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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2022	2021	*Change*
	RMB million	*RMB million*	
Revenue	**12,775.9**	11,547.8	*10.6%*
Gross profit	**7,703.5**	7,248.0	*6.3%*
EBITDA*	**1,847.9**	1,428.9	*29.3%*
Adjusted EBITDA*	**1,971.9**	1,851.9	*6.5%*
Adjusted EBITDA margin	**15.4%**	16.0%	*-0.6pts*
Net profit	**611.8**	508.5	*20.3%*
Adjusted Net profit**	**731.2**	952.9	*-23.3%*
Adjusted net profit margin	**5.7%**	8.3%	*-2.6pts*

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortisation. Adjusted EBITDA = EBITDA + Non-cash losses of RMB70.3 million for the year ended 31 December 2022 (2021: losses of RMB361.7 million) + Non-recurring losses of RMB53.7 million for the year ended 31 December 2022 (2021: losses of RMB61.3 million)

** Adjusted net profit = Net profit + EBITDA adjustment items of losses of RMB124.0 million for the year ended 31 December 2022 (2021: losses of RMB423.0 million) – Other non-cash gain of RMB4.6 million for the year ended 31 December 2022 (2021: losses of RMB21.4 million)

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2022, together with the comparative figures for the corresponding period in 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	**2022** *RMB'000*	2021 *RMB'000*
REVENUE	*5*	**12,775,914**	11,547,825
Cost of sales		**(5,072,426)**	(4,299,843)
Gross profit		**7,703,488**	7,247,982
Other income and gains	*5*	**219,818**	108,376
Selling and distribution expenses		**(5,235,233)**	(4,971,868)
Administrative expenses		**(727,683)**	(695,721)
Other expenses		**(382,167)**	(554,345)
Finance costs		**(525,659)**	(285,143)
Share of (loss)/profit of associates		**(21,633)**	932
PROFIT BEFORE TAX	*6*	**1,030,931**	850,213
Income tax expense	*7*	**(419,148)**	(341,729)
PROFIT FOR THE YEAR		**611,783**	508,484
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**324,640**	285,524
Reclassification adjustments for losses included in profit or loss		**(258,594)**	(178,018)
Income tax effect		**(5,475)**	(25,831)
		60,571	81,675
Hedges of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**62,220**	(79,020)
Exchange differences on translation of foreign operations		**(29,788)**	(287,897)
Exchange differences on net investments in foreign operations		**(74,746)**	(17,599)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**18,257**	(302,841)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2022

	Note	**2022** *RMB'000*	2021 *RMB'000*
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		**(38,307)**	(169,908)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(20,050)**	(472,749)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**591,733**	35,735
Profit attributable to owners of the parent		**611,783**	508,484
Total comprehensive income attributable to owners of the parent		**591,733**	35,735
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**0.96**	0.79
Diluted		**0.95**	0.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	**2022** *RMB'000*	2021 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**388,382**	444,378
Right-of-use assets		**142,720**	144,917
Goodwill		**7,684,093**	7,471,994
Intangible assets		**5,639,307**	5,572,436
Bonds receivable		**74,229**	72,197
Deposits		**61,842**	42,305
Investments in associates		**152,135**	67,712
Deferred tax assets		**637,800**	602,846
Derivative financial instruments		**128,081**	13,715
Other non-current financial assets		**195,017**	335,783
Total non-current assets		**15,103,606**	14,768,283
CURRENT ASSETS			
Inventories		**2,587,701**	2,087,720
Trade and bills receivables	*10*	**769,051**	739,257
Prepayments, other receivables and other assets		**179,304**	280,762
Derivative financial instruments		**8,936**	5,655
Restricted deposits		**10,767**	–
Cash and cash equivalents		**2,303,660**	2,400,070
Total current assets		**5,859,419**	5,513,464
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,340,970**	881,458
Other payables and accruals		**2,199,256**	2,175,358
Contract liabilities		**266,613**	264,215
Derivative financial instrument		**–**	104
Interest-bearing bank loans		**967,242**	3,125,737
Lease liabilities		**21,960**	23,533
Senior notes		**19,411**	19,752
Tax payable		**319,431**	331,776
Total current liabilities		**5,134,883**	6,821,933
NET CURRENT ASSETS/(LIABILITIES)		**724,536**	(1,308,469)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2022

	2022	2021
	RMB'000	*RMB'000*
NET CURRENT ASSETS/(LIABILITIES)	**724,536**	(1,308,469)
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,828,142**	13,459,814
NON-CURRENT LIABILITIES		
Senior notes	**1,886,148**	1,918,700
Interest-bearing bank loans	**6,695,491**	4,311,094
Lease liabilities	**79,183**	79,049
Other payables and accruals	**5,287**	8,851
Derivative financial instruments	**183,749**	430,802
Deferred tax liabilities	**836,431**	826,132
Total non-current liabilities	**9,686,289**	7,574,628
Net assets	**6,141,853**	5,885,186
EQUITY		
Issued capital	**5,519**	5,516
Other reserves	**5,915,617**	5,791,865
Proposed dividend	**220,717**	87,805
Total equity	**6,141,853**	5,885,186

NOTES TO FINANCIAL STATEMENTS

31 December 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 (the "**Group**") are principally engaged in the manufacture and sale of premium pediatric nutrition, 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

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

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

Basis of consolidation

The consolidated financial statements include these financial statements of the Group for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained; and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements and there are no any impact on the financial position or performance of the Group.

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

(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 associates, finance costs as well as head office and corporate expenses are excluded from this measurement.

Operating segment information for the year ended 31 December 2022:

	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 ***(note 5)*****:**							
Sales to external customers	**5,179,961**	**1,087,559**	**4,559,212**	**419,652**	**1,529,530**	**–**	**12,775,914**
Segment results	**3,148,382**	**836,051**	**2,852,567**	**188,033**	**678,455**	**–**	**7,703,488**
Reconciliations:							
Interest income							**20,019**
Other income and unallocated gains							**199,799**
Share of loss of associates							**(21,633)**
Corporate and other unallocated expenses							**(6,345,083)**
Finance costs							**(525,659)**
Profit before tax							**1,030,931**
Other segment information:							
Depreciation and amortisation	**23,904**	**9,802**	**89,681**	**9,550**	**71,508**	**106,838**	**311,283**
Impairment of trade receivables	**–**	**–**	**5,196**	**10,470**	**–**	**–**	**15,666**
Write-down of inventories to net realisable value	**149,770**	**2,205**	**57,605**	**17,192**	**22,457**	**–**	**249,229**
Impairment of goodwill and intangible assets	**–**	**–**	**128,044**	**6,431**	**–**	**–**	**134,475**
Impairment of property, plant and equipment	**–**	**–**	**–**	**–**	**3,041**	**–**	**3,041**
Capital expenditure*	**16,763**	**2,867**	**20,435**	**5,140**	**9,664**	**4,047**	**58,916**

Operating segment information for the year ended 31 December 2021:

	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 *(note 5)*:							
Sales to external customers	5,146,449	964,423	4,209,161	501,380	726,412	–	11,547,825
Segment results	3,281,475	756,978	2,664,830	245,035	299,664	–	7,247,982
Reconciliations:							
Interest income							11,882
Other income and unallocated gains							96,494
Share of profit of an associate							932
Corporate and other unallocated expenses							(6,221,934)
Finance costs							(285,143)
Profit before tax							850,213
Other segment information:							
Depreciation and amortisation	25,365	4,443	95,422	16,152	38,647	125,446	305,475
Impairment of trade receivables	–	–	10,998	7,928	–	–	18,926
Write-down of inventories to net realisable value	31,194	7,890	83,826	4,595	6,526	–	134,031
Impairment of goodwill	76,000	–	–	–	–	–	76,000
Capital expenditure*	36,750	7,134	24,766	13,544	1,753,408	53,599	1,889,201

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

Geographical information

(a) Revenue from external customers

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**9,565,867**	9,084,641
Australia and New Zealand	**1,387,351**	1,307,384
North America	**1,220,807**	499,348
Other locations*	**601,889**	656,452
	12,775,914	11,547,825

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

(b) Non-current assets

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**468,274**	502,838
Australia and New Zealand	**2,368,711**	2,391,368
North America	**2,503,439**	2,349,792
Other locations*	**1,043,962**	1,027,750
	6,384,386	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 special administrative regions of the People's Republic of China ("**PRC**").

Information about major customers

During the years ended 31 December 2022 and 2021, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**12,775,914**	11,547,825

(i) *Disaggregated revenue information*

For the year ended 31 December 2022

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	**5,022,877**	**1,079,089**	**2,937,323**	**190,814**	**335,764**	**9,565,867**
Australia and New Zealand	**30,365**	**1,177**	**1,355,806**	**3**	**–**	**1,387,351**
North America	**–**	**714**	**27,475**	**–**	**1,192,618**	**1,220,807**
Other locations*	**126,719**	**6,579**	**238,608**	**228,835**	**1,148**	**601,889**
Total	**5,179,961**	**1,087,559**	**4,559,212**	**419,652**	**1,529,530**	**12,775,914**
Timing of revenue recognition						
Goods transferred at a point in time	**5,179,961**	**1,087,559**	**4,559,212**	**419,652**	**1,529,530**	**12,775,914**

For the year ended 31 December 2021

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	4,983,276	956,733	2,673,058	217,574	254,000	9,084,641
Australia and New Zealand	46,117	1,249	1,260,018	–	–	1,307,384
North America	–	542	26,451	–	472,355	499,348
Other locations*	117,056	5,899	249,634	283,806	57	656,452
Total	5,146,449	964,423	4,209,161	501,380	726,412	11,547,825
Timing of revenue recognition						
Goods transferred at a point in time	5,146,449	964,423	4,209,161	501,380	726,412	11,547,825

* Including the special administrative regions of the PRC.

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

	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**264,215**	168,028

(ii) *Performance obligations*

The performance obligation is satisfied upon delivery of the Group's products. Advance payment is normally required for sales to customers in mainland China except in limited circumstances for credit sales. Credit sales are usually allowed for customers outside mainland China with credit terms of 30 to 90 days from end of month. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Other income and gains

	2022	2021
	RMB'000	*RMB'000*
Bank interest income	**16,879**	4,793
Interest income from loans and bonds receivables	**3,140**	7,089
Foreign exchange gains	**76,669**	–
Fair value gains on derivative financial instruments	**23,596**	–
Government subsidies*	**18,508**	35,081
Gains from sales of raw materials	**23,882**	25,745
Gains from sales of scraps	**12,895**	–
Gain on disposal of a leasehold land	**3,399**	–
Gains on revision of lease term and early termination of leases	**3,175**	18,598
Gain from partial repurchase of the senior notes	**25,204**	–
Others	**12,471**	17,070
	219,818	108,376

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

6. PROFIT BEFORE TAX

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

	2022	2021
	RMB'000	*RMB'000*
Cost of inventories sold	**4,823,197**	4,165,812
Depreciation of property, plant and equipment	**72,431**	82,229
Depreciation of right-of-use assets	**38,576**	47,143
Amortisation of intangible assets	**200,276**	176,103
Research and development costs**	**158,188**	143,955
Lease payments not included in the measurement of lease liabilities	**18,527**	13,424
Gains on revision of lease term and early termination of leases*	**(3,175)**	(18,598)
Gains on disposal of a leasehold land*	**(3,399)**	–
Loss on disposal of items of property, plant and equipment and intangible assets**	**8,071**	918
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,107,720**	1,077,908
Pension scheme contributions (defined contribution schemes)	**178,186**	160,190
Staff welfare and other expenses	**82,799**	45,779
(Reversal of)/equity-settled share option expense	**(64,773)**	42,450
Equity-settled share award expense	**20,231**	–
	1,324,163	1,326,327
Foreign exchange (gains)/losses, net	**(76,669)***	146,705**
Fair value (gains)/losses on derivative financial instruments, net	**(23,596)***	134,342**
Fair value losses on other non-current financial assets**	**26,443**	4,650
Impairment of property, plant and equipment**	**3,041**	–
Impairment of goodwill**	**109,062**	76,000
Impairment of intangible assets**	**25,413**	–
Impairment of trade receivables**	**15,666**	18,926
Impairment of other receivables**	**13,213**	–
Write-down of inventories to net realisable value#	**249,229**	134,031
Amortised (gain)/loss of interest rate hedge in relation to previous term loan##	**(36,484)**	21,404
Gain from partial repurchase of the senior notes*	**(25,204)**	–

* 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.

\#\# Included in "Finance costs" in profit or loss.

7. INCOME TAX

	2022	2021
	RMB'000	*RMB'000*
Current		
– Charge/(credit) for the year		
Mainland China	**295,726**	278,737
Hong Kong	**121,188**	169,742
Australia	**40,667**	(2,664)
Elsewhere	**2,773**	(1,264)
– Overprovision in the prior year	**(789)**	(2,279)
Deferred	**(40,417)**	(100,543)
Total tax charge for the year	**419,148**	341,729

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% (2021: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. Biostime (Guangzhou) Health Products Limited ("**Biostime Health**") and Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**"), the Company's wholly-owned subsidiaries operating in Mainland China, were recognised as high-new technology enterprises in December 2022 and 2020, respectively, and are subject to EIT at a rate of 15% for three years from 2022 to 2024 and from 2020 to 2022, respectively. Therefore, Biostime Health and Guangzhou Hapai were subject to EIT at a rate of 15% for the year ended 31 December 2022.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (2021: HKD2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (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 entitles.

Income tax for other jurisdictions

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

8. DIVIDENDS

	2022	2021
	RMB'000	*RMB'000*
Dividends on ordinary shares declared and paid during the year:		
Interim – HKD0.25 (2021: HKD0.37) per ordinary share	**139,737**	198,051
Proposal final – HKD0.38 (2021: HKD0.17) per ordinary share	**220,717**	87,805
	360,454	285,856

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 640,031,979 (2021: 644,772,453) in issue during the year.

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

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

	2022	2021
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**611,783**	508,484
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**645,240,237**	644,948,164
Weighted average number of shares held for the share award schemes	**(5,208,258)**	(175,711)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**640,031,979**	644,772,453
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**4,290,732**	899,909
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**644,322,711**	645,672,362

10. TRADE AND BILLS RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**747,762**	716,027
Less: Impairment provision	**(26,249)**	(24,968)
	721,513	691,059
Bills receivable	**47,538**	48,198
	769,051	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 receivable represent bank acceptance notes issued by banks in mainland China which are non-interest-bearing.

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

	2022	2021
	RMB'000	*RMB'000*
Within 1 month	**314,564**	477,008
1 to 3 months	**411,192**	223,721
Over 3 months	**43,295**	38,528
	769,051	739,257

11. TRADE AND BILLS PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**1,340,970**	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:

	2022	2021
	RMB'000	*RMB'000*
Within 1 month	**955,278**	671,096
1 to 3 months	**255,950**	171,715
Over 3 months	**129,742**	38,647
	1,340,970	881,458

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

As at 31 December 2022, there was no balance due to the Group's associate included in the trade and bills payables (2021: RMB1,248,000).

CHAIRMAN'S STATEMENT

Our performance in 2022 was resilient as we made good progress in implementing our strategies under our adaptable and flexible business structure. Despite volatile and uncertain external environment coupled with supply chain challenges, we delivered another year of uninterrupted top-line growth and like-for-like ("**LFL**")[1] expansion and positive EBITDA for all our three business pillars – Baby Nutrition and Care ("**BNC**"), Adult Nutrition and Care ("**ANC**") and Pet Nutrition and Care ("**PNC**").

More importantly, we made significant progress in enacting our long-term strategy to deliver profitable growth by focusing it on three key objectives: Winning in Core, Globalisation and Diversification, and Investing in the Future.

We continued to gain new consumers across our key markets, drive brand growth through consumer-led innovation, and cultivate an Environmental, Social and Governance ("**ESG**") and purpose-driven business led by our One Big Team. This is bringing us closer to our ultimate vision to become a global leader in family nutrition and wellness with superior products and aspirational brands.

In addition, we made significant progress in improving our capital structure and liquidity position, having refinanced all our existing loan facilities. We are now positioned to cope better with greater exchange rate fluctuations and a higher interest rate environment. Moreover, more than 98.5% of our adjusted EBITDA in 2022 was converted into operating cash flow, thanks to our high cash generation business model, which will help to deleverage our balance sheet while continuing to drive growth across the business.

BABY NUTRITION AND CARE

Our BNC segment returned to growth in 2022 as we conquered strong market headwinds from declining birth rates and constrained demand to stabilise our infant milk formula ("**IMF**") business in mainland China. This was made possible by an unwavering effort to strengthen brand awareness, reach out to broader consumer base in both offline and online channel through effective consumer education activities, and deepen penetration in channels of lower-tier cities and counties where the majority of births take place in the country.

[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.

We focused keenly on further developing and growing our offerings in the super-premium IMF category – the part of the market that will be more resilient to mainland China's changing demographic makeup and intensifying competition ahead of the implementation of new 'GB standards' (i.e. National Standards of the People's Republic of China) in 2023. Encouragingly, we witnessed positive retail scan sales growth in our super-premium IMF series which outperformed the market growth of -2.1% with a market share of 12.1%[2].

We also succeeded in turning around our probiotics business in mainland China, safeguarding our strong and stable market share and the healthy EBITDA level seen in the BNC segment. We remain the No. 1 player in the mainland China probiotics market[3], while we are also expanding in Hong Kong SAR where we are already a major player in the kids' probiotics market just a few years after launching there. It is one example of how we are winning consumers in key markets to globalise our brands.

Another notable example of where we are engaging consumers is in France where we continue to retain No. 1 position in the organic IMF category and emerged as new number No. 1 in the goat milk market category in pharmacy channels, with market shares of 41.7% and 41.5% respectively[4]. Biostime recorded a positive EBITDA margin in France for the first time, contributing to the overall profitability of the Group.

To win in important growth markets, leveraging consumer-led innovation has been an essential part of our success. We have led the market in launching Kids Gummies under the Biostime brand in both mainland China and France, as well as probiotics with lactoferrin (an important component of the human immune system) in mainland China – to name a few examples.

ADULT NUTRITION AND CARE

In the ANC segment, our overall performance exceeded our expectations and achieved a robust growth of 12.5% in 2022. Swisse is now the No. 1 player in mainland China's online vitamin, herbal and mineral supplements ("**VHMS**") market[5] and the second-ranking player in the Australia and New Zealand ("**ANZ**") domestic market after rapidly narrowing the gap with the market leader[6]. In Singapore and Italy, we rank No. 1[7] and No. 2[8] respectively in the beauty VHMS market.

[2] According to research statistics by Nielsen, an independent research company, the share of Biostime in the super-premium IMF market in mainland China was 12.1% for the twelve months ended 31 December 2022 as compared with a market share of 11.7% for the twelve months ended 31 December 2021.

[3] According to research statistics by Kantar Consumer Panel, an independent research company, market share data for the past twelve months as of 31 December 2022.

[4] According to research statistics by GERS, an independent research company, market share data for the past twelve months as of 31 December 2022.

[5] According to research statistics by Earlydata, an independent data provider, Swisse ranked No.1 in the China online supplement market with a market share of 7.5% for the twelve months ended 31 December 2022 as compared with 6.6% for the twelve months ended 31 December 2021.

[6] According to research statistics by IQVIA, an independent research company, market share data for the past twelve months as of 31 December 2022.

[7] According to research statistics by Nielsen, an independent research company, market share data for the past twelve months as of 31 December 2022.

[8] According to research statistics by IMS IQVIA, an independent research company, market share data for the past twelve months as of 31 December 2022.

Swisse outpaced all other players in the category in mainland China, delivering double-digit revenue growth as well as profitability improvement throughout the year, underpinned by growth in both online and offline channels, a result that directly correlates with our efforts to expand in innovative categories and introduce more blue hat SKUs compliant for normal trade.

In ANZ, our second largest market by revenue, we maintained double-digit revenue growth in the domestic and export markets. Swisse outpaced growth in the domestic market with retail scan sales growth of 12.9% vs. 7.4% industry growth in the twelve months ended 31 December 2022[9]. This strong growth was underpinned by increasing demand for immune, beauty nutrition, and general wellness-supporting products, a strategic refocus on the domestic market and new product launches.

In the other territories, Hong Kong SAR and Singapore contributed positively to growth with EBITDA margins at par with the overall ANC segment. Our growth momentum in new Asian expansion markets was phenomenal, driven by distribution gains (in both offline and online channels) across markets including Vietnam, Thailand, India, and Malaysia. We expect overall contributions from these markets will continue to increase as we gain scale and win further market share.

Consumer-led innovation is also an area where our ANC business is excelling. Our new Swisse Plus+ range is encouraging strong trade-up activity, promoting healthy aging and strength. For the younger Gen Z audience, our Swisse Me functional food range is proving immensely popular. The launch of Swisse gummies was instrumental in expanding the addressable market and driving market share growth, particularly in ANZ and other markets.

PET NUTRITION AND CARE

Our PNC segment recorded strong revenue growth of 20.9% on a LFL basis and positively contributed to the Group's EBITDA.

Led by our PNC segment, North America is now our third-largest market and a major source of growth. Well-executed retail expansions, combined with healthy online sales, contributed to the robust performance of Zesty Paws in the United States where it remains the No. 1 pet supplements brand in the e-commerce channel with 11.5% market share[10].

[9] According to research statistics by IQVIA, an independent research company, the share of Swisse Wellness Group Pty Ltd in the overall Australian VHMS market was 12.3% for the twelve months ended 31 December 2022 as compared with 12.1% for the twelve months ended 31 December 2021.

[10] In 2022, syndicated data sources from Stackline, an independent research company, have aligned with the industry's total category definition for pet supplements, providing more accurate and broadly defined fields for the entire market. As a result, the share of the pet supplement market in the e-commerce channel was restated to 11.5% and 11.4% for YTD 31 December 2022 and YTD 31 December 2021, respectively.

However, rising inflation and supply chain challenges are continuing to squeeze margins, with Solid Gold, in particular, facing raw ingredient cost pressures with bulk commodity prices increasing substantially in recent months. Overall growth was also impacted temporarily by the transition of Solid Gold's business on Amazon from a wholesale model to a marketplace model, which was completed in December 2022. We continued to expand our distribution reach across the United States, including major chains such as Walmart, Target, PetSmart and independent pet stores.

In mainland China, Solid Gold is already the second-largest player in the premium cat food market despite only having recently entered the market and we continued to penetrate the offline[11]. Growth in the normal trade channel is being supported by the obtainment of new domestic product licenses, with Solid Gold almost doubling the number of such licenses as of 31 December 2022 compared with the end of 2021. We are committed to investing in mainland China to build scale and market leadership, through targeted marketing, innovative new product development, and channel expansions both online and offline.

In both mainland China and North America, we are continuing to see strong and durable pet nutrition premiumisation and pet humanisation trends. We are working hard to fully capitalise on this, focusing on the premium pet food category with the launch of the NutrientBoost range and functional treats and toppers.

OUTLOOK: SUSTAINING GROWTH, GLOBALISATION, AND DIVERSIFICATION

In 2023, we remain fully committed to our growth, globalisation and diversification. We remain laser-focused on evolving each of our BNC, ANC, and PNC pillars, winning in core by pursuing organic growth strategy in both our stronghold markets and new markets. Although the external environment will remain highly uncertain, our strategy remains the same, with agility, action and capability building remaining our primary focuses.

Mainland China will continue to remain our largest single market, while we see faster growth from North America and our Asian expansion markets with positive EBITDA contribution. In our BNC segment, stabilisation, premiumisation and category leadership are our main priorities. This includes continuing to win in mainland China and France, where we are already leading categories while growing in other key markets such as ANZ, Hong Kong SAR and Vietnam.

In our BNC segment, we have submitted 'GB standards' applications for all eight of our IMF series in mainland China. In February 2023, we have already received approval for Biostime Alpha Star IMF series. We are confident about the approval of other series and have planned our inventory building based on customer demand and estimated approval timing. Market headwinds will remain acute but we intend to further stabilise our IMF business by continuing to grow in the super-premium category and to gain market shares in 2023. We will further strengthen our No. 1 probiotics market share lead in mainland China market by growing our infant and kids ranges, as well as in other supplements categories including DHA, calcium, and gummies.

[11] According to research statistics by SmartPath, an independent research company, market share data for the past twelve months as of 31 December 2022.

In France, we intend to maintain our current leadership in the organic IMF space, while strategic focuses on probiotics in Hong Kong SAR and IMF in Vietnam will lay foundations for growing market share in these categories in these markets.

In our ANC segment, we will continue to drive growth through expansion and innovation, once again winning in core markets. This is especially true in the mainland China cross-border e-commerce ("**CBEC**") market, where we will fully leverage our No. 1 online market share to reach our goal of achieving double-digit growth in the normal trade market by the end of 2023. We will also pursue further growth with Swisse Plus+ with both existing and newly developed SKUs to further premiumise Swisse's product portfolio in mainland China.

We will continue to pave the way to reclaiming Swisse's leadership in the ANZ market by continuing to cater to the health and internal wellness needs of domestic customers, alongside steady sales growth in corporate daigou channels. In other territories, we are optimistic about building up profitable growth in markets such as Hong Kong SAR, Singapore and Italy through our leadership in beauty-focused VHMS, while expanding the encouraging success we have been seeing to our other expansion markets, including Thailand, Malaysia, Vietnam and India.

In North America, we will continue to grow Zesty Paws' online leadership by maintaining its No. 1 position on Amazon and Chewy and growing market share in the pet supplement category. We will also build and expand its distribution in offline channels through the launch of existing and new product innovations in key outlets such as Walmart, Target, Petsmart, Tractor Supply and independent pet stores. We will accelerate Zesty Paw's growth in other global markets through category-focused innovations, such as in the fish oil category in mainland China, in which the brand will formally launch in 2023, alongside pilot e-commerce launches in the United Kingdom and other markets.

At Solid Gold, we will continue to strengthen our leadership and to drive market share growth in the premium cat food category in mainland China. In North America, we will drive the brand in building profitable growth by targeting the super-premium category and leveraging the strength of its NutrientBoost range.

On the financial front, each of these initiatives will continue to drive strong, continuous, and profitable top-line growth. However, rising global inflation and supply chain challenges will pressure margins. We will combat this through further product and channel mix optimisation, increasing the price of selected SKUs, as well as through spending efficiency improvements and alternative sourcing.

We are also committed to maintaining our healthy liquidity position. We will continue to deleverage our balance sheet through the continued generation of strong cash flow, achieving a healthy level of debt while maintaining a consistent dividend payout ratio of 50% of adjusted net profit to reward our shareholders.

The exchange rate exposures of our current term loans and senior notes are predominantly protected via both natural hedges and financial hedges through cross-currency swaps into the respective functional currencies of our businesses. In addition, a good portion of the interest rate under the term loans was fixed through interest rate swaps shortly after our refinancing in 2022, with the coupon rate of the senior notes being fixed for the entire outstanding period.

SUSTAINABILITY: FUELLED BY AN IMPACT-DRIVEN MINDSET WHILE BEING PURPOSE LED TO DRIVE BUSINESS PERFORMANCE

Doing business responsibly is at the core of H&H's values and an essential benchmark for all our stakeholders. We continued to accelerate our sustainability efforts in 2022, delivering on our short- and long-term goals. This year, we maintained our Morgan Stanley Capital International ("**MSCI**") ESG rating of 'A' and Hong Kong Quality Assurance Agency ("**HKQAA**") rating of 'A' for ESG performance.

The Group drew down a 3-year term loan facility with an aggregate principal amount of US$1.125 billion in June 2022 to refinance all its existing loan facilities. This new loan facility is a sustainability-linked loan with three ESG targets that will unlock interest savings when each target is met.

To support health and wellness for the whole family throughout the lifespan, we strived to build a unique portfolio structurally anchored in health trends to improve our health impact and develop ground-breaking products in the industry with a particular focus on our H&H well-being pillars of Nutrition, Movement and Mind. The 2022 launch of our Swisse NAD+ innovation range is a key example: it is at the cutting edge of the cellular aging emerging category, a breakthrough supplement clinically proven to help consumers age healthily.

In 2022, we defined a clear pathway to reduce our gas emissions and help us prevent the worst impacts of climate change. We completed our Group-wide global carbon footprint, including Scopes 1, 2 and 3 and developed science-based greenhouse gas emissions reduction targets to be submitted to the Science Based Targets initiative (SBTi). We saw concrete results in our actions: on the water stewardship front, we reduced the intensity of the water consumption of our owned manufacturing facilities per unit produced by 18.9% as compared to 2021. With regards to embedding circularity in our products and business models, 98% of H&H's packaging is recyclable, biodegradable or compostable. As an example of innovation linked to the circular economy, our Swisse Earth range in Australia uses award-winning packaging made from up to 70% recycled content that is fully recyclable as it seeks to minimise its overall impact on the environment.

During the year, the Board further refined its governance framework with the establishment of an ESG Committee, which assists the Board in its responsibility to oversee ESG risks and opportunities and deliver the Company's sustainability strategy and reporting.

Our sustainable business model is based on long-term growth that benefits our employees, stakeholders, society, and the planet. I invite you to read our 2022 Sustainability Report which provides a comprehensive overview of our progress toward this shared value position.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2022, the Group's revenue increased by 10.6% on reported basis to RMB12,775.9 million as compared with 2021, driven by growth in all of its three strategic business pillars. On a LFL basis, the Group's revenue increased by 7.1% comparing with 2021.

	Year ended 31 December				% to revenue	
	2022	2021	*Reported Change*	*LFL Change*	**2022**	2021
	RMB million	*RMB million*				
Revenue by product segment						
Baby nutrition and care products	**6,687.2**	6,612.2	*1.1%*	*1.1%*	**52.3%**	57.3%
– Infant formulas	**5,180.0**	5,146.4	*0.7%*	*0.7%*	**40.5%**	44.6%
– Probiotic supplements	**1,087.6**	964.4	*12.8%*	*12.8%*	**8.5%**	8.4%
– Other pediatric products	**419.6**	501.4	*-16.3%*	*-16.3%*	**3.3%**	4.3%
Adult nutrition and care products	**4,559.2**	4,209.2	*8.3%*	*12.5%*	**35.7%**	36.4%
Pet nutrition and care products	**1,529.5**	726.4	*110.6%*	*20.9%*[1]	**12.0%**	6.3%
Revenue by geography						
Mainland China	**9,565.9**	9,084.6	*5.3%*	*6.4%*	**74.9%**	78.7%
ANZ	**1,387.3**	1,307.4	*6.1%*	*10.1%*	**10.9%**	11.3%
North America	**1,220.8**	499.3	*144.5%*	*18.9%*[1]	**9.6%**	4.3%
Other Territories	**601.9**	656.5	*-8.3%*	*-6.9%*	**4.6%**	5.7%
Total	**12,775.9**	11,547.8	*10.6%*	*7.1%*	**100.0%**	100.0%

[1] The LFL change of PNC and US are on pro forma basis as if the revenue of Zesty Paws for the year ended 31 December 2022 and 2021 were consolidated.

Mainland China: Focusing on deeper channel penetration and consumer education to drive continuous growth supported by branding investment

Revenue from mainland China amounted to RMB9,565.9 million for the year ended 31 December 2022, which increased by 6.4% compared with the previous year on a LFL basis. The increase was mainly thanks to an unwavering effort made by the Group to deepen its channel penetration, strengthen its brand awareness and reach out to broader consumer base through effective consumer education activities. On reported basis, revenue from mainland China accounted for 74.9% of the Group's total revenue for the year ended 31 December 2022, compared with 78.7% in the previous year.

Revenue of BNC segment increased by 1.1% to RMB6,687.2 million for the year ended 31 December 2022 compared with the previous year. For the year ended 31 December 2022, the revenue from IMF in mainland China stabilised with slight growth at 0.8% to RMB5,022.9 million, compared with last year. Despite the declining birth rates, constrained demand, and increasing competition ahead of the implementation of new GB standards in 2023, the Group continued to strengthen brand awareness and rapidly expand its reach in lower-tier cities and counties through its channel expansion strategy, branding initiatives and focused investments in consumer education. According to Nielsen, an independent research data provider, the Group's super-premium Biostime IMF segment achieved a market share of 12.1% and a positive retail scan sales growth for the twelve months ended 31 December 2022, outperforming the overall market growth rate.

For the year ended 31 December 2022, the Group recorded revenue from probiotic supplements in mainland China of RMB1,079.1 million, increasing by 12.8% compared with the year ended 31 December 2021, driven by consumer and penetration through effective consumer education about the functional benefits of the Group's products, increased distribution expansion within the Group's existing IMF offline channels.

Revenue from other pediatric products segment in mainland China, mainly sales of Dodie branded diaper, decreased by 12.3% to RMB190.8 million for the year ended 31 December 2022 compared with last year. The decrease was mainly due to the focus shift from volume growth to profitability improvement for this category.

In ANC segment, on a LFL basis, mainland China active sales maintained double-digit growth of 14.1% as compared with last year, and accounted for 64.4% of the Group's total ANC revenue for the year ended 31 December 2022. The growth was mainly driven by the Group's efforts to launch innovative categories such as Swisse Plus range and introduce more blue hat SKUs compliant for normal trade. For the year ended 31 December 2022, normal trade sales continued to deliver robust year-on-year growth of 49.1% on a LFL basis, covering 67,900 offline distribution points. According to research statistics by Earlydata, an independent data provider, Swisse continued to maintain its No.1 position across major e-commerce platforms in mainland China with a market share of 7.5% for the twelve months ended 31 December 2022, improving from 6.6% for the twelve months ended 31 December 2021. In the normal trade channel in mainland China, Swisse achieved No. 4 ranking with 2.0% market share for the twelve months ended 31 December 2022.

Revenue from PNC segment in mainland China recorded a strong growth of 26.8% on a LFL basis in the year ended 31 December 2022 as compared with last year. The strong growth was mainly supported by the targeted marketing, innovative new product development and channel expansions in both online and offline. Leveraging strong branding expertise online, Solid Gold now ranks No. 2 in the premium cat dry food category with 14.7% share for the twelve months ended 31 December 2022 according to Nielsen. By end of 2022, Solid Gold had entered approximately 7,600 pet stores and pet hospitals in the offline mainland China market.

ANZ: Achieving double-digit growth with increasing market share

On a LFL basis, revenue from ANZ market segment increased by 10.1% to AUD297.3 million for the year ended 31 December 2022, contributing 10.9% of the Group's total revenue. This strong growth was fueled by the rising demand for immune, beauty nutrition, and general wellness-supporting products, as well as a strategic refocus on the domestic market and the launch of new products in innovative categories such as sugar free gummies range. For the year ended 31 December 2022, revenue from the corporate daigou channel and retail channels increased by 6.2% and 12.0% respectively, and accounted for 30.6% and 69.4% of the total ANZ business, respectively.

North America: Increasing revenue contribution to the overall Group supported by double digit growth in pet nutrition business

For the year ended 31 December 2022, revenue contributed from North America achieved strong growth of 144.5% 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 premiumisation and pet humanising trends that are becoming well established in North America market. On a LFL and pro forma basis, assuming the revenue of Zesty Paws for the years ended 31 December 2022 and 2021 were consolidated, revenue contributed from North America increased by 18.9% compared with last year.

On the standalone basis, revenue of Solid Gold and Zesty Paws achieved year-on-year growth of 2.2% and 26.3% for the year ended 31 December 2022, respectively. Growth of Solid Gold was impacted temporarily by the transition of its business on Amazon from a wholesale model to a marketplace model, which was completed in December 2022. Leveraging local expertise to expand online and offline, Zesty Paws and Solid Gold are now present in more than 7,700 stores and 3,400 stores respectively, including major chains such as Walmart, Target, PetSmart and independent pet stores.

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

Revenue contributed from other territories decreased by 6.9% on a LFL basis in the year ended 31 December 2022 as compared with last year. The decrease mainly resulted from the Group's strategic refocusing and restructuring particularly in EU markets aiming for profitability improvement. In the year ended 31 December 2022, revenue from Asian markets increased by 39.0% on a LFL basis compared with last year. The growth in Asian markets was mainly driven by the growth of ANC segment in both offline and online channels across new markets including Vietnam, Thailand, India, and Malaysia.

Gross profit and gross profit margin

In the year ended 31 December 2022, the Group recorded gross profit of RMB7,703.5 million, representing an increase of 6.3% as compared with last year. The Group's gross profit margin decreased from 62.8% in the year ended 31 December 2021 to 60.3% in the year ended 31 December 2022, mainly due to the unfavorable product mix changes towards higher revenue proportion from the lower-margin PNC segment and the reclassification of certain costs of free gifts for BNC business in mainland China market from selling and distribution costs to cost of goods sold ("**COGS**") following a more precise way of classification according to respective purposes of usage. Various effective and timely supply chain optimisation measures helped to mitigate the impact of sourcing cost increase to a large extent.

The gross profit margin of the BNC segment decreased from 64.8% in 2021 to 62.4% in 2022. The decrease was mainly due to the reclassification of certain costs of free gifts in mainland China market and the increasing sourcing cost, which was partially offset by the favorable product mix impact towards higher revenue proportion from the higher-margin probiotic supplements. Excluding the reclassification of costs of free gift, the normalised gross profit margin of the BNC segment was 64.4% in 2022.

The gross profit margin of the ANC segment decreased from 63.3% in 2021 to 62.6% in 2022, mainly resulting from the increased stock provision and write-off following the product category focus change in the Group's core markets and the business restructuring in EU markets, and the increasing sourcing cost.

The gross profit margin of PNC segment increased to 44.4% in 2022 from 41.3% in last year. Excluding the impact on COGS of RMB24.3 million and RMB48.4 million in 2022 and 2021, respectively, 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 decreased from 47.9% in 2021 to 45.9% in 2022. The decreased gross profit margin of PNC segment was mainly due to the rising inflation and supply chain challenges.

Other income and gains

Other income and gains amounted to RMB219.8 million for the year ended 31 December 2022. Other income and gains primarily consisted of net foreign exchange gain of RMB76.7 million, net fair value gains on derivative financial instruments of RMB23.6 million, gain from the partial repurchase of senior notes of RMB25.2 million, interest income from bank deposits, loans and bonds receivables of RMB20.0 million, government subsidies of RMB18.5 million and others.

The net foreign exchange gain of RMB76.7 million mainly represented non-cash gain from the revaluation on intragroup loans. The non-cash fair value gain on derivative financial instruments of RMB23.6 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.

Selling and distribution costs

Excluding depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets ("**D&A**"), selling and distribution costs increased by 4.8% to RMB5,025.4 million in the year ended 31 December 2022, as compared with 2021. Selling and distribution costs excluding D&A as a percentage of the Group's revenue decreased from 41.5% in 2021 to 39.3% in 2022. Excluding the reclassification of certain costs of free gifts for BNC business in mainland China market from selling and distribution costs to COGS, selling and distribution costs excluding D&A as a percentage of the Group's revenue was 40.4% for the year ended 31 December 2022.

BNC

Selling and distribution costs of BNC business amounted to RMB2,564.3 million in the year ended 31 December 2022, represented a decrease of 6.6% as compared with last year. The decrease was mainly due to the reclassification of certain costs of free gifts in mainland China market from selling and distribution costs to COGS. Excluding the reclassification of costs of free gift, selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business decreased from 41.5% in 2021 to 40.4% in 2022, thanks to the continuous efforts to drive spending efficiency in channel.

Advertising and marketing expense of BNC business as a percentage of its revenue increased slightly from 12.0% in 2021 to 12.3% in 2022. Excluding the reclassification of costs of free gift, selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of revenue decreased to 28.1% in 2022 from 29.5% of last year mainly thanks to the continuous efforts to drive spending efficiency in channel.

ANC

Selling and distribution costs of ANC business amounted to RMB1,897.8 million in the year ended 31 December 2022, represented an increase of 6.8% as compared with last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business decreased from 42.2% in 2021 to 41.6% in 2022.

Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 30.0% in 2021 to 32.0% in 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 is allowing 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 12.2% in 2021 to 9.7% in 2022 resulting from the continuing measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

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 RMB275.2 million for the year ended 31 December 2021 to RMB563.2 million for the year ended 31 December 2022, mainly due to the consolidation of Zesty Paws and the investment to support expansion in Chinese market for Solid Gold. Selling and distribution costs of PNC business as a percentage of its revenue decreased slightly from 37.9% for the year ended 31 December 2021 to 36.8% for the same period of 2022.

Advertising and marketing expense and selling and distribution costs other than advertising and marketing expense of PNC business as percentages of its revenue were 11.0% and 25.8%, respectively, for the year ended 31 December 2022.

Administrative expenses

Administrative expenses increased by 4.6% from RMB695.7 million in the year ended 31 December 2021 to RMB727.7 million for the year ended 31 December 2022. Administrative expenses as a percentage of the Group's revenue decreased from 6.0% in the year ended 31 December 2021 to 5.7% in the year ended 31 December 2022 thanks to the continued efforts made to optimise overall administrative cost structure.

Other expenses

Other expenses for the year ended 31 December 2022 amounted to RMB382.2 million. Other expenses mainly included research and development ("**R&D**") expenditure of RMB158.2 million, non-cash impairment of goodwill and the intangible assets in relation to the previous acquisitions of Aurelia and Good Goût in EU of RMB134.5 million, and non-cash impairment of loan with the Group's previous supplier of baby cereals for mainland China of RMB52.1 million, the recovery of such loan being the subject of an existing legal dispute proceeding.

During the period under review, R&D expenditure increased by 9.9% as compared with RMB144.0 million in the previous year, which was mainly attributable to the Group's determination for continued investment in product innovation. R&D expenditure as a percentage of the Group's revenue remained stable at 1.2% in 2022 compared with the previous year.

EBITDA and EBITDA margin

Adjusted EBITDA achieved an increase of 6.5% from RMB1,851.9 million in the year ended 31 December 2021 to RMB1,971.9 million in the year ended 31 December 2022. Adjusted EBITDA margin decreased from 16.0% in the year ended 31 December 2021 to 15.4% in the year ended 31 December 2022. 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 year ended 31 December 2022 amounted to RMB1,847.9 million, increased by 29.3% from RMB1,428.9 million in the year ended 31 December 2021.

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

	Year ended 31 December	
	2022	2021
	RMB million	*RMB million*
EBITDA	**1,847.9**	1,428.9
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange (gains)/losses	**(76.7)**	146.7
(2) Net fair value (gains)/losses on derivative financial instruments	**(36.0)**	139.0
(3) Gain from the partial repurchase of senior notes	**(25.2)**	–
(4) Impairment of goodwill and intangible assets in relation to the previous acquisition of Aurelia and Good Goût in EU	**134.5**	–
(5) Impairment of goodwill in relation to the previous acquisition of Changsha China IMF manufacturing plant	**–**	76.0
(6) Impairment of loan due from the Group's previous supplier of baby cereals for mainland China	**52.1**	–
(7) Share of losses of associates	**21.6**	–
Non-recurring items*:		
(8) One-time restructuring and restructuring costs in certain markets including EU and North America	**29.4**	(14.3)
(9) Impact on COGS in relation to the one-time mark-to-market increase for the value of inventory in the acquisition of Zesty Paws	**24.3**	48.4
(10) Transaction costs in relation to M&A	**–**	27.2
Adjusted EBITDA	**1,971.9**	1,851.9

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

Finance costs

During the year ended 31 December 2022, the Group incurred finance costs of RMB525.7 million, representing an increase of 84.3% compared with the previous year. The finance costs for the year ended 31 December 2022 included interests for the term loan and senior notes of RMB524.2 million, which increased by 104.8% compared with 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.

Income tax expense

Income tax expense increased from RMB341.7 million in the year ended 31 December 2021 to RMB419.1 million in the year ended 31 December 2022. The effective tax rate increased from 40.2% in 2021 to 40.7% in 2022, mainly due to the increased deferred tax liabilities resulting from the taxable temporary differences in relation to the goodwill and intangible assets of Solid Gold and Zesty Paws identified during acquisition.

Net profit and adjusted net profit

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

	Year ended 31 December	
	2022	2021
	RMB million	*RMB million*
Net profit	**611.8**	508.5
Reconciled by:		
EBITDA adjusted items as listed above	**124.0**	423.0
<u>Non-cash items*:</u>		
One-off write-off of unamortised transaction costs upon refinancing for the loan facilities	**31.9**	–
One-off amortised (gain)/loss of interest rate swap for previous term loan	**(36.5)**	21.4
Adjusted net profit	**731.2**	952.9

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2022, the Group recorded net cash generated from operating activities of RMB1,469.3 million, resulting from pre-tax cash from operations of RMB1,941.9 million, minus income tax paid of RMB472.6 million.

Investing activities

For the year ended 31 December 2022, net cash flows used in investing activities amounted to RMB104.9 million, primarily resulted from purchases of property, plant and equipment, intangible assets and right-of-use assets of RMB102.5 million, payment for the acquisition of an associate of RMB20.1 million, partially offsetting by interest received of RMB15.1 million.

Financing activities

For the year ended 31 December 2022, net cash flows used in financing activities amounted to RMB1,489.8 million, primarily related to the net of repayment of existing interest-bearing bank loans and proceed from new term loan of RMB383.7 million, cash outflow for the partial purchase of senior notes of RMB183.2 million, the interest paid for interest-bearing bank loans and senior notes of RMB474.6 million, the transaction costs in relation to the refinancing of the interest-bearing bank loans of RMB146.7 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, payment of dividend of RMB233.6 million, and payment of lease liabilities of RMB41.0 million.

Cash and bank balances

As of 31 December 2022, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB2,303.7 million.

Interest-bearing bank loans and senior notes

As of 31 December 2022, the Group's outstanding interest-bearing bank loans amounted to RMB7,662.7 million, including current portion of RMB967.2 million. The total carrying amount of the senior notes was RMB1,905.6 million, including current portion of RMB19.4 million.

As of 31 December 2022, the net leverage ratio decreased to 3.68 from 3.77 of the previous year, calculated by dividing the net debt[2] by Adjusted EBITDA for the year ended 31 December 2022. Gearing ratio decreased slightly from 46.2% as of 31 December 2021 to 45.6% as of 31 December 2022, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing bank loans by total assets.

Working capital

Advance payment is normally required for the sale in mainland China, except for limited circumstances. The Group usually allows credit sales in oversea markets outside mainland China, with 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 minimise credit risk. The average turnover days for trade and bills receivables decreased from 24 days for the year ended 31 December 2021 to 21 days for the year ended 31 December 2022, mainly due to the stricter credit terms control post COVID-19 pandemic. The average turnover days of trade payables increased from 64 days for the year ended 31 December 2021 to 79 days for the year ended 31 December 2022, mainly due to the different cut-off days.

2 Net debt = Interest-bearing bank loans + Senior notes – Cash and cash equivalents

The inventory turnover days were 166 days for the year ended 31 December 2022, representing a decrease of 3 days from 169 days for the year ended 31 December 2021. The inventory turnover days of BNC products decreased from 186 days for the year ended 31 December 2021 to 178 days for the year ended 31 December 2022. The slight decrease in inventory turnover days of BNC products was mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic. But the inventory turnover days of BNC products was still at a high level mainly resulting from the higher safety stock built up ahead of the implementation of new GB standards in 2023. Thanks to the continuous inventory management improvement and the higher consumer demand after the outbreak of the latest wave of COVID-19 in mainland China towards the end of 2022, the inventory turnover days of ANC products decreased from 156 days for the year ended 31 December 2021 to 145 days for the year ended 31 December 2022. The inventory turnover days of PNC products was increased from 125 days for the year ended 31 December 2021 to 173 days for the year ended 31 December 2022, mainly due to the higher safety stock built to ensure business continuity.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board is pleased to recommend the payment of a final dividend of HKD0.38 per ordinary share for the year ended 31 December 2022. Taking into account of the interim dividend of HKD0.25 per ordinary share in respect of the six months ended 30 June 2022 paid in October 2022, the annual dividend will amount to HKD0.63 per ordinary share, representing approximately 50.0% of the Group's Adjusted net profit for the period of year ended 31 December 2022.

Subject to approval at the forthcoming annual general meeting on Friday, 12 May 2023 (the "**2023 AGM**"), the said final dividend will be payable on or about Tuesday, 11 July 2023 to shareholders whose names appear on the register of members of the Company on Monday, 22 May 2023.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2023 AGM

The register of members of the Company will be closed from Tuesday, 9 May 2023 to Friday, 12 May 2023, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2023 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 May 2023.

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Thursday, 18 May 2023 to Monday, 22 May 2023, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 May 2023.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. The Company has complied with all the code provisions contained in the CG Code for the year ended 31 December 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 the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 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 year ended 31 December 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 Company (the "**Audit Committee**") was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely, Professor Ding Yuan, 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. Professor Ding Yuan, who possesses the appropriate professional qualifications or accounting or related financial management expertise, was appointed as the chairman of the Audit Committee.

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2022 and the annual results for the year ended 31 December 2022, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 and the annual report for the year ended 31 December 2022, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2022, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

During the year ended 31 December 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 open market of the Stock Exchange at a total consideration of HK$75,757,375.

During the year ended 31 December 2022, with a view to reducing financing cost and optimising capital structure, the Company has in aggregate repurchased on market US$29,844,000 in principal amount of the 5.625% senior notes due 2024 (the "**Notes**"), representing approximately 9.95% of the outstanding principal amount of the Notes.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2022 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 21 March 2023

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