair values.
- (f) The fair value of warrants is measured using valuation technique of Black-Scholes model using significant observable market inputs.
- (g) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the CCIRs and the CCSs, are measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRs and the CCSs were the same as their carrying amounts.
- (h) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of discounted cash flow model using significant unobservable market inputs.
- (i) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets – USD denominated loan receivable	Discounted cash flow model	Discount rate	6.99% (31 December 2021: 5.45%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB34,000 (31 December 2021: RMB13,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB34,000 (31 December 2021: RMB13,000)
Other non-current financial assets – investment in ISM	Discounted cash flow model	Discount rate	3.64% (31 December 2021: 3.62%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB189,000 (31 December 2021: RMB209,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB196,000 (31 December 2021: RMB217,000)
Other non-current financial assets – investment in Arla	Recent transaction price method	Recent transaction price	Not applicable	Not applicable

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets – the unlisted equity investment	Discounted cash flow model	Discount rate	13.17% (31 December 2021: not applicable)	1% (31 December 2021: not applicable) increase in discount rate would result in decrease in fair value by RMB1,380,000 (31 December 2021: not applicable) 1% (31 December 2021: not applicable) decrease in discount rate would result in increase in fair value by RMB1,417,000 (31 December 2021: not applicable)
Other non-current financial assets – the unlisted equity investment	Market approach	Enterprise value-to-sales ratio	3.89 (31 December 2021: not applicable)	1% (31 December 2021: not applicable) increase in discount rate would result in increase in fair value by RMB223,000 (31 December 2021: not applicable) 1% (31 December 2021: not applicable) decrease in discount rate would result in decrease in fair value by RMB223,000 (31 December 2021: not applicable)
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – receive leg	2.31% to 3.30% (31 December 2021: 0.21% to 1.37%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB1,426,000 (31 December 2021: RMB627,000) 1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB1,427,000 (31 December 2021: RMB627,000)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – pay leg	2.16% to 2.71% (31 December 2021: 2.36% to 2.91%)	1% (31 December 2021: 1%) increase in discount rate would result in increase in fair value by RMB1,414,000 (31 December 2021: RMB1,739,000) 1% (31 December 2021: 1%) decrease in discount rate would result in decrease in fair value by RMB1,415,000 (31 December 2021: RMB1,741,000)
Derivative financial instrument – the CCSs (USD/AUD)	Discounted cash flow model	Discount rate – receive leg	1.48%-1.52% to 3.12%-3.16% (31 December 2021: 0.21% to 1.37%)	1% (31 December 2021: 1%) increase in discount rate would result in increase in fair value by RMB1,326,000 (31 December 2021: RMB46,000) 1% (31 December 2021: 1%) decrease in discount rate would result in decrease in fair value by RMB1,328,000 (31 December 2021: RMB46,000)
		Discount rate – pay leg	1.79%-2.04% to 3.79%-3.95% (31 December 2021: 0.10% to 1.87%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB1,469,000 (31 December 2021: increase by RMB53,000) 1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB1,471,000 (31 December 2021: decrease by RMB53,000)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – the Swaps (USD/HKD)	Discounted cash flow model	Discount Rate – Receive leg	2.31% to 3.30% (31 December 2021: 0.21% to 0.82%-0.94%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB3,000 (31 December 2021: RMB175,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB3,000 (31 December 2021: RMB175,000)
		Discount Rate – Pay leg	2.85% to 3.07% (31 December 2021: 0.27% to 0.47%-0.86%)	1% (31 December 2021: 1%) increase in discount rate would result in increase in fair value by RMB470,000 (31 December 2021: RMB207,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in decrease in fair value by RMB470,000 (31 December 2021: RMB207,000)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – the Swaps (USD/AUD)	Discounted cash flow model	Discount Rate – Receive leg	2.10% to 2.29% (31 December 2021: 0.21%)	1% (31 December 2021: 1%) increase in discount rate would result in decrease in fair value by RMB2,713,000 (31 December 2021: RMB5,785,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in increase in fair value by RMB2,728,000 (31 December 2021: RMB5,818,000)
		Discount Rate – Pay leg	1.64% to 1.81% (31 December 2021: 0.07%)	1% (31 December 2021: 1%) increase in discount rate would result in increase in fair value by RMB15,604,000 (31 December 2021: RMB57,486,000)
				1% (31 December 2021: 1%) decrease in discount rate would result in decrease in fair value by RMB15,760,000 (31 December 2021: RMB52,692,000)
Derivative financial instrument – early redemption option embedded in the senior notes	Discounted cash flow model	Discount Rate	11.95% (31 December 2021: 5.35%)	1% (31 December 2021: 1%) increase in would result in increase in fair value by RMB4,153,000 (31 December 2021: RMB2,588,000)
				1% (31 December 2021: 1%) decrease in would result in decrease in fair value by RMB4,167,000 (31 December 2021: RMB2,593,000)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

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

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2022 (Unaudited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	12,382	12,382
– Warrants	–	465	–	465
– The Swaps	–	–	39,996	39,996
– The CCSs	–	–	4,178	4,178
Other non-current financial assets	38,156	–	271,871	310,027
	38,156	465	328,427	367,048
As at 31 December 2021 (Audited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	13,715	13,715
– Warrants	–	3,751	–	3,751
– The Swaps	–	–	1,904	1,904
Other non-current financial assets	78,998	–	256,785	335,783
	78,998	3,751	272,404	355,153

The movements in fair value measurements within Level 3 during the six months ended 30 June 2022 and the year ended 31 December 2021 are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At 1 January	272,404	228,802
Additions	1,181	131,934
Total gains/(losses) recognised in profit or loss	42,324	(80,811)
Total gains recognised in equity	49,912	1,932
Derecognition	(37,177)	–
Exchange realignment	(217)	(9,453)
At end of the period/year	328,427	272,404

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2022 (Unaudited)				
Derivative financial instruments				
– The CCSs	–	–	191,876	191,876
– Forward currency contracts	–	2,933	–	2,933
	–	2,933	191,876	194,809
As at 31 December 2021 (Audited)				
Derivative financial instruments				
– The Swaps	–	–	205,999	205,999
– The CCSs	–	–	224,803	224,803
– Forward currency contracts	–	104	–	104
	–	104	430,802	430,906

The movements in fair value measurements within Level 3 during the six months ended 30 June 2022 and the year ended 31 December 2021 are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At 1 January	430,802	684,583
Net cash settlement	(19,583)	(39,900)
Total losses charged in profit or loss	4,902	23,806
Total gains recognised in equity	(235,067)	(204,572)
Exchange realignment	10,822	(33,115)
At end of the period/year	191,876	430,802

During the six months ended 30 June 2022 and the year ended 31 December 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

34. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 August 2022.

H&H STANDS FOR
HEALTH AND HAPPINESS.
IT'S IN OUR NAME.
IT'S IN OUR EVERY DAY.
IT'S IN EVERYTHING WE DO.





**Health and Happiness (H&H)
International Holdings Limited**

健合 (H&H) 國際控股有限公司