H&H Group
inspiring wellness

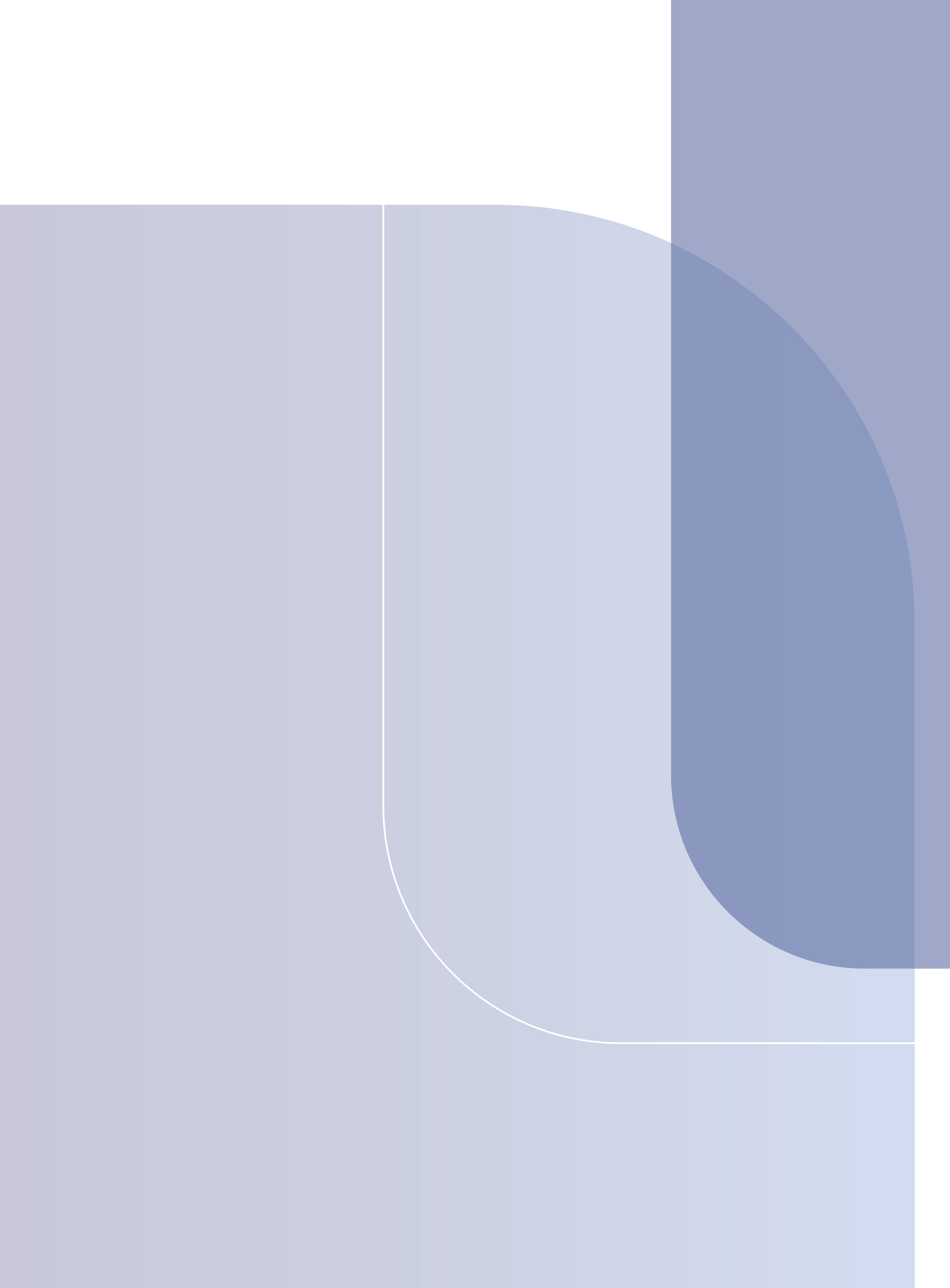
2022
ANNUAL REPORT
年度報告

2022 ANNUAL REPORT

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)



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H&H Group
inspiring wellness

Biostime Swisse Zesty Paws solid gold dodie GOOD GOÛT AURELIA LONDON

CORPORATE **INFORMATION**

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Fei *(Chairman)*
Mr. Wang Yidong

Non-executive Directors

Mrs. Laetitia Marie Edmee Jehanne Albertini*
Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

Mr. Tan Wee Seng
Mrs. Lok Lau Yin Ching
Professor Ding Yuan

BOARD COMMITTEE

Audit Committee

Professor Ding Yuan *(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 *(Chief Sustainability Officer)*

COMPANY SECRETARY

Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
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*

CORPORATE **INFORMATION**

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

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

FINANCIAL **HIGHLIGHTS**

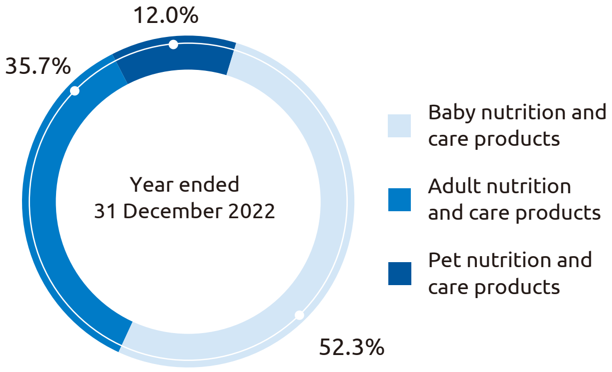
	Year ended 31 December		
	2022	2021	Change
	RMB'000	RMB'000	
Revenue	**12,775,914**	11,547,825	10.6%
Gross profit	**7,703,488**	7,247,982	6.3%
EBITDA*	**1,847,854**	1,428,949	29.3%
Adjusted EBITDA*	**1,971,876**	1,851,915	6.5%
Adjusted EBITDA margin	**15.4%**	16.0%	-0.6pts
Net profit	**611,783**	508,484	20.3%
Adjusted Net profit**	**731,172**	952,854	-23.3%
Adjusted Net profit margin	**5.7%**	8.3%	-2.6pts

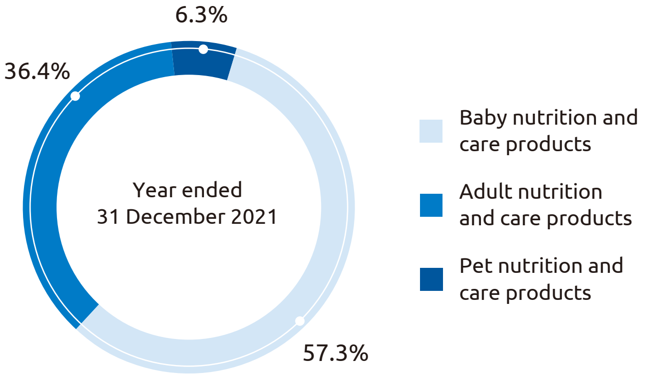
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA + Non-cash losses of RMB70.3 million for the year ended 31 December 2022 (2021: losses of RMB361.7 million) + Non-recurring losses of RMB53.7 million for the year ended 31 December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

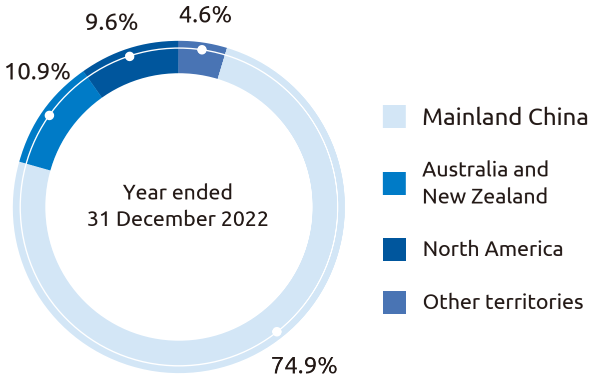
FINANCIAL **HIGHLIGHTS**

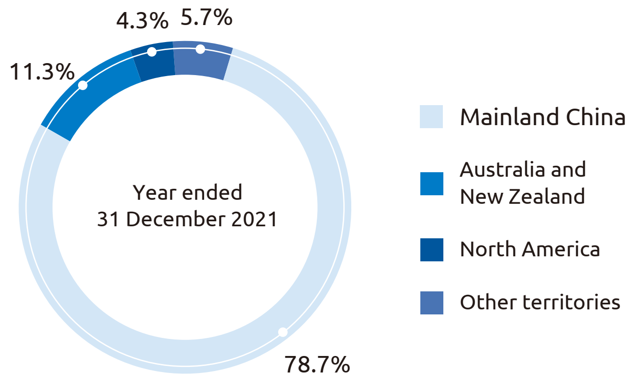
REVENUE BY BUSINESS SEGMENTS





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 annual report for the year ended 31 December 2022.

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.

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].

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.

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.

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.

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.

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.

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.

[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.

[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.

CHAIRMAN'S **STATEMENT**

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].

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.

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.

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

CHAIRMAN'S **STATEMENT**

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.

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.

CHAIRMAN'S **STATEMENT**

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.

CHAIRMAN'S **STATEMENT**

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.

ACKNOWLEDGMENTS

We are incredibly pleased to have delivered growth to you, our shareholders, in 2023 despite the strong external challenges we have faced. Thank you for your support. I would like to also express my sincere gratitude for the continued support from our employees, business partners, and creditors.

We look forward to delivering on our promises while helping people all around the world become healthier and happier.

Luo Fei
Chairman
Hong Kong, 21 March 2023

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 RMB million	2021 RMB million	Reported Change	LFL Change	**2022**	2021
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%

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.

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.

RESULTS OF OPERATION (CONTINUED)

Revenue (continued)

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

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.

RESULTS OF OPERATION (CONTINUED)

Revenue (continued)

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.

RESULTS OF OPERATION (CONTINUED)

Gross profit and gross profit margin (continued)

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.

RESULTS OF OPERATION (CONTINUED)

Selling and distribution costs (continued)

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.

RESULTS OF OPERATION (CONTINUED)

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.

RESULTS OF OPERATION (CONTINUED)

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
Non-cash items*:		
One-off write-off of unamortised transaction costs and losses on modification 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.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Working capital (continued)

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.

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 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.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and its operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2022 and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

ADDITIONAL DISCLOSURES (CONTINUED)

Environmental Policies

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

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

Relationship with Employees

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

Relationship with Customers

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

Relationship with Suppliers

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

BIOGRAPHY **OF DIRECTORS AND SENIOR MANAGEMENT**

DIRECTORS

Executive Directors

Mr. Luo Fei (羅飛**)**, aged 59, is the chairman and an executive Director of the Company. Mr. Luo was formerly the Chief Executive Officer of the Company until 18 March 2019. Mr. Luo was appointed as an executive Director on 30 April 2010 and chairman of the Company's Nomination Committee. Mr. Luo is also a director of a variety of subsidiaries of the Company. The major subsidiaries are Health and Happiness (H&H) China Limited* (健合(中國)有限公司, "**Health and Happiness China**", formerly known as BiosTime, Inc. (Guangzhou)* (廣州市合生元生物製品有限公司), "**Biostime Guangzhou**")), Biostime (Guangzhou) Health Products Limited* (合生元(廣州)健康產品有限公司, "**Biostime Health**"), Health and Happiness (H&H) Hong Kong Limited ("**Health and Happiness Hong Kong**", formerly known as Biostime Hong Kong Limited), Swisse Wellness Group Pty Ltd ("**Swisse**"), Health and Happiness France Holding ("**Health and Happiness France**"), Health and Happiness (H&H) Italy S.R.L ("**Health and Happiness Italy**"), Solid Gold Pet, LLC ("**Solid Gold**") and Zesty Paws LLC ("**Zesty Paws**"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("**Biostime Pharmaceuticals**") with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "**SFO**"). For further details, please refer to page 71 of this Annual Report. Mr. Luo leads the Board and supervises the Group's strategy, risk management and corporate governance. Mr. Luo has over 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone* (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd.* (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd.* (廣州市百好博有限公司, "**Guangzhou Biohope**"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established BiosTime, Inc. (Guangzhou) and had served as its general manager until 18 March 2019. Mr. Luo is the chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology* (華南理工大學), formerly known as South China Institute of Technology* (華南工學院). Mr. Luo has also completed the China Europe International Business School* (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Mr. Wang Yidong (王亦東**)**, aged 49, is an executive Director of the Company. Mr. Wang was appointed as an executive Director on 26 March 2018. He joined the Group in May 2016. Mr. Wang is the Chief Financial Officer of the Group and is in charge of the overall financial management, accounting, investor relations and IT activities of the Group. He has over 20 years of experience in financial management, accounting and corporate finance. Prior to joining the Group, Mr. Wang was the Corporate Vice President and Asia Pacific Chief Financial Officer of Henkel AG & Co. KGaA, a German consumer goods giant ("**Henkel**"), responsible for Henkel's financial management, business and operation controlling as well as M&A-related tasks in 14 countries of Asia Pacific. Before that, he worked at Henkel's headquarters in Germany as Global Director of Business Development and M&A for Adhesive business unit, and also worked as Henkel's Greater China Chief Financial Officer and Asia Pacific Treasurer in preceding years. Mr. Wang had also taken various management and banking roles with LG.Philips, JPMorgan and China's Ministry of Commerce* (中國商務部) in Hong Kong, New York and Beijing. Mr. Wang holds a Master of Business Administration degree from New York University Stern School of Business and a Bachelor of Arts degree from China Foreign Affairs University* (中國外交學院). He completed Global Strategy Management Program at Harvard Business School. He is a member of the American Institute of Certified Public Accountants (the "**AICPA**") and a fellow member of the Association of Chartered Certified Accountants (the "**ACCA**"). He is also a member of ACCA China Expert Forum.

* *for identification purposes only*

DIRECTORS (CONTINUED)

Non-executive Directors

Mrs. Laetitia Albertini (安玉婷), aged 43, is a non-executive Director of the Company. She was re-designated to a non-executive Director on 1 January 2023, previously she was an executive Director of the Company from 26 March 2018 to 31 December 2022. Mrs. Albertini was formerly the Chief Executive Officer of the Company from 19 March 2019 to 31 December 2022. She joined the Group in July 2010. She was the General Manager of Group strategy and international business department of the Group. During June 2018 to March 2019, Mrs. Laetitia Albertini also assumed the role of Managing Director of Swisse China. She was also a director of a variety of subsidiaries of the Company. The major subsidiaries are Health and Happiness China, Biostime Health, Health and Happiness Hong Kong, Swisse, Health and Happiness France, Health and Happiness Italy, Solid Gold and Zesty Paws. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and support to French companies partnering, exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January to June 2001, the Banque Populaire Group in Paris from July to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Dr. Zhang Wenhui (張文會), aged 58, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 71 of this Annual Report. Dr. Zhang has over 20 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology* (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Health and Happiness China and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Health and Happiness China, Biostime Health and Dodie Baby Products Inc. (Guangzhou)* (廣州杜迪嬰幼兒護理用品有限公司), "**Dodie Guangzhou**", formerly known as BMcare Baby Products Inc. (Guangzhou)* (廣州葆艾嬰幼兒護理用品有限公司) until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology* (華東理工大學), formerly known as East China College of Chemical Engineering* (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology* (華南理工大學) in July 1988 and September 1994, respectively. In September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University. Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln in the United States from October 1997 to November 2000. He also received a master's degree in Business Administration from University of Chicago in March 2017.

* *for identification purposes only*

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (CONTINUED)

Non-executive Directors (continued)

Mr. Luo Yun (羅雲**)**, aged 62, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010. Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 71 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd.* (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Health and Happiness China including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited* (廣州合生元營養保健品有限公司, now known as Leseil Health and Nutrition (Guangzhou) Limited*（廣州樂賽營養保健品有限公司）), where he was responsible for the overall strategies and business development. Since August 2016, Mr. Luo is a director and a general manager of Guangzhou Elite Education & Technology Co., Ltd.* (廣州英荔教育科技有限公司). Mr. Luo graduated from Continuing Education School of Jinan University* (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University* (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

Independent Non-executive Directors

Mr. Tan Wee Seng (陳偉成**)**, aged 67, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is chairman of the Company's Remuneration Committee. Mr. Tan is also a non-executive director, a chairman of the sustainability committee, a member of the nomination committee and a member of the audit committee of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director, a chairman of the audit committee and a chairman of the nomination committee of Sa Sa International Holdings Limited (Stock Code: 178), an independent non-executive director, a chairman of the audit committee and a member of the remuneration committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), an independent non-executive director, a chairman of the audit committee, a chairman of remuneration committee and a member of the nomination committee of Shineroad International Holdings Limited (Stock Code: 1587), the shares of all of which shares are listed on the Main Board of the Stock Exchange. Mr. Tan is also a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been appointed as an independent non-executive director and a chairman of the audit committee of Sinopharm Group Company Limited (Stock Code: 1099) from September 2014 to September 2020 listed on the Main Board of Stock Exchange, an independent director, a chairman of the audit committee, a member of nominating and corporate governance committee and a member of the Environmental, Social and Governance committee of ReneSola Ltd (Stock Code: SOL), the shares of which are listed on the New York Stock Exchange ("**NYSE**") from April 2009 to January 2023, an independent director and a chairman of the audit committee of 7 Days Group Holdings Limited, listed on the NYSE, between November 2009 and July 2013, until it was privatised. He was the chairman of the special committee for the privatisation of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; a director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for the China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in the United Kingdom, and a fellow member of the Hong Kong Institute of Directors.

* *for identification purposes only*

BIOGRAPHY **OF DIRECTORS AND SENIOR MANAGEMENT**

DIRECTORS (CONTINUED)

Independent Non-executive Directors (continued)

Mrs. Lok Lau Yin Ching (駱劉燕清), aged 68, was appointed as an independent non-executive Director of the Company on 24 March 2020. Mrs. Lok is a strategic Human Resources leader with over 30 years of experience in driving people and business transformation. Mrs. Lok worked for MetLife Asia Limited as the SVP, Regional Head of Human Resource from 2012 to 2019. She partnered with global human resources leaders of MetLife in formulating the global human resources strategies and built a world-class Asia human resources function with a composite of both international and local talents for developing and driving the implementation of business strategies. From 2005 to 2012, she worked for HSBC Insurance (Asia) Limited as the Asia Regional Head of Human Resource. She built and drove human resources strategies to grow the insurance business in Asia within the HSBC Group. Prior to joining HSBC Insurance (Asia) Limited, Mrs. Lok was the Regional Head of Human Resource of AXA Asia from 2000 to 2005. In addition, Mrs. Lok has been active in voluntary services including being the Treasurer with the 10th Tai Po Scout Group for over 20 years. Mrs. Lok holds a Bachelor of Arts degree (Economics & Sociology) from the University of Leeds in the United Kingdom. She is certified in the Woman Directorship program of the University of Hong Kong. She is also a certified Master Neuro-Linguistic Programming Practitioner, a certified Executive Coach as well as a certified Emotional Intelligence Coach & Practitioner.

Professor Ding Yuan (丁遠), aged 54, was appointed as an independent non-executive Director of the Company on 1 January 2023 and is chairman of the Company's Audit Committee. Professor Ding has been an independent non-executive director, the chairman of the audit committee, a member of the nomination committee and a member of the strategy committee of JS Global Lifestyle Company Limited* (JS環球生活有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1691) since August 2022. He has been an independent non-executive director, the chairman of the remuneration committee, and a member of each of the nomination committee and the audit committee of Man Wah Holdings Limited* (敏華控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1999) since December 2016. He has been an independent non-executive director, the chairman of the audit committee, and the chairman of the risk and compliance committee of Bluestar Adisseo Company* (藍星安迪蘇股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600299) since August 2018 and a non-executive director of Saurer Intelligent Technology Co. Ltd* (卓郎智能技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600545), since May 2018 and was a member of the audit committee of which from May 2018 to September 2021. Since January 2021, Professor Ding has also served as an independent non-executive director of Shanghai Large & Kunchi Group Inc.* (上海路捷鯤馳集團股份有限公司), a private consumer goods company. Professor Ding was an independent non-executive director and the chairman of audit committee of Red Star Macalline Group Corporation Ltd.* (紅星美凱龍家居集團股份有限公司) (stock code: 1528) from March 2012 to November 2018 and was an independent non-executive director, the chairman of the audit committee, and a member of each of the remuneration committee and the nomination committee of Landsea Green Properties Co., Ltd.* (朗詩綠色地產有限公司) (stock code: 106) from July 2013 to May 2019, respectively, both of which are listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Jaccar Holdings, a private investment company, from July 2011 to August 2021. Professor Ding was an independent director and the chairman of the audit committee of Anhui Gujing Distillery Co.,Ltd.* (安徽古井貢酒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000596), from June 2008 to June 2011 and at TCL Corporation* (TCL集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000100), from June 2008 to June 2014. From July 2011 to June 2015, he was an independent non-executive director and the chairman of the audit committee of MagIndustries Corp., a company listed on the Toronto Stock Exchange (stock code: MAA). Professor Ding has more than twenty years of experience in teaching and researching financial accounting, financial statement analysis, corporate governance and mergers and acquisitions. He graduated with a doctor of philosophy degree in management science from the College of Business Administration, Bordeaux IV University in France in May 2000. He also obtained a master's degree in Enterprises Administration from the University of Poitiers, France in June 1995. Professor Ding served as a tenured professor in accounting and management control at the HEC School of Management in Paris, France from September 1999 to September 2006. He joined China Europe International Business School* (中歐國際工商學院) since September 2006, and currently serves as the Cathay Capital Chair Professor in Accounting, vice president and dean of China Europe International Business School.

* *for identification purposes only*

BIOGRAPHY **OF DIRECTORS AND SENIOR MANAGEMENT**

SENIOR MANAGEMENT

Mr. Akash Bedi, aged 39, is the Acting Chief Executive Officer of the Company with effective from 1 October 2022. He was the Chief Strategy and Operations Officer of the Company from December 2019 to September 2022. He joined the Group in July 2018 as Senior Director of Strategy and Corporate Affairs. As part of his role at the Group, Mr. Bedi is responsible for overall procurement, logistics, production and supply chain for all H&H Group brands. Also, responsible for developing business strategies and roadmaps, identifying growth opportunities and strengthening the Group's industry and market insight capabilities. In the last 3 years, he has been successfully leading and managing Swisse business for India and Middle East market. Also, he leads mergers and acquisitions for the Group and strategic investments for NewH2 Fund (the corporate venture subsidiary of the Group) which focus on investing in global startups and high-growth companies with technologies and businesses of strategic. Prior to joining the Company, Akash held the position of Director, Global Consumer & Retail at HSBC for over 10 years since May 2008 where he worked on highly complex mergers and acquisitions transactions from its global offices in New York, London and Hong Kong. Akash obtained a Bachelor degree of Engineering (Mechanical) from Manipal Institute of Technology, India in 2005 and an MBA degree from the Cardiff Business School in the UK in 2006.

Dr. Hanno Cappon, aged 57, joined the Group as the Chief Technology Officer in January 2021. He is responsible for the Group's Science, Technology, Quality and Regulatory, R&D Strategies, partnerships and projects globally to support the mid and long-term innovation and growth of our business. Dr. Cappon has over 25 years' success experience in Nutrition and Health innovation and bringing new ingredients, foods and therapeutic solutions to industry, consumers and healthcare. Prior to joining the Group, Dr. Cappon was Vice President R&D, Nutritionals and Digestive Health in Bayer Consumer Health from 2017 to 2020. Before that, he held the position of VP R&D Medical Nutrition at Danone Nutricia from 2009 to 2017. Dr. Cappon obtained a Master's degree as Engineer in Chemical Technology from Technical University Delft, The Netherlands in 1989 and his Ph.D. in Bio-Organic Chemistry from Leiden University in 1993.

Mr. Zhang Qizhang (張琦章**)**, aged 38, has been the Chief People Officer of the Company since July 2020. He joined the Group in June 2014. Mr. Zhang was the Director of Integrated Marketing Centre of the Group from April 2015 to December 2017 then was appointed as the Group General Manager of new business development and assumed additional responsibility as Chief People Officer from January 2018 to June 2020. He was also the General Manager of the United Kingdom from July 2020 to February 2022. Before that, he was the Marketing Director of Biostime and assumed additional responsibility as Director of the Corporate Innovation Marketing Centre. He started his career at Procter & Gamble ("**P&G**") in China from graduation as a brand manager at the marketing department until May 2014. Mr. Zhang obtained his bachelor's degree in public management in Renmin University of China* (中國人民大學) in June 2007.

Ms. Li Fengting (李鳳婷**)**, aged 38, has been the Chief Executive Officer for China since August 2020. Ms. Li joined the Group in May 2018 as ANC China sales and marketing general manager. She manages all operations of BNC and ANC in China and is responsible for most functions in China, including quality & regulation, supply chain and public relationship. Ms. Li had over 10 years of experience in fast-moving consumer goods ("**FMCG**") sales, marketing and omni-channel management. Prior to joining the Group, she worked for P&G in China and Singapore from July 2008 to April 2018, where she led the global brand Downy Unstoppable launch into global multi regions and Tampax launch into China. Ms. Li graduated from Zhejiang University* (浙江大學) in 2008 and obtained the bachelor's degree in Industrial Design.

Mr. Nicholas Russell Lamande Mann, aged 49, has been promoted as the Chief Executive Officer for Asia, Australia and New Zealand since March 2022. He joined the Group in September 2017 as the Sales Director for Australia and New Zealand and has been a managing director for Australia and New Zealand from August 2019 to February 2022. Over a 22 years span prior to joining the Group, Mr. Mann had taken a great deal of experience through working in a variety of senior sales, marketing and general management roles across FMCG, Technology and Beverage Alcohol, such as Gillette, Motorola and ASM Liquor. Mr. Mann obtained a Bachelor of Science Degree from The University of Melbourne in 1995.

* *for identification purposes only*

SENIOR MANAGEMENT (CONTINUED)

Mr. Michael Jean-Pierre J. M. Rondas, aged 50, has joined the Group as the Chief Executive Officer for Europe since September 2022. In his career, Mr. Rondas had taken a great deal of global and regional experience through working in a variety of senior marketing and general management roles across FMCG, Health and Wellness companies, such as Kodak, GSK, Reckitt Benckiser, and J&J. Mr. Rondas is a Belgian national, speaks 4 languages and obtained a Marketing Bachelor's Degree from The BMS in Ghent 1996.

Mr. Rafi Kalachian, aged 48, has been named as the Chief Executive Officer for North America since February 2023. Mr. Kalachian is a tenured executive with over 25 years of experience leading high-growth, high-performance teams in consumer businesses such as MARS Petcare's Nutro, CANIDAE Pet Foods, Redbarn Pet Products, and Health Extension Pet Care. Mr. Kalachian has a Bachelor of Science Degree from the University of Southern California (USC) Marshall School of Business and a Master in Business from Woodbury University.

Mrs. Pascale Laborde, aged 43, has been the Chief Sustainability Officer, Director of Global Marketing and Communications since November 2021. She joined the Group in March 2019. She is responsible for leading the marketing, communications and sustainability strategy for H&H globally across our BNC, ANC and PNC business segments. Prior to joining the Group, she worked at KFC France part of Group Yum. From 2014 to 2019, first as Head of Sales, Media and Advertising, then Marketing Innovation Director and Chief Marketing Officer. From 2004 to 2014, she also worked at Unilever France, in a number of Marketing and Sales roles managing strategic accounts. She graduated from Hautes Etudes Commerciales (HEC) and obtained a master's degree in marketing in 2003.

Ms. Yang Wenyun (楊文筠**)**, aged 39, has been the Senior Director of the Listing Affairs and Risk Management Department since March 2019. She joined the Group in August 2005 and was appointed as one of the joint company secretaries of the Company since 12 July 2010 to 25 June 2019. From 25 June 2019, Ms. Yang has acted as the sole company secretary of the Company. She is mainly in charge of overall listed corporation affairs, risk management and internal audit of the Group. She is also the Supervisor of a variety of subsidiaries of the Company. Ms. Yang started her professional career with the Group and has obtained substantial experience through corporate governance, risk management, administration, legal affairs, information security management, internal audit, public relations and human resources management over the past eighteen years with the Group. Ms. Yang is an associate member of both The Hong Kong Chartered Governance Institute (formerly "**The Hong Kong Institute of Chartered Secretaries**") and The Chartered Governance Institute in the United Kingdom. She also holds the Chartered Governance Professional. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University* (中山大學) in June 2005.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of this Annual report of the Company are set out below:

Name of Director	Details of Change
Mr. Tan Wee Seng	Mr. Tan resigned from his position as an independent director, a chairman of the audit committee, a member of nominating and corporate governance committee, and a member of the Environmental, Social and Governance committee of ReneSola Ltd (Stock Code: SOL), the shares of which are listed on the NYSE on 31 January 2023.

* *for identification purposes only*

CORPORATE **GOVERNANCE REPORT**

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to present this Corporate Governance Report in the Annual Report.

CORPORATE GOVERNANCE CULTURE, PURPOSE, VALUE AND STRATEGY

Embedded in the Company's name, the mission of the Group is to bring the health and happiness for humankind and pets. The Group strives to achieve this mission by embracing and executing the vision of creating differentiated quality products and an aspired brand, and becoming the global industry leader of nutrition and health. We see ourselves as one big team comprising of every individual in the Group. We embrace the culture of passion, courage, and trust. In terms of corporate governance, with a view of ensuring that the Group's mission, vision and culture are reflected and implemented across all aspects of the administration and governance of the Group, the Company observes the highest ethical standards for all its affairs.

It is believed that faithful implementation of the Group's corporate governance practice could facilitate satisfactory and sustainable returns to stakeholders, protection of the interests of those who deal with the Company, the management of overall business risks, the delivery of high-quality products and services and maintenance of high standards of ethics. Through such means, the Company believes that stakeholders' interests will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Throughout the year ended 31 December 2022, the Company has complied with all the code provisions as set out in the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 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.

CORPORATE **GOVERNANCE REPORT**

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the best interests of the Company. All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

As at the date of this report, the Board currently comprises eight members, consisting of two executive Directors, three non-executive Directors and three independent non-executive Directors. The Board has also established four Board committees, namely, the nomination committee (the "**Nomination Committee**"), the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the environmental, social and governance committee (the "**ESG Committee**")[1]. Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 23 to 28 of this Annual Report. As at the date of this report, the Board currently comprises the following members:

Executive Directors:
Mr. Luo Fei *(Chairman of the Board, chairman of the Nomination Committee and members of the Remuneration Committee and the ESG Committee)*
Mr. Wang Yidong

Non-executive Directors[2]:
Mrs. Laetitia Albertini *(chairman of the ESG Committee)*
Dr. Zhang Wenhui
Mr. Luo Yun *(member of the Audit Committee)*

Independent non-executive Directors[3]:
Mrs. Lok Lau Yin Ching *(members of the Remuneration Committee and the Nomination Committee)*
Mr. Tan Wee Seng *(chairman of the Remuneration Committee and members of the Audit Committee and the Nomination Committee)*
Professor Ding Yuan *(chairman of the Audit Committee)*

1 Mrs. Pascale Laborde, our Chief Sustainability Officer, is a member of the ESG Committee.
2 Mrs. Laetitia Albertini has been redesignated as a non-executive Director with effect from 1 January 2023.
3 Mr. Wang Can has been resigned as an independent non-executive Director with effect from 31 December 2022, and Professor Ding Yuan has been appointed as an independent non-executive Director with effect from 1 January 2023.

THE BOARD (CONTINUED)

Board Composition (continued)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Luo Fei, the Chairman and an executive Director, is the younger brother of Mr. Luo Yun, a non-executive Director. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

Delegation by the Board

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making a request to the Board.

To streamline the decision making process, the Board manages the business and affairs of the Company in certain circumstances through an executive committee (the "**Executive Committee**") which comprises two executive Directors. The day-to-day administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

THE BOARD (CONTINUED)

Delegation by the Board (continued)

The Board has also delegated to Audit Committee, Nomination Committee, Remuneration Committee and ESG Committee the responsibility for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference which have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. The list of the chairman and members of each these Board committee is set out under "Corporate Information" on page 2 of this Annual Report. The Board committees should report to the Board on their decisions or recommendations made.

The Board has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer should be separate to reinforce their respective independence and accountability. During the year ended 31 December 2022, the positions of Chairman and Chief Executive Officer are held by Mr. Luo Fei and Mrs. Laetitia Albertini respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Mrs. Laetitia Albertini ceased to be the Chief Executive Officer with effect from 31 December 2022. In preparation for the change of Chief Executive Officer, the Board has appointed Mr. Akash Bedi, the Chief Strategy and Operations Officer of the Company, with effect from 1 October 2022 as the Acting Chief Executive Officer of the Company who will work with the executive Directors to share the responsibilities of the Chief Executive Officer to the extent necessary to ensure a smooth transition before a new Chief Executive Officer is appointed. Details of the biography of Mr. Akash Bedi are set out in the section headed "Biography of Directors and Senior Management" on pages 23 to 28 of this Annual Report.

Company Secretary

Ms. Yang Wenyun ("**Ms. Yang**") has been appointed as the Company Secretary of the Company. Details of the biography of the company secretary are set out in the section headed "Biography of Directors and Senior Management" on pages 23 to 28 of this Annual Report.

Ms. Yang has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2022.

THE BOARD (CONTINUED)

Board Practices of Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and Board committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 7 days before each Board meeting or Board committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attends all regular Board meetings and where necessary, other Board and Board committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The company secretary is responsible for taking and keeping minutes of all Board meetings and Board committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association (the "**Articles of Association**") contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance.

During the year ended 31 December 2022, the Board held nine meetings. During the meetings of the Board held in 2022, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2021 and the interim results for the six months ended 30 June 2022.

Apart from the nine Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year ended 31 December 2022.

THE BOARD (CONTINUED)

Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2022

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	ESG Committee Meeting[7]	Annual General Meeting
Executive Directors						
Mr. Luo Fei (Note 1)	9/9	N/A	3/3	5/5	1/1	1/1
Mr. Wang Yidong	9/9	N/A	N/A	N/A	N/A	1/1
Non-executive Directors						
Mrs. Laetitia Albertini (Note 2)	9/9	N/A	N/A	N/A	1/1	1/1
Dr. Zhang Wenhui	8/9	N/A	N/A	N/A	N/A	1/1
Mr. Luo Yun	9/9	2/2	N/A	N/A	N/A	1/1
Independent non-executive Directors						
Mrs. Lok Lau Yin Ching	9/9	N/A	3/3	5/5	N/A	1/1
Mr. Tan Wee Seng (Note 3)	9/9	2/2	3/3	5/5	N/A	1/1
Mr. Wang Can (Notes 4 & 5)	9/9	2/2	N/A	N/A	N/A	1/1
Professor Ding Yuan (Notes 4 & 6)	N/A	N/A	N/A	N/A	N/A	N/A
Date of Meeting *(DD/MM/YYYY)*	11/01/2022 22/03/2022 08/04/2022 24/06/2022 29/08/2022 23/09/2022 06/12/2022 14/12/2022 30/12/2022	21/03/2022 29/08/2022	22/03/2022 25/07/2022 30/12/2022	11/01/2022 08/04/2022 05/12/2022 14/12/2022 30/12/2022	24/11/2022	13/05/2022

Notes:

1: Chairmen of the Board and the Nomination Committee
2: Redesignated as Non-executive Director with effect from 1 January 2023, Chairman of the ESG Committee
3: Chairman of the Remuneration Committee
4: Chairman of the Audit Committee
5: Resigned with effect from 31 December 2022
6: Appointed with effect from 1 January 2023
7: Mrs. Pascale Laborde, a member of the ESG Committee, has attended one ESG committee meeting during the year ended 31 December 2022

None of the meetings set out above was attended by any alternate Director.

THE BOARD (CONTINUED)

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company. It oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board acts in the best interest of the Company objectively by directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

Collectively, the Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge, industry know-how and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on the Company's strategy, corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors are also required to disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board has delegated to the senior management certain authority and responsibility for the day-to-day management and operation of the Group, the exercise of which is subject to the close scrutiny by the Board. The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

Independence of Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company under the Share Option Schemes adopted by the Company. Details of such grant of share options are set out on page 62 of this Annual Report.

THE BOARD (CONTINUED)

Mechanism to Ensure Independent Views and Input are Available to the Board

To ensure independent views and input are provided to the Board, the Board has taken the following measures:

Board and Committees' structure

The Company is steered by the Board comprising of a majority of non-executive Directors and independent non-executive Directors. Among nine Directors, only two of them are executive Directors. In addition, the role of the Chairman and the Chief Executive Officer are separated to ensure that there is a balance of power and authority.

Independent non-executive Directors' remuneration

Independent non-executive Directors receive fixed Directors' fees for their role as members of the Board and Board Committees as appropriate. Caution is also taken not to over grant awards under share option schemes and share award schemes of the Company to the extent that their independence may be affected.

Appointment of independent non-executive Directors

In assessing suitability of the candidates for potential appointment of independent non-executive Director, the Nomination Committee and the Board will review, among others, their profiles, including their qualification and time commitment, having regard to the Board's composition, the Directors' skill matrix and other internal policies of the Group.

Annual review of Independent non-executive Directors' commitment and independence

The Board annually review each Director's time commitment to the Company. Directors' attendance records in 2022 are also disclosed in this Corporate Governance Report.

The Board would assess the independent non-executive Directors' independence upon appointment, annually, and at any other time when the need to reconsider arises.

Conflict management

Directors are required to report and avoid conflicts of interests with the Company and appropriate actions would be taken by the Board to manage conflicts when such conflicts arises.

Professional advice

If required, all Directors are entitled to seek advice from independent professional advisers at the Company's expense.

Term of Appointment of Non-executive Directors

Each of the non-executive Directors (including independent non-executive Directors) of the Company has entered into a letter of appointment with the Company for a specific term of three years, automatically renewable upon expiration, and is subject to retirement by rotation at an annual general meeting ("**AGM**") at least once every three years and being eligible, offer himself for re-election pursuant to the Company's Articles of Association.

THE BOARD (CONTINUED)

Appointment, Re-election and Removal of Directors

The Company has established formal, considered and transparent procedures for the appointment of Directors.

The Company has adopted the procedures for shareholders to propose a person for election as a Director of the Company. These procedures are available and accessible on the Company's website at www.hh.global.

Each of the Directors of the Company has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his/her re-election at an AGM upon retirement pursuant to relevant articles of the Articles of Association.

In accordance with the Company's Articles of Association adopted by the Company on 25 November 2010, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. At each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an AGM at least once every three years and being eligible offer themselves for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group.

The remuneration of each member of the senior management of the Group by band for the year ended 31 December 2022 is set out below:

Remuneration Bands	**Number of Persons**
Below HKD4,000,000	1
HKD4,000,001 to HKD6,000,000	2
HKD6,000,001 to HKD8,000,000	4
HKD8,000,001 to HKD10,000,000	1

Further particulars regarding Directors' and chief executive's remuneration and five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 8 to the financial statements.

THE BOARD (CONTINUED)

Continuous Professional Development

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuing briefing and professional development for Directors are arranged where necessary. All Directors are encouraged to attend relevant training courses at the Company's expenses. In 2022, the Company engaged the external legal counsel to provide a training to the Directors so that the Directors learned the latest changes to the Listing Rules and CG Code.

During the year ended 31 December 2022, the Directors participated in the following trainings:

Directors	Type of Training *Note*
Executive Directors	
Mr. Luo Fei	A, B
Mr. Wang Yidong	A, B
Non-executive Directors	
Mrs. Laetitia Albertini *(redesignated with effect from 1 January 2023)*	A, B
Dr. Zhang Wenhui	A, B
Mr. Luo Yun	A, B
Independent non-executive Directors	
Mrs. Lok Lau Yin Ching	A, B
Mr. Tan Wee Seng	A, B
Mr. Wang Can *(resigned on 31 December 2022)*	A, B
Professor Ding Yuan *(appointed on 1 January 2023)*	A, B

Notes:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops relating to directors' duties and responsibilities/corporate governance/updates on Listing Rules amendments etc.

B: Reading relevant news alerts, newspapers, journals, magazines, updates and relevant publications relating to the economy/general business/directors' duties and responsibilities etc.

THE BOARD (CONTINUED)

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 20 March 2012 in compliance with code provision A.2.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosures in the Corporate Governance Report of the Annual Report of the Company.

During the year ended 31 December 2022, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosures in this Corporate Governance Report.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2022. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2022 are set out in the Directors' Report on page 86 of this Annual Report.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was renewed on 18 August 2022.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely, Mr. Luo Fei (the executive Director, Chairman of the Nomination Committee), Mr. Tan Wee Seng and Mrs. Lok Lau Yin Ching, the independent non-executive Directors. The majority of them are independent non-executive Directors, and the chairman of the Nomination Committee is chaired by the Chairman of the Board.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. 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. 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 considers the candidate's character, qualifications, experience, independence and other relevant criteria as set out in the Director Nomination Policy to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

The Nomination Committee held three meetings during the year ended 31 December 2022 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election of Directors and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2022" on page 34 of this Annual Report. Especially, the Nomination Committee contributed much to establishment of the ESG Committee and the selection of the new independent non-executive Director in 2022.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(a) at least 30% of members of the Board shall be female;

(b) at least one-third of the members of the Board shall be independent non-executive Directors;

(c) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(d) at least 70% of the members of the Board shall have more than 15 years of experience in the industry he/she is specialised in; and

(e) at least 50% of the members of the Board shall have multinational-related work experience or education experience.

The Board is committed to improving the diversity of the Board and wishes to achieve the above objectives by the end of 2023.

The Nomination Committee and the Board are of the view that the current composition of the Board has achieved the vast majority of objectives set in the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.
- Requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2022, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mrs. Laetitia Albertini, Dr. Zhang Wenhui and Mr. Luo Yun, the non-executive Directors, shall retire from office by rotation at the forthcoming AGM to be held on 12 May 2023 (the "**2023 AGM**"). In addition, Professor Ding Yuan, being independent non-executive Director, appointed by the Board with effect from 1 January 2023, shall hold office until the 2023 AGM and be subject to re-election at such meeting pursuant to Article 83(3) of the Company's Articles of Association. All the above Directors, being eligible, will offer themselves for re-election at the 2023 AGM.

According to B.2.3 of the CG Code, further appointment of an independent non-executive director who serves more than nine years should be subject to a separate resolution to be approved by shareholders.

The Company's circular dated 3 April 2023 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

The Audit Committee comprises three members, namely, Professor Ding Yuan (the independent non-executive Director, Chairman of the Audit Committee), Mr. Luo Yun, the non-executive Director, and Mr. Tan Wee Seng, the independent non-executive Director (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Company has adopted a whistleblowing policy for promoting high corporate governance standards and deterring wrongdoings. The policy aims at encouraging and enabling employees of the Group at all levels and as well as distributors and suppliers to report to the Audit Committee violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditors or external auditors before submission to the Board;

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management systems and associated procedures; and

- To review the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee oversees the internal control system 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.

The Audit Committee held two meetings during the year ended 31 December 2022 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2022" on page 34 of this Annual Report.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2022.

AUDIT COMMITTEE (CONTINUED)

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditor's Report on pages 87 to 92 of this Annual Report.

Non-audit services by the external auditors are subject to the Audit Committee's approval and may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditors.

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2022 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the 2023 AGM.

During the year ended 31 December 2022 under review, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	7,880
Non-audit services	
– Tax advisory & global compliance services	223
– Other financial services	115
– Other advisory services	187
– Review of interim condensed consolidated financial statements	2,182
Total	10,587

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Tan Wee Seng (the independent non-executive Director, Chairman of the Remuneration Committee), Mr. Luo Fei, the executive Director, and Mrs. Lok Lau Yin Ching, the independent non-executive Director. The majority of them are independent non-executive Directors.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code, and amended with effect from 30 December 2022. The primary functions of the Remuneration Committee include making recommendations to the Board 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 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.

REMUNERATION COMMITTEE (CONTINUED)

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management, assessed performance of executive directors, approved the terms of executive directors' service contracts, and reviewed and/or approved matters relating to share schemes under Chapter 17 of the Listing Rules for the year ended 31 December 2022 under review. Especially, the Remuneration Committee reviewed the remuneration package for the new Chief Executive Officer to ensure attractiveness to candidates but also in line with the Company's remuneration governance principles.

The Remuneration Committee held five meetings during the year ended 31 December 2022 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2022" on the page 34 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The 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, the non-executive Director, Mr. Luo Fei, the executive Director, and Mrs. Pascale Laborde (Chief Sustainability Officer). Mrs. Laetitia Albertini was appointed as the chairman of the ESG Committee.

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.

The ESG Committee has reviewed and recommended the Group's sustainability materiality assessment, discussed the Group's climate action plan, reviewed the diversity, equity and inclusion strategy, and recommended to the Board the inclusion of environmental, social and governance metrics into the Chief Executive Officer 2023 short term incentive plan.

The ESG Committee held one meeting during the year ended 31 December 2022 and the attendance record is set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2022" on the page 34 of this Annual Report.

EXECUTIVE COMMITTEE

The Executive Committee comprises three members, namely, Mr. Luo Fei (the executive Director, Chairman of the Executive Committee), Mr. Wang Yidong, the executive director, and Mr. Akash Bedi, the acting Chief Executive Officer.

According to its terms of reference, the Executive Committee has the authority to exercise the powers of the Board in the management of the business and affairs of the Company, provided that certain matters are reserved for the Board's approval, including but not limited to the declaration of dividends, issuance of securities, transactions contemplated under Chapter 14 and Chapter 14A of the Listing Rules and disclosure of inside information, etc.

The Executive Committee was established on 17 September 2020 and has approved and executed a range of business matters based on analysis submitted by the management during the year ended 31 December 2022 under review.

RISK MANAGEMENT AND INTERNAL CONTROLS

Duties of the Board

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks which it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Risk Management

1. Main Features of H&H Risk Management System

The Company is committed to maintaining and improving its robust risk management system, which is essential for corporate governance and practicing its commitment in ESG. The Company advocates a holistic and systematic risk management methodology, consisting of integral guiding policies, a well-defined organisation structure, effective technical tool supports and explicit control procedures, which works towards the sustainable business development and the achievement of strategic purposes.

(i) The Policy of H&H Risk Management Framework

With reference to COSO Enterprise Management Framework and ISO 31000, the Company set up its tailor-made H&H Risk Management Framework (the "**Framework**") to guide the practices by defining the roles and responsibilities, risk management process, risk communication channels, trainings and other principles in risk management.

(ii) Risk Management Organisation and Accountability

Pursuant to COSO's classic Three Line Theory, the Company develop its risk management organisation structure which details clear roles and responsibilities for each party involving in risk management by the Framework of H&H:

– Governance Body – The Board and its Committees

To provide leadership and oversee the Company's implementation of risk management and internal control systems on an ongoing basis.

– First Line – Business and Functional Units

To act as risk owners, who shall be responsible for risk management works within their duties, including implementing risk mitigation actions and controls, and communicating significant risk information with the Company's Risk Management function.

– Second Line – Functional Units

To support the risk owners in implementing the risk management framework, and oversee risk information management.

– Third Line – Internal Audit & Risk Management Function

To conduct independent and objective assurance on the effectiveness of risk management activities, and directly report to the Board and its Audit Committee.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Risk Management (continued)

2. Risk Management Process

The risk management is incorporated into daily operations of all parties within the Company. In addition, the Company has established a proactive risk identification and management mechanism to timely and appropriately identify, assess and deal with significant risks.

– Periodic Enterprise risk assessments

The Company performs risk assessment at the end of each year. Series of risk workshops and interviews are held with middle and top management members to collect their opinions on risks. Identified key risks and opportunities are assessed based on the predefined risk assessment criteria which covers both qualitative and quantitative elements. The risk analysis results with prioritised top risks, risk treatment proposal and risk appetite, are then reported to Senior Management and Audit Committee of the Board for their reference in strategic decision.

The trends of top risks are also continuously tracked by the Risk team. In the middle of the year, the company performs re-assessments over top risks by tracking recent risk changes and progress of risk treatments, whose result is presented to Senior Management and Audit Committee for their sufficient oversight.

– Significant risk monitoring and management

Apart from the routine semi-annual corporate risk assessments, the Company also monitors and manages significant risks on an on-going basis. In 2022, IARM conducted independent risk based audits on expense management (reimbursements and selling expense investments), part of key sales channel audits, etc.

– Group Incident Management Policy

In 2022, the Company continued refining its risk management system. We created and disseminated to all our team members Group Incident Management Policy (based on our pre-existing regional incident management policy). This policy specifies the procedure for escalating major incidents or crises to the Group management, the criteria for rating the severity of incidents and crises, and the defined roles and responsibilities for incident management. It aims at balancing Group early involvement and region's quick responses when coping with significant incidents.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Risk Management (continued)

2. Risk Management Process (continued)

Internal Control Systems

1. Main Features of Internal Control System:

   The Company has set up an integrated system of internal control ("**IC**") consisting of policies and procedures, the mechanism of communication and supervision, as well as performance auditing.

2. Communication and Oversight:

   The management of the Company meets frequently to actively evaluate and review internal control deficiency(s) to which the Company is exposed and reports to the Board on a regular basis. The Company also appoints external consultants, when appropriate, to review her internal control and financial reporting processes.

3. Functioning of IARM in internal control refinement:

   IARM is authorised to perform his duties of internal audit without any restrictions and directly communicating any significant IC issues with the Board and Audit Committee.

   In 2022, specialised IC reviews are conducted by IARM aiming to further develop and refine the IC system in Delegation of Authority (DOA) Matrix, Group policy administration and management, and with go-live of the IC system tool 'Risk and Control Matrix (RCM) System', which will best assist internal control self-assessment.

3. Business Ethics and Integrity

The Company advocates ethics, integrity and trust at the workplace and in our business relationships and firmly combats fraud or corruption, We developed the policies of '*Group Anti-Fraud Policy*' and '*Whistle-blower Protection Policy*', explicitly conveying our consistent zero tolerance approach towards any type of fraud or corruption.

The Annual Compliance Training:

In 2022, the Company finished the Annual Compliance Training Program, in which more than 99.8% of all team members had fully completed the training and acknowledged their conformity with the compliance requirements on time. The training program covers a wide range of compliance topics, including but not limited to internal Codes of Conduct, finance and expense compliance, anti-monopoly, information security, inside information and securities dealing, anti-fraud, conflict of interest management and ESG. It is an annual mandatory training program refreshing all employees with latest compliance requirements.

Whistle-blowing and Anti-fraud Management:

Our whistle-blower reporting platform 'HH Speak Up' has been functioning well since 2019. For the past year, 30 cases were reported to IARM. All cases have been investigated, and 16 employees were dismissed or disciplined due to their violation of the Company's policies. We sought the support from our external consultants for 5 cases, which significantly facilitated our fraud investigation.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Review of Risk and Control Management Effectiveness

The Audit Committee reviews and discussed risk and control managements in committee meetings half yearly, covering risk assessment results and the progresses, IA's work and effectiveness and anti-fraud practices. The Audit Committee also reviews the resource, qualification and experience of IARM, to ensure that the budget be adequate for the Company's reviews and oversights.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

In 2018, the Company developed a policy on inside information disclosure and share dealing which provides a more stringent guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and share dealing. These control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

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 recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make informed investment decisions.

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGMs, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Board has adopted a shareholders' communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

Voting at general meetings of the Company is conducted by way of poll in accordance with Article 66 of the Articles of Association. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

During the twelve months ended 31 December 2022, the Company attended 14 investors' conferences and roadshows and approximately 500 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the year ended 31 December 2022 are summarised as follows:

Date	Event	Organizer	Location
Jan-22	Morgan Stanley Virtual China New Economy Summit	Morgan Stanley	Virtual
Jan-22	Citi China Consumer Corporate Day	Citi	Virtual
Jan-22	Goldman Sachs Greater China Consumer & Leisure Corporate Day	Goldman Sachs	Virtual
Jan-22	UBS Greater China Conference	UBS	Virtual
Jan-22	Jefferies China Consumer Corporate Access Conference	Jefferies	Virtual
Jan-22	BofA Securities 2022 New York Asia Day	BofA Securities	Virtual
Mar-22	Post Annual Results Non-deal Roadshow	Citi/BofA Securities	Virtual
May-22	Daiwa Consumer & Gaming Corporate Day	Daiwa	Virtual
May-22	Morgan Stanley Virtual China Summit	Morgan Stanley	Virtual
May-22	BofA Innovative China Conference	BofA Securities	Virtual
Aug-22	Post Interim Results Non-deal Roadshow	Citi	Virtual
Sep-22	CLSA Investors' Forum	CLSA	Virtual
Oct-22	BofA Securities Asian Credit Conference	BofA Securities	Virtual
Nov-22	Citi China Investor Conference	Citi	Virtual

The last shareholders' meeting was 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, PRC for approval of, among other items, the general mandates to issue and repurchase shares of the Company and the re-election of retiring Directors. Particulars of the major items considered at the AGM are set out in the circular dated 25 March 2022. All the proposed ordinary resolutions were passed by way of poll at the AGM.

The 2023 AGM will be held on 12 May 2023. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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 available for public access. Investors may write directly to the Company or via email to ir@hh.global for any enquiries.

CONSTITUTIONAL DOCUMENT

During the year ended 31 December 2022 under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

The Company proposed to amend a new set of Articles of Association at the forthcoming annual general meeting of the Company to be held on 12 May 2023. The proposed amendments are subject to the passing of a special resolution by the shareholders of the Company. For more details, please refer to the announcement of the Company dated 21 March 2023.

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends pursuant to code provision F.1.1 of the CG Code that has become effective from 1 January 2019. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company do not have any pre-determined dividend payout ratio. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

SHAREHOLDER RIGHTS

How Shareholders can Convene an Extraordinary General Meeting and Put Forward Proposals at Shareholders' Meetings

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suites 4007-09, 40th Floor, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary by mail at Suites 4007-09, 40th Floor, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong. The company secretary forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, enquiries and customer complaints, to the Chief Executive Officer of the Company.

SHAREHOLDER RIGHTS (CONTINUED)

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

DIRECTORS' **REPORT**

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company for intermediate holding companies and operating subsidiaries of the Group and is also engaged in acquisitions of businesses from time to time. The Group is engaged in providing high-end family nutrition and care products, striving to be a global leader in the areas of premium nutrition and wellness through superior products and aspirational brands. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2022 are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2022 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 12 and pages 13 to 22, respectively, of this Annual Report.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2022 are set out in the consolidated financial statements on pages 93 to 99 of this Annual Report. The Board declared an interim dividend of HKD0.25 per ordinary share in respect of the six months ended 30 June 2022. The Directors recommended the payment of a final dividend of HKD0.38 per ordinary share for the year ended 31 December 2022 to be paid on or about Tuesday, 11 July 2023 to the shareholders whose names appear on the register of members of the Company on Monday, 22 May 2023. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the equity section of the statement of financial position.

The final dividend of HKD0.38 per ordinary share is subject to approval by the shareholders in the 2023 AGM to be held on Friday, 12 May 2023. Such dividends will be distributed from the retained profits of the Company. Details of the dividends for the year ended 31 December 2022 are set out in note 10 to the financial statements.

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.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2022 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2022 are set out in note 32 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2022 are set out in notes 45 and 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves, including the share premium account and contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Act**"), amounted to approximately RMB7,871.5 million, of which approximately RMB220.7 million have been proposed as a final dividend for the year. Details of the reserves of the Company as at 31 December 2022 are set out in note 45 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the years ended 31 December 2020, 2021 and 2022, the Group's donations to charity were RMB4.1 million, RMB4.2 million and RMB4.2 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on pages 208 of this Annual Report. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, sales to the Group's five largest customers accounted for less than 30% of the total revenue for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest customers of the Group.

For the year ended 31 December 2022, the largest supplier of the Group is Cooperative Isigny Sainte-Mère ("**ISM**"). ISM is a renowned French dairy company with advanced production technology and world presence, established in Normandy, a region with abundant natural resources (recognized milk source used in Isigny AOP products), in 1932.

Purchases by the Group from ISM accounted for 28.7% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers accounted for 56.0% of the total purchases of the Group for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2022 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. Luo Fei
Mr. Wang Yidong

Non-executive Directors

Mrs. Laetitia Albertini *(redesignated as a non-executive Director with effect from 1 January 2023)*
Dr. Zhang Wenhui
Mr. Luo Yun

Independent non-executive Directors

Mr. Tan Wee Seng
Mrs. Lok Lau Yin Ching
Mr. Wang Can *(resigned with effect from 31 December 2022)*
Professor Ding Yuan *(appointed with effect from 1 January 2023)*

In accordance with Article 83(3) of the Company's Articles of Association, Professor Ding Yuan was appointed by the Board to fill a casual vacancy. In accordance with Articles 84(1) and 84(2) of Company's Articles of Association, Mrs. Laetitia Albertini, Dr. Zhang Wenhui and Mr. Luo Yun shall retire from office by rotation. All of them, being eligible, will offer themselves for re-election at the 2023 AGM.

DIRECTORS' SERVICE CONTRACTS

All of the Directors have entered into a service contract/appointment letter with the Company, subject to rotation, retirement and re-election at the annual general meeting pursuant to the Articles. Key information of the service contracts are set out below:

Directors	Date of appointment	Last Re-election Date	Expiry date of current service contract/ appointment letter
Executive Directors			
Mr. Luo Fei	17 December 2010	13 May 2022	16 December 2023
Mr. Wang Yidong	26 March 2018	13 May 2021	25 March 2024
Non-executive Directors			
Mrs. Laetitia Albertini	26 March 2018	13 May 2021	25 March 2024
Dr. Zhang Wenhui	25 June 2012	13 May 2021	24 June 2024
Mr. Luo Yun	17 December 2010	8 May 2020	16 December 2023
Independent non-executive Directors			
Mr. Tan Wee Seng	17 December 2010	13 May 2022	16 December 2023
Mrs. Lok Lau Yin Ching	24 March 2020	13 May 2022	23 March 2023
Professor Ding Yuan	1 January 2023	N/A	31 December 2026

None of the Directors has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISIONS

The Articles of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the year ended 31 December 2022 and remained in force as of the date of this Annual Report. The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2022 are set out in note 8 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 23 to 28 of this Annual Report.

EMPLOYEES AND EMOLUMENT POLICY

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in the regions in which the Group operates, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted the Pre-IPO Share Option Scheme, the 2010 Share Option Scheme, the 2020 Share Option Scheme and the 2022 Share Award Scheme (each as defined below) for its employees.

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

As at 31 December 2022, the Group employed 3,372 employees. Further information please refer to our 2022 ESG report.

None of the Directors waived any emoluments during the year ended 31 December 2022.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with Rule 3.13.

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

As at 31 December 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 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 6)*
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)*	66.92%
Mr. Wang Yidong	Beneficial owner	Long position	164,164 *(Note 1)*	0.03%
	Beneficial owner	Long position	1,377,017 *(Note 2)*	0.21%
	Beneficial owner	Long position	793,845 *(Note 4)*	0.12%
Mrs. Laetitia Albertini	Beneficial owner	Long position	658,941 *(Note 1)*	0.10%
	Beneficial owner	Long position	1,598,097 *(Note 2)*	0.25%
	Beneficial owner	Long position	566,426 *(Note 4)*	0.08%
Mr. Luo Yun	Beneficiary of a trust (other than a discretionary interest)	Long position	432,000,000 *(Note 3)*	66.92%
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%
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%
Mr. Wang Can *(Note 5)*	Beneficial owner	Long position	100,000 *(Note 2)*	0.02%
	Beneficial owner	Long position	36,000 *(Note 4)*	0.01%

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 the 2010 Share Option Scheme.

Note 3: As at 31 December 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 100.00% 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. As at 31 December 2022, the number of awarded shares held by Mr. Wang Can was 120,000 before his resignation from office as independent non-executive Director of the Company. Among the 120,000 awarded shares, 84,000 were lapsed upon his resignation.

Note 5: Mr. Wang Can resigned from office as independent non-executive Directors of the Company with effect from 31 December 2022.

Note 6: As at 31 December 2022, the total number of the issued shares of the Company was 645,561,354.

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 31 December 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

During the year ended 31 December 2022 and up to the date of this Annual Report, on the Company's instructions, the trustee of the 2022 Share Award Scheme (as defined below) adopted by the Company on 11 January 2022 has purchased on the Stock Exchange a total of 6,536,500 ordinary shares at a total consideration of HK$75,757,375 in accordance with the rules of the 2022 Share Award Scheme.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options 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 the shareholders of the Company at the annual general meeting of the Company held on 8 May 2020. The purpose of the 2020 Share Option Scheme was to provide incentives and rewards to eligible participants who contribute to the success of the Group's. Eligible participants of the 2020 Share Option Scheme include the Company's Directors (including independent non-executive Directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholders in the Company's subsidiaries. The remaining life of the 2020 Share Option Scheme is approximately 7 years until 7 May 2030.

The maximum number of shares which may be issued upon exercise of all outstanding share options (the "**Share Options**") granted and yet to be exercised under the 2020 Share Option Scheme and any other schemes of the Group shall not exceed 30% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all Share Options to be granted under the 2020 Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10% of the total number of shares in issue of the Company as at the date of the annual general meeting of the Company held on 8 May 2020. The maximum number of shares issued and to be issued upon exercise of the Share Options granted to any eligible participant in the 2020 Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting.

Share Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HKD5 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

SHARE OPTION SCHEMES (CONTINUED)

2020 Share Option Scheme (continued)

The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a consideration of HKD1 by the grantee. The exercise period of the Share Options granted will be determined by the Board in its absolute discretion, save no Share Option may be exercised more than ten years after it has been granted on the date of acceptance of such Share Option. Subject to such terms and conditions as the Board may determine, there is no minimum period for which a Share Option must be held before it can be exercised.

The exercise price of Share Options is determined by the Board, 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.

The Share Options under the 2020 Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Particulars and movements of Share Options under the 2020 Share Option Scheme during the year ended 31 December 2022 by category of grantees were as follows:

			Number of Share Options					
Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Outstanding as at 1 January 2022	Granted during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Lapsed during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Outstanding as at 31 December 2022
Directors								
Mrs. Laetitia Albertini	30/11/2020	31.88	2,350,234	–	–	(1,130,463)	–	1,219,771
Mr. Wang Yidong	30/11/2020	31.88	988,154	–	–	(80,041)	–	908,113
Sub-total			3,338,388	–	–	(1,210,504)	–	2,127,884
Employees and others	30/11/2020	31.88	6,956,616	–	–	(2,207,193)	–	4,749,423
	13/07/2021	31.02	1,060,027	–	–	(188,172)	–	871,855
Sub-total			8,016,643	–	–	(2,395,365)	–	5,621,278
Total			11,355,031	–	–	(3,605,869)	–	7,749,162

No Share Options granted under 2020 Share Option Scheme were exercised and cancelled during the year ended 31 December 2022.

SHARE OPTION SCHEMES (CONTINUED)

2020 Share Option Scheme (continued)

All 12,729,256 Shares Options granted on 30 November 2020 shall vest in accordance with the timetable below with a 6-year exercise period subject to the satisfaction of vesting conditions in relation to certain performance targets as stipulated under the relevant grant letters (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 31 December 2022 was 64,405,486, representing approximately 9.98% of the Company's issued share capital as at 31 December 2022.

2010 Share Option Scheme

The Company operates a share option scheme (the "**2010 Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2010 Share Option Scheme include the Company's Directors (including independent non-executive Directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholders in the Company's subsidiaries. The 2010 Share Option Scheme was terminated with effect from 8 May 2020 upon the adoption of the 2020 Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all outstanding Share Options granted and yet to be exercised under the 2010 Share Option Scheme and any other schemes of the Group shall not exceed 30% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all Share Options to be granted under the 2010 Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10% of the total number of shares in issue of the Company as at the date of listing of the Company on the Main Board of the Stock Exchange (the "**Listing Date**"). The maximum number of shares issued and to be issued upon exercise of the Share Options granted to any eligible participant in the 2010 Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting.

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

Share Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HKD5 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a consideration of HKD1 by the grantee. The exercise period of the Share Options granted will be determined by the Board in its absolute discretion, save no Share Option may be exercised more than ten years after it has been granted on the date of acceptance of such Share Option. Subject to such terms and conditions as the Board may determine, there is no minimum period for which a Share Option must be held before it can be exercised.

The exercise price of Share Options is determined by the Board, 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.

The Share Options under the 2010 Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

Particulars and movements of Share Options under the 2010 Share Option Scheme during the year ended 31 December 2022 by category of grantees were as follows:

			Number of Share Options					
Category of Grantees	**Date of grant (DD/MM/YYYY)**	**Exercise price per Share (HKD)**	**Outstanding as at 1 January 2022**	**Granted during the year ended 31 December 2022**	**Exercised during the year ended 31 December 2022**	**Lapsed during the year ended 31 December 2022**	**Cancelled during the year ended 31 December 2022**	**Outstanding as at 31 December 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[1]	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	–	–	(90,579)	–	90,578
	24/08/2017	29.25	378,326	–	–	–	–	378,326
	15/11/2019	32.65	628,536	–	–	(628,536)	–	–
Sub-total			4,670,089	–	–	(2,829,857)	–	1,840,232
Employees and others	29/12/2015	15.58	1,348,744	–	(350,309)[2]	(187,463)	–	810,972
	30/09/2016	20.92	106,639	–	–	(61,587)	–	45,052
	23/12/2016	23.30	90,219	–	–	(26,851)	–	63,368
	19/04/2017	25.75	319,909	–	–	(27,441)	–	292,468
	07/07/2017	22.15	53,175	–	–	(8,981)	–	44,194
	24/08/2017	29.25	4,255,943	–	–	(1,470,910)	–	2,785,033
	05/12/2017	47.10	110,167	–	–	(70,505)	–	39,662
	20/04/2018	60.02	204,882	–	–	(88,009)	–	116,873
	26/07/2018	59.05	179,343	–	–	(32,283)	–	147,060
	28/09/2018	47.27	39,061	–	–	–	–	39,061
	29/03/2019	49.15	448,751	–	–	(35,029)	–	413,722
	09/07/2019	45.79	152,871	–	–	(71,548)	–	81,323
	15/11/2019	32.65	2,461,033	–	–	(2,461,033)	–	–
Sub-total			9,770,737	–	(350,309)	(4,541,640)	–	4,878,788
Total			14,440,826	–	(350,309)	(7,371,497)	–	6,719,020

Notes:

1 Mr. Wang Can resigned from office as independent non-executive Directors of the Company on 31 December 2022.

2. The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD16.79.

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 below 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).

Since the 2010 Share Option Scheme was terminated with effect from 8 May 2021, the total number of shares available for issue under the 2010 Share Option Scheme as at 31 December 2022 was the same as the number of outstanding Share Options, i.e. 6,719,020, representing approximately 1.04% of the Company's issued share capital as at 31 December 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 recognise the contributions by certain employees of the Group, to recognise 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.

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. Particulars of the number of shares available for grant under the 2022 Share Award Scheme mandate during the year ended 31 December 2022 are as follows:

	As at 1 January 2022	**As at 31 December 2022**
Shares available for grant under mandate	64,521,105	58,057,003

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.

There is no minimum vesting period requirement pursuant to the 2022 Share Award Scheme and the Selected Participants are not required to pay any amount of money as consideration for the vesting of the awarded shares.

SHARE AWARD SCHEME (CONTINUED)

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. The remaining life of the 2022 Share Award Scheme is approximately 9 years.

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

During the year ended 31 December 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 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 Stock Exchange at a total consideration of HKD75,757,375.

On 8 April 2022, a total of 6,205,102 awarded shares were granted to a total of 17 Selected Participants under the 2022 Share Award Scheme. The above grants of awarded shares to Directors and the employees who are directors of certain subsidiaries of the Company forms part of his/her remuneration under his/her service contract or appointment letter (as the case may be) entered into with the Company and therefore is exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rules 14A.73(6) and 14A.95 of the Listing Rules. The closing price of the shares of the Company immediately before date of grant was HKD11.9.

On 14 December 2022, a total of 259,000 awarded shares to 2 Selected Participants who are employees of the Group under the 2022 Share Award Scheme (who are not connected persons of the Company). The closing price of the shares of the Company immediately before date of grant was HKD13.88.

Particulars of Share Awards under the 2022 Share Award Scheme during the year ended 31 December 2022 by category of grantees were as follows:

			Number of Awarded Shares				
Category of Grantees	**Date of grant**	**Outstanding as at 1 January 2022**	**Granted during the year ended 31 December 2022**	**Vested during the year ended 31 December 2022**	**Lapsed during the year ended 31 December 2022**	**Cancelled during the year ended 31 December 2022**	**Outstanding as at 31 December 2022**
Directors							
Mrs. Laetitia Albertini	08/04/2022	–	1,888,087	–	(1,321,661)	–	566,426
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	–	(84,000)	–	36,000
Sub-total		–	3,041,932	–	(1,405,661)	–	1,636,271
Other employees	08/04/2022	–	3,163,170	–	(468,234)	–	2,694,936
	14/12/2022	–	259,000	–	–	–	259,000
Sub-total		–	3,422,170	–	(468,234)	–	2,953,936
Total		–	6,464,102	–	(1,873,895)	–	4,590,207

SHARE AWARD SCHEME (CONTINUED)

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

Vesting Date	Percentage of Share Awards to be vested
1 April 2023	30% of the total number of Share Awards granted
1 April 2024	30% of the total number of Share Awards granted
1 April 2025	40% of the total number of Share Awards granted

The awarded shares granted on 14 December 2022 shall vest in accordance with the following schedule:

Vesting Date	Number of Share Awards to be vested
1 April 2024	111,000
1 April 2025	148,000

The total number of shares available for issue under the 2022 Share Award Scheme as at 31 December 2022 was 57,808,894, representing approximately 8.95% of the Company's issued share capital as at 31 December 2022.

Value of Share Awards granted under the 2022 Share Award Scheme

The directors of the Company determine the fair value of the share awards as at the grant date, which is measured at the market price of the entity's shares, adjusted by the present value of the expected dividends per share during the vesting period.

For the year ended 31 December 2022, the weighted average fair value of share awards granted to directors and other employees are HKD11.09 (equivalent to RMB9.52) per share and HKD11.35 (equivalent to RMB9.75) per share respectively.

Significant judgement on parameters, such as share price at grant date, and risk-free interest rate, are required to be made by the directors to measure the fair value of the awarded shares, which are summarised below:

	2022	
	Awarded shares granted to directors	Awarded shares granted to other employees
Share price (HKD)	11.94-14.70	11.94-14.70
Risk-free interest rate (%)	1.61%-4.29%	1.61%-4.29%

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2022.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" above, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 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	66.92%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	66.92%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	66.92%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	432,000,000	66.92%
Templeton Asset Management Ltd.	Investment manager	Long position	32,474,620	5.03%
HSBC Holdings plc	Trustee	Long position	247,302,043	38.31%
	Interest in a controlled corporation	Long position	18,750	0.003%
	Custodian	Long position	4,464,500	0.69%

Note 1: As at 31 December 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 100.00% 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 31 December 2022, the total number of the issued shares of the Company was 645,561,354.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Save as mentioned above, as at 31 December 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.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceedings during the year ended 31 December 2022.

LOAN AND GUARANTEE

During the year ended 31 December 2022, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the controlling shareholders of the Company or their respective connected persons.

EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2022, the Company did not enter into any equity-linked agreement.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2022.

TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, no transaction, arrangement or contract of significance to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted at the end of the year or at any time during the year, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "**Prospectus**")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2022 and up to the date of the Annual Report, none of the Directors had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2022 are set out in Note 41 to the consolidated financial statements. Save as disclosed in this annual report, the transactions as set out therein do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES (CONTINUED)

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.

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 utilisation 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 annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE

Background

The Group had entered into a series of contractual arrangements with Guangzhou Mama100 E-commerce Limited (廣州市媽媽一百電子商務有限公司) ("**Mama100 E-commerce**") and its shareholders in order to conduct e-commerce businesses through Mama100 E-commerce since June 2014. On 31 October 2019, the Group entered into a series of contracts dated 31 October 2019 pursuant to which the Group was enabled to conduct e-commerce business through Mama100 E-commerce (the "**2019 Structure Contracts**", which include an exclusive management and consultancy service agreement, referred to hereinafter as the "**2019 Exclusive Management and Consultancy Service Agreement**") and the agreement dated 31 October 2019 entered into between the Company and Mama100 E-commerce, pursuant to which Mama100 E-commerce will provide e-commerce platform services to the Company and its subsidiaries (the "**2019 Platform Service Agreement**"), which became effective on 13 November 2019.

2022 Structure Contracts

On 28 October 2022, Ms. Kong Qingjuan, the sole registered shareholder of Mama100 E-commerce, entered into an equity interest transfer agreement dated 28 October 2022, pursuant to which Ms. Kong Qingjuan agreed to transfer all her equity interest in Mama100 E-commerce to Ms. Yang Wenyun (the "**Transfer**"). The Transfer was completed on 2 November 2022.

On the same day, the Group entered into the following agreements, which would take effect from the point in time at which the Guangzhou Huangpu AMR approves and issues the notice of approval in relation of the change of the sole shareholder and legal representative of Mama100 E-commerce to Ms. Yang Wenyun):

1. the Termination Agreements with all other parties to the respective 2019 Structure Contracts and the 2019 Platform Service Agreement, pursuant to which the parties thereto agreed that the respective 2019 Structure Contracts and the 2019 Platform Service Agreement shall be terminated; and

2. the 2022 Structure Contracts and the 2022 Platform Service Agreement to continue its control of Mama100 E-commerce after the termination of the 2019 Structure Contracts and the 2019 Platform Service Agreement.

Pursuant to the 2022 Structure Contracts:

(i) the Group is able to exercise control over Mama100 E-commerce;

(ii) the Group has the right to govern the management of Mama100 E-commerce;

(iii) the Group has the right to deal with the assets of Mama100 E-commerce;

(iv) the Group would have the right to acquire the entire equity interest in Mama100 E-commerce (as and when the PRC relevant rules and regulations allow it to do so);

(v) the Company is able to consolidate the financial results of Mama100 E-commerce into the Group's results; and

(vi) Ms. Yang Wenyun does not obtain or receive any financial or commercial benefits from her interest in Mama100 E-commerce under the 2022 Structure Contracts despite holding direct or indirect equity interests in Mama100 E-commerce.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Major provisions of the 2022 Structure Contracts

(1) 2022 Exclusive Management and Consultancy Service Agreement

Pursuant to the exclusive management and consultancy service agreement dated 28 October 2022 (the "**2022 Exclusive Management and Consultancy Service Agreement**") entered into between Guangzhou Hapai Information Technology Co., Ltd.* (廣州市合愛信息技術有限公司) ("**Guangzhou Hapai**"), an indirect wholly-owned subsidiary of the Company, and Mama100 E-commerce, Guangzhou Hapai has the exclusive right to provide management and consultancy services to Mama100 E-commerce.

Under the 2022 Exclusive Management and Consultancy Service Agreement, Guangzhou Hapai is entitled to charge Mama100 E-commerce quarterly for service fees at a range of 90% to 100% of the total amount of retained profit of Mama100 E-commerce for the corresponding period in accordance with the volume of the services provided because it is commercially agreed by both parties that the retained profit of Mama100 E-commerce is generated as a result of the management and consultancy services provided by Guangzhou Hapai, including technical service, network support, business consulting and other services, and therefore not less than 90% of the total amount of net profit of Mama100 E-commerce should be paid to Guangzhou Hapai. The reason for leaving a maximum of 10% of the total amount of retained profit in the reserve of Mama100 E-commerce is to meet the general working capital of Mama100 E-commerce for daily operation.

(2) 2022 Equity Interests Pledge Agreement

Pursuant to the equity interests pledge agreement dated 28 October 2022 (the "**2022 Equity Interests Pledge Agreement**") entered into by and between Guangzhou Hapai and Ms. Yang Wenyun, Ms. Yang Wenyun agreed to pledge all of her equity interest in Mama100 E-commerce to Guangzhou Hapai as security for the performance of the obligations under the relevant 2022 Structure Contracts until all such obligations are discharged to the satisfaction of Guangzhou Hapai.

(3) 2022 Exclusive Call Option Agreement

Pursuant to the exclusive call option agreement dated 28 October 2022 (the "**2022 Exclusive Call Option Agreement**") entered into by and among Guangzhou Hapai, Mama100 E-commerce and Ms. Yang Wenyun, Guangzhou Hapai is irrevocably entitled to, as and when permitted by applicable PRC laws and regulations, acquire the entire equity interest in Mama100 E-commerce held by Ms. Yang Wenyun for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by the then applicable PRC laws and regulations.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Major provisions of the 2022 Structure Contracts (continued)

(4) 2022 Business Management Agreement

Pursuant to the business management agreement dated 28 October 2022 (the "**2022 Business Management Agreement**") entered into by and among Guangzhou Hapai, Mama100 E-commerce and Ms. Yang Wenyun, among other things:

(i) Ms. Yang Wenyun will procure Mama100 E-commerce not to enter into any transaction which may materially affect its assets, business operation, human resources, rights and obligations, unless upon prior written consent from Guangzhou Hapai or any third party designated by Guangzhou Hapai;

(ii) Mama100 E-commerce and Ms. Yang Wenyun agree to strictly implement relevant proposals from Guangzhou Hapai from time to time in relation to Mama100 E-commerce's recruitment and dismissal of employee, business management, financial management and so on; and

(iii) Ms. Yang Wenyun agrees to, upon receiving any dividend or any other earnings or income from Mama100 E-commerce as its shareholder, immediately and unconditionally pay or transfer at nil consideration of all such earnings or income to Guangzhou Hapai.

(5) 2022 Power of Attorney and 2022 Undertaking

Pursuant to the 2022 Business Management Agreement, Ms. Yang Wenyun executed a power of attorney dated 28 October 2022 (the "**2022 Power of Attorney**") pursuant to which she irrevocably authorised Guangzhou Hapai to, among other things:

(i) exercise all his/her rights of shareholders and voting rights in Mama100 E-commerce, including but not limited to appointing the executive directors, general manager, chief financial officer and senior management personnel of Mama100 E-commerce; and

(ii) sell, transfer, pledge or otherwise deal in all or any of her equity interest in Mama100 E-commerce.

The executive directors of Guangzhou Hapai is entitled to authorise any person to exercise the rights which Guangzhou Hapai is authorised to exercise under the 2022 Power of Attorney.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Major provisions of the 2022 Structure Contracts (continued)

(5) 2022 Power of Attorney and 2022 Undertaking (continued)

In addition, Ms. Yang Wenyun executed the undertaking dated 28 October 2022 (the "**2022 Undertaking**") pursuant to which she irrevocably undertook, among other things, that:

(i) any successor to her shall hold the respective equity interest in Mama100 E-commerce subject to the conditions, requirements and obligations under the 2022 Undertaking and the 2022 Structure Contracts;

(ii) her equity interest in Mama100 E-commerce does not form part of the community property, and his/her decisions in relation to Mama100 E-commerce shall not be affected by her spouse;

(iii) she will neither, directly or indirectly (either on his/her own or through any other individual or legal entity), participate or engage in any business which is or may be in competition with the business of Mama100 E-commerce or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest between herself and Guangzhou Hapai;

(iv) in the event that she receives any asset in relation to the liquidation of Mama100 E-commerce, she agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Guangzhou Hapai such asset; and

(v) in the event that she receives any amount from Guangzhou Hapai or any third party in relation to the exercise of the call option under the 2022 Exclusive Call Option Agreement, he/she agrees to unconditionally return all such amount to Guangzhou Hapai or any third party designated by Guangzhou Hapai.

The spouse of Ms. Yang Wenyun also executed the spouse undertaking dated 28 October 2022 pursuant to which he irrevocably undertook, among other things, that:

(i) the equity interest in Mama100 E-commerce held by Ms. Yang Wenyun does not form part of the community property; and

(ii) any income arising in relation to such equity interest in Mama100 E-commerce shall be solely owned and disposed by Ms. Yang Wenyun and he will neither claim any rights to such income, nor participate in the management of the business operation of Mama100 E-commerce.

(6) 2022 Trademark License Agreement

Pursuant to the trademark license agreement dated 28 October 2022 (the "**2022 Trademark License Agreement**") entered into between Mama100 Hong Kong and Mama100 E-commerce, Mama100 Hong Kong licenses a registered trademark to Mama100 E-commerce at nil consideration.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

2022 Platform Service Agreement

In association with the 2022 Structure Contracts, the Group also entered into a new platform service agreement (the "**2022 Platform Service Agreement**") on 28 October 2022 for a term commencing from the date on which the point in time at which the Guangzhou Huangpu Administration for Market Regulation* (廣州市黃埔區市場監督管理局) approves and issues the notice of approval in relation of the change of the sole shareholder and legal representative of Mama100 E-commerce to Ms. Yang Wenyun, i.e. 2 November 2022, until termination.

Pursuant to the 2022 Platform Service Agreement entered into by and between the Company and Mama100 E-commerce, Mama100 E-commerce provides the following services to the Company and its subsidiaries:

(i) sales of goods for the Group's general trading and cross-border e-commerce through the internet;

(ii) promotion of the Group's products in general trading and cross-border e-commerce through the internet;

(iii) online-to-offline order delivery services for the Group's retail member stores;

(iv) provision of internet platform for interaction among consumers; and

(v) other platform services requested by the Company.

In consideration of providing the above services, the Company will pay the following service fees to Mama100 E-commerce:

(i) expenses incurred by Mama100 E-commerce in providing sales and promotion services to the Group; and

(ii) 1.3% settlement charge on sales of goods, representing the amount charged by the payment services utilised by Mama100 E-commerce.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Information of Mama100 E-commerce

Business

The current business model of Mama100 E-commerce under the 2022 Structure Contracts comprises O2O Business and B2C Business (as defined below). Under the O2O Business model:

- Mama100 E-commerce maintains and operates online platforms through (i) its self-owned website and mobile application, and (ii) online stores established on third parties' platforms including WeChat (微信). These online platforms are primarily utilised for online sales of the Group's products. Mama100 E-commerce itself does not own any of the Group's products, the products are owned by the baby specialty stores through purchases from the distributors of the Group.

- Once a customer places an order of products with any of Mama100 E-commerce's online platforms and makes respective payment to Mama100 E-commerce (mainly through online payment methods such Alipay (支付寶), online bank, etc.), Mama100 E-commerce will notify and refer the customer order to the baby specialty store located nearest to that customer, and such baby specialty store will arrange delivery of the ordered products to the said customer.

- Mama100 E-commerce will then make weekly or daily (depending on the requirement of the respective online platform) settlement with the relevant baby specialty stores by (i) forwarding the respective payments of ordered products it received from the customers to the relevant baby specialty stores (as the relevant product delivered to the customer was originally owned by the relevant baby specialty store, instead of Mama 100 E-commerce), and (ii) at the same time charging such baby specialty stores for service fees in respect of the referral of product orders and online services provided.

(the above business model is referred to as "**O2O Business**")

Mama100 E-commerce also maintained relevant cross-border e-commerce business registration at competent PRC authority, pursuant to which it is allowed to conduct cross border e-commerce businesses in the PRC. Such qualification allows Mama100 E-commerce to conduct its business-to-consumer business ("**B2C Business**") more effectively by enabling Mama100 E-commerce to conduct sales cross border. Under the B2C Business model:

- Similar to the O2O Business model, customers of the Group place orders for the Group's products with any of Mama100 E-commerce's online platforms and make payments for these orders via online payment methods to the relevant member of the Group which will supply the products ordered.

- Mama100 E-commerce will electronically inform the Group of the orders taken from the customers.

- The Group will arrange delivery of the products ordered directly to the customers according to the orders taken through Mama100 E-commerce, either through the Company's subsidiary in the PRC to consumers in the PRC or through the Company's subsidiaries outside of the PRC to consumers in the PRC.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Information of Mama100 E-commerce (continued)

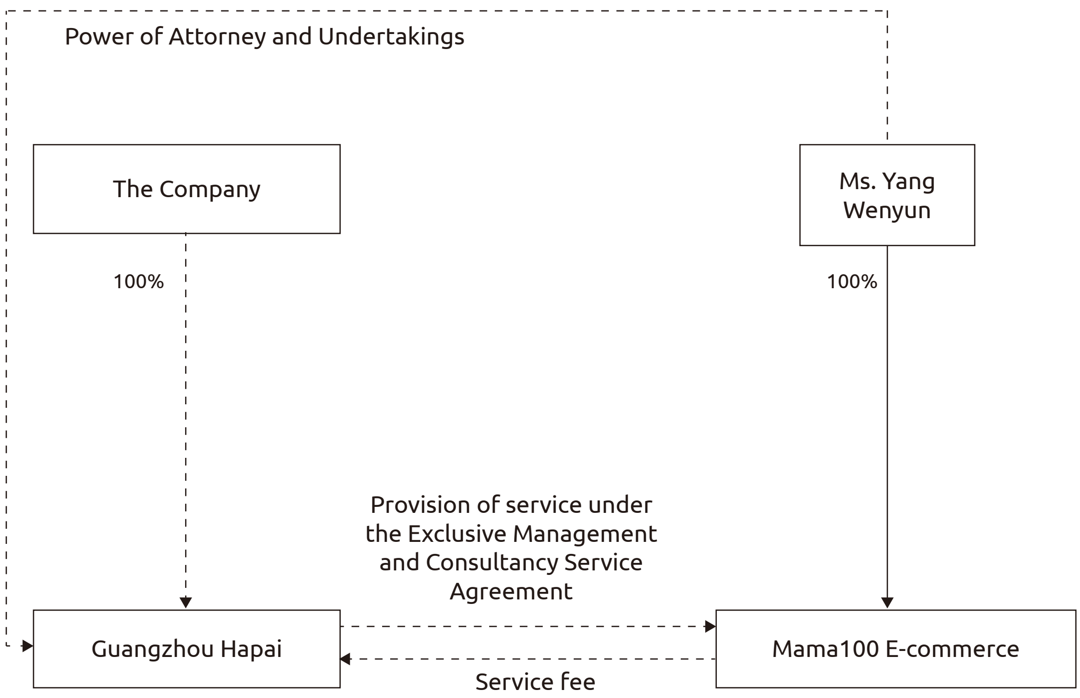
Financial Information

The unaudited key financial information for the year ended 31 December 2022 of Mama100 E-commerce is set out below:

	RMB
Total assets as at 31 December 2022	20,530,337.04
Revenue for the year ended 31 December 2022	1,048,479.66

Corporate Structure

The following chart illustrates the relationship among the Company, Guangzhou Hapai, Mama100 E-commerce and its shareholder in relation to the 2022 Structure Contracts (after the completion of the Transfer).



CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Reasons for use of the 2022 Structure Contracts and the 2022 Platform Service Agreement

Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2021 Edition) (外商投資准入特別管理措施（負面清單）（2021年版）) (the "**Negative List**") and the Catalog of Industries for Encouraging Foreign Investment (2020 Edition) (鼓勵外商投資產業目錄（2020年版）) (the "**Encouraging Catalog**"), which were promulgated and are amended from time to time jointly by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission (中華人民共和國發展與改革委員會). The Negative List and the Encouraging Catalog divide industries into three categories in terms of foreign investment, namely, "encouraged", "restricted" and "prohibited". Industries not listed in the Negative List and the Encouraging Catalog are generally deemed as falling into the fourth category "permitted".

Pursuant to the Negative List, provision of value-added telecommunications services falls within the "restricted" category. As such, the shareholding percentage of a foreign investor in companies engaged in value-added telecommunications services shall not exceed 50%. Moreover, pursuant to the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法), a provider of "operational internet information services" (namely services involving the provision of information or website-design services through the internet to internet-users for a fee) is required to obtain an ICP License. In addition, certain qualification requirements under the FITE Regulations would apply to such foreign investors which made direct ownership in the relevant PRC entities holding an ICP License infeasible.

Mama100 E-commerce holds an ICP License for the operation of value-added telecommunication services. Due to ownership restrictions and qualification requirements in the PRC applicable to foreign investors, the Group is not able to hold the equity interest of Mama100 E-commerce directly.

The 2022 Structure Contracts and the 2022 Platform Service Agreement would allow the Group to enhance the sales efficiency of the Group's products by baby specialty stores via the Internet at a low cost and accordingly substantially increase the sales volume of the Group's products to its distributors. Through co-operation with Mama100 E-commerce pursuant to the terms of the 2022 Structure Contracts, the Group is able to explore the e-commerce markets in China and make its distribution network more effective, thus strengthening the Group's market position in the baby, adult and pet nutrition and care products markets. In particular, the Group will continue to maintain financial and operational control of Mama100 E-commerce pursuant to the 2022 Structure Contracts, and the 2022 Platform Service Agreement will enable the Group to continue to enhance the sales efficiency of the Group's products and promotion via the internet.

CONTRACTUAL ARRANGEMENTS IN RELATION TO MAMA100 E-COMMERCE (CONTINUED)

Risks involved in the 2022 Structure Contracts

As the primary beneficiary of Mama100 E-commerce, the Group is exposed to the business risks and financial risks faced by Mama100 E-commerce. There is no assurance that Mama100 E-commerce will generate any profit which can be paid to the Group through the 2022 Exclusive Management and Consultancy Service Agreement and 2022 Business Management Agreement. Any profit or loss of Mama100 E-commerce (net of intra-group transactions) will be reflected in the consolidated financial results of the Group.

The exercise of the Exclusive Call Option Agreement is subject to applicable laws and regulations of the PRC. There is no assurance that the acquisition of the entire equity interests in Mama100 E-commerce held by Ms. Yang Wenyun under the Exclusive Call Option Agreement will be permitted in the future, or whether such acquisition will incur any costs and expenses to the Group in addition to the consideration stipulated under the Exclusive Call Option Agreement. Due to these limitations, the transfer of ownership in Mama100 E-commerce pursuant to the exercise of the call option under the Exclusive Call Option Agreement may still be subject to substantial costs. The Company's PRC legal advisor, Jingtian & Gongcheng has further advised that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations, which are subject to the discretion of competent PRC legislative, administrative and judicial authorities, and accordingly, there can be no assurance that the PRC regulatory authorities will ultimately take a view that is consistent with the opinion of the Company's PRC legal advisor, Jingtian & Gongcheng. Further, the 2022 Structure Contracts may not provide control over Mama100 E-commerce as effective as direct ownership; the registered shareholders of Mama100 E-commerce may have potential conflicts of interest with the Company; and the 2022 Structure Contracts may be subject to scrutiny of the tax authorities and additional tax may be imposed on the Group.

The Company believes that there are limited business insurance products available in the market, and to the best knowledge of our Directors, no insurance products specifically designed for protecting the risks relating to the 2022 Structure Contracts are available in the PRC market. Further, it is not compulsory for Mama100 E-commerce to maintain an insurance policy to cover risks relating to the 2022 Structure Contracts under the applicable PRC laws and regulations. Accordingly, the Group has not purchased any insurance to cover the above risks.

Internal control

The Company has put in place effective internal controls over Guangzhou Hapai and Mama100 E-commerce to safeguard its assets held through the 2022 Structure Contracts. As a wholly-owned subsidiary of the Company, Guangzhou Hapai is subject to all the internal control process and procedures applicable to the Group.

The operations of Mama100 E-commerce are exclusively controlled by Guangzhou Hapai through the 2022 Structure Contracts and the Group has applied its internal control processes and procedures to Mama100 E-commerce. In particular, pursuant to the 2022 Structure Contracts, (i) Guangzhou Hapai has the right to appoint, and has appointed, the directors, general manager, chief financial officer and other senior management of Mama100 E-commerce and Guangzhou Hapai has the right to hire and terminate employees of Mama100 E-commerce; (ii) the shareholders of Mama100 E-commerce are not allowed to dispose of any assets without the prior written consent of Guangzhou Hapai.

Material Change

Save as disclosed above, there has been no other material change in relation to, termination of or failure to terminate the contractual arrangements in relation to Mama100 E-commerce.

CONNECTED TRANSACTIONS

During the year ended 31 December 2022, save as the 2019 Exclusive Management and Consultancy Service Agreement and 2019 Platform Service Agreement disclosed below, the Group had not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended 31 December 2022, these transactions have been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *(Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *(Revised) Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued the unqualified letter containing their findings and conclusions in respect of all the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Details of the consideration paid in respect of all the continuing connected transactions during the year ended 31 December 2022 are set out as follows:

	Annual Caps for the year (in RMB)	**Consideration paid during the year (in RMB)**
2019 Exclusive Management and Consultancy Service Agreement	3,600,000	126,852
2019 Platform Service Agreement	9,200,000	644,671

AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") comprises three members, namely, Professor Ding Yuan (Chairman of the Audit Committee), Mr. Luo Yun and Mr. Tan Wee Seng (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 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 2021 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.

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 as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2022.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2022.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 29 to 53 of this Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2022.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

AUDITOR

The consolidated financial statements for the year ended 31 December 2022 have been audited by Ernst & Young who shall retire at the 2023 AGM. A resolution will be proposed at the 2023 AGM to re-appoint Ernst & Young as external auditor of the Company.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 21 March 2023

INDEPENDENT **AUDITOR'S REPORT**

EY 安永

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

OPINION

We have audited the consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 93 to 207, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	**How our audit addressed the key audit matter**
Impairment of goodwill and intangible assets with indefinite lives	
As at 31 December 2022, the Group recorded goodwill and intangible assets with indefinite lives of RMB7,684,093,000 and RMB4,332,980,000 respectively, which represented 37% and 21% of the total assets of the Group, respectively. The Group is required to perform annual impairment testing for goodwill and intangible assets with indefinite lives. Management performed impairment tests on these assets by using the discounted cash flow model as at 31 December 2022. During the year, impairment losses of RMB134,475,000 were recognised in relation to two cash-generating units under adult nutrition and care products segment and other pediatric products segment. This area was important to our audit due to significant judgement and estimates involved in the assessment of the recoverable amounts of these assets. This assessment required management to make assumptions to be used in the discounted cash flow model. The most critical assumptions were growth rates and discount rates. The disclosures about impairment testing of goodwill and intangible assets with indefinite lives are included in note 16 to these financial statements.	The audit procedures we performed, among others, included the following: • involving our valuation specialists to assist us in evaluating the methodologies, discount rates and long-term growth rates used by management, as appropriate, to estimate the recoverable amounts of goodwill and intangible assets; • evaluating the assumptions used by management and assessed the forecasts used with respect to future revenue and operating results by comparing the forecasts with the historic performance of the respective cash-generating units to which the goodwill or the intangible assets with indefinite lives were allocated to and their business development plans; • assessing the growth rates in sales by comparing them to the industry trend; • considering the sensitivity in the available headroom for the cash-generating units, evaluating whether reasonably possible changes in assumptions could cause the carrying amounts to exceed the recoverable amounts; and • considering the adequacy of the relevant disclosures in the Group's financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

Hedge accounting

The Group has entered into a series of cross currency swaps and cross currency interest rate swaps to hedge the Group's exposure to interest rate and foreign currency risks relating to its bank borrowings denominated in United States dollars or to hedge the Company's exposure to foreign currency risks relating to the investments in foreign operations.

For accounting purposes, the Group has applied cash flow hedges or hedges of net investments. In order to apply these hedges, the Group had to comply with a number of requirements in IFRSs, including:

- Designating and documenting both the hedging relationship and the Group's management objective and strategy for undertaking the hedge at the inception of the hedge;
- Performing prospective hedge effectiveness testing; and
- Recording any resulting effectiveness in other comprehensive income and ineffectiveness in profit or loss.

The accounting standards governing the criteria and application of hedge accounting are complex, and require significant judgement in their applications.

The disclosures about hedge accounting are included in note 28 to these financial statements.

How our audit addressed the key audit matter

The audit procedures we performed, among others, included the following:

- involving our valuation specialists to assist us in assessing the fair value of the aforesaid swaps;
- evaluating the Group's hedging policies in respect of its interest rate and foreign currency risk exposures;
- evaluating the hedge documentation prepared by management and assessing the hedge effectiveness tests prepared by management with the help of our valuation specialists on the inputs and methodology used by management in the tests; and
- considering the adequacy of the disclosures relating to the hedging relationship in these financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories	
As at 31 December 2022, the carrying amount of inventories was RMB2,587,701,000, after netting of the provision for impairment of RMB234,878,000. The provision for impairment mainly related to certain obsolete and slow-moving inventories. Significant management judgement was required in assessing whether there would be obsolete and slow-moving inventories at the year end. The specific factors considered by management in the estimation of the provision included types of inventories, conditions of the inventories, expiration dates of inventories, and the forecasted inventory usage and sales. The disclosures about the provision for impairment of inventories are included in notes 2.4 and 3 to these financial statements.	The audit procedures we performed, among others, included the following: • obtaining an understanding of management's process about how to identify the obsolete and slow-moving inventories and calculate the provision; • evaluating management's assumptions used to calculate the provision amount for obsolete and slow-moving inventories by checking the ageing of inventories and the subsequent usage and sales of inventories on a sampling basis; • testing samples of inventory items held by the Group to assess their cost and net realisable values; and • attending and observing management's inventory counts at major locations to assess the conditions of inventories.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Mee Kwan, Helena.

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

21 March 2023

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	6	**(525,659)**	(285,143)
Share of (losses)/profit of associates	19	**(21,633)**	932
PROFIT BEFORE TAX	7	**1,030,931**	850,213
Income tax expense	9	**(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)
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	11		
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	12	**388,382**	444,378
Right-of-use assets	13(a)	**142,720**	144,917
Goodwill	14	**7,684,093**	7,471,994
Intangible assets	15	**5,639,307**	5,572,436
Bonds receivable	17	**74,229**	72,197
Deposits	18	**61,842**	42,305
Investments in associates	19	**152,135**	67,712
Deferred tax assets	31	**637,800**	602,846
Derivative financial instruments	28	**128,081**	13,715
Other non-current financial assets	20	**195,017**	335,783
Total non-current assets		**15,103,606**	14,768,283
CURRENT ASSETS			
Inventories	21	**2,587,701**	2,087,720
Trade and bills receivables	22	**769,051**	739,257
Prepayments, other receivables and other assets	23	**179,304**	280,762
Derivative financial instruments	28	**8,936**	5,655
Restricted deposits	24	**10,767**	–
Cash and cash equivalents	24	**2,303,660**	2,400,070
Total current assets		**5,859,419**	5,513,464
CURRENT LIABILITIES			
Trade and bills payables	25	**1,340,970**	881,458
Other payables and accruals	26	**2,199,256**	2,175,358
Contract liabilities	27	**266,613**	264,215
Derivative financial instrument	28	**–**	104
Interest-bearing bank loans	29	**967,242**	3,125,737
Lease liabilities	13(b)	**21,960**	23,533
Senior notes	30	**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**

31 December 2022

	Notes	2022 RMB'000	2021 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	30	**1,886,148**	1,918,700
Interest-bearing bank loans	29	**6,695,491**	4,311,094
Lease liabilities	13(b)	**79,183**	79,049
Other payables and accruals	26	**5,287**	8,851
Derivative financial instruments	28	**183,749**	430,802
Deferred tax liabilities	31	**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	32	**5,519**	5,516
Other reserves	35	**5,915,617**	5,791,865
Proposed dividend	10	**220,717**	87,805
Total equity		**6,141,853**	5,885,186

Luo Fei
Director

Wang Yidong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Fair value reserve of financial assets through other comprehensive income RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total equity RMB'000
At 1 January 2022		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 year		-	-	-	-	-	-	-	-	-	-	-	-	611,783	-	611,783
Other comprehensive income/(loss) for the year:																
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	-	-	-	(38,307)	-	-	(38,307)
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	60,571	-	-	-	60,571
Hedges of net investments		-	-	-	-	-	-	-	-	62,220	-	-	-	-	-	62,220
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(29,788)	-	-	-	-	-	(29,788)
Exchange differences on net investments in foreign operations		-	-	-	-	-	-	-	-	(74,746)	-	-	-	-	-	(74,746)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	-	(42,314)	-	60,571	(38,307)	611,783	-	591,733
Shares issued for the equity-settled share option arrangements	33	3	5,996	-	-	-	-	(1,124)	-	-	-	-	-	-	-	4,875
Equity-settled share option arrangements	33	-	-	-	-	-	-	(64,773)	-	-	-	-	-	-	-	(64,773)
Equity-settled share award arrangements	34	-	-	-	-	-	-	-	20,231	-	-	-	-	-	-	20,231
Transfer of share option reserve upon the forfeiture or expiry of share options	33	-	-	-	-	-	-	(25,370)	-	-	-	-	-	25,370	-	-
Share purchased for the 2022 Share Award Schemes (as defined in note 34)	34	-	-	(61,776)	-	-	-	-	-	-	-	-	-	-	-	(61,776)
Final 2021 and 2022 interim dividend declared		-	-	-	-	-	-	-	-	-	-	-	-	(145,818)	(87,805)	(233,623)
Proposed final 2022 dividend	10	-	-	-	-	-	-	-	-	-	-	-	-	(220,717)	220,717	-
At 31 December 2022		5,519	694,991*	(61,777)*	26,992*	95*	382,665*	101,484*	20,231*	(518,217)*	(1,217,025)*	54,671*	(42,001)*	6,473,508*	220,717	6,141,853

* These reserve accounts comprise the consolidated other reserves of RMB5,915,617,000 (2021: RMB5,791,865,000) in the consolidated statement of financial position as at 31 December 2022.

CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2022

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus 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	Fair value reserve of financial assets through other comprehensive income RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total equity RMB'000
At 1 January 2021		5,510	673,589	(1)	26,992	95	382,651	168,275	(91,387)	(1,217,025)	(87,575)	166,214	5,966,004	209,345	6,202,687
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	508,484	-	508,484
Other comprehensive income/(loss) for the year:															
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	-	-	-	-	(169,908)	-	-	(169,908)
Cash flow hedges, net of tax		-	-	-	-	-	-	-			81,675	-	-	-	81,675
Hedges of net investments		-	-	-	-	-	-	-	(79,020)	-	-	-	-	-	(79,020)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(287,897)	-	-	-	-	-	(287,897)
Exchange differences on net investments in foreign operations		-	-	-	-	-	-	-	(17,599)	-	-	-	-	-	(17,599)
Total comprehensive (loss)/income for the year		-	-	-	-	-	-	-	(384,516)	-	81,675	(169,908)	508,484	-	35,735
Transfer to statutory reserve funds		-	-	-	-	-	14	-	-	-	-	-	(14)	-	-
Shares issued for the equity-settled share option arrangements		6	15,406	-	-	-	-	(3,580)	-	-	-	-	-	-	11,832
Equity-settled share option arrangements	33	-	-	-	-	-	-	42,450	-	-	-	-	-	-	42,450
Transfer of share option reserve upon the forfeiture or expiry of share options	33	-	-	-	-	-	-	(14,394)	-	-	-	-	14,394	-	-
Final 2020 and 2021 interim dividend declared		-	-	-	-	-	-	-	-	-	-	-	(198,173)	(209,345)	(407,518)
Proposed final 2021 dividend	10	-	-	-	-	-	-	-	-	-	-	-	(87,805)	87,805	-
At 31 December 2021		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

CONSOLIDATED **STATEMENT OF CASH FLOWS**

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,030,931**	850,213
Adjustments for:			
Bank interest income	5	**(16,879)**	(4,793)
Interest income from loans and bonds receivables	5	**(3,140)**	(7,089)
Finance costs	6	**525,659**	285,143
Gain on partial repurchase of the Senior Notes (as defined in note 30)	5	**(25,204)**	–
Share of losses/(profit) of associates	19	**21,633**	(932)
Depreciation of property, plant and equipment	7	**72,431**	82,229
Depreciation of right-of-use assets	7	**38,576**	47,143
Amortisation of intangible assets	7	**200,276**	176,103
Loss on disposal of items of property, plant and equipment and intangible assets	7	**8,071**	918
Gain on disposal of a leasehold land	7	**(3,399)**	–
Gains on revision of lease term or early termination of leases	7	**(3,175)**	(18,598)
Impairment of property, plant and equipment	7	**3,041**	–
Impairment of goodwill	7	**109,062**	76,000
Impairment of intangible assets	7	**25,413**	–
Impairment of trade receivables	7	**15,666**	18,926
Impairment of other receivables	7	**13,213**	–
Write-down of inventories to net realisable value	7	**249,229**	134,031
(Reversal of)/equity-settled share option expense	7	**(64,773)**	42,450
Equity-settled share award expense	7	**20,231**	–
Fair value (gains)/losses on derivative financial instruments, net	7	**(23,596)**	134,342
Fair value losses on other non-current financial assets	7	**26,443**	4,650
Foreign exchange (gains)/losses, net	7	**(76,669)**	146,705
		2,143,040	1,967,441
Increase in inventories		**(706,744)**	(164,125)
(Increase)/decrease in trade and bills receivables		**(33,371)**	41,743
Decrease in prepayments, other receivables and other assets		**88,394**	41,066
Decrease in rental deposits		**3,148**	2,748
Increase in restricted deposits	24	**(10,767)**	–
Increase in trade and bills payables		**430,108**	232,039
Increase in other payables and accruals		**29,679**	989
(Decrease)/increase in contract liabilities		**(1,567)**	101,789
Cash generated from operations		**1,941,920**	2,223,690
Corporate income tax paid		**(472,607)**	(333,610)
Net cash flows from operating activities		**1,469,313**	1,890,080

CONSOLIDATED **STATEMENT OF CASH FLOWS**

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Net cash flows from operating activities		**1,469,313**	1,890,080
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(44,890)**	(53,265)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**2,672**	9,221
Proceed from disposal of a leasehold land		**9,398**	–
Additions to intangible assets		**(51,361)**	(53,329)
Addition to other non-current financial assets		**(3,438)**	(131,934)
Addition to right-of-use assets		**(6,242)**	–
Acquisition of an associate	19	**(20,143)**	–
Acquisition of a subsidiary	36	**–**	(3,925,980)
Repayment of bonds receivable		**–**	133,649
Increase in time deposits with original maturity of three months or more when acquired		**(6,000)**	–
Interest received		**15,128**	11,052
Net cash flows used in investing activities		**(104,876)**	(4,010,586)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	32	**4,875**	11,832
New bank loans		**–**	3,513,790
Repayment of bank loans		**(383,651)**	–
Payment of transaction costs for refinancing loans		**(146,667)**	–
Payment for partial repurchase of the Senior Notes	30	**(183,209)**	–
Payment of lease liabilities	13(b)	**(40,976)**	(56,413)
Decrease in restricted deposits		**–**	4,416
Interest paid		**(474,630)**	(257,816)
Payment for certain CCSs (as defined in note 28)		**(17,761)**	(39,900)
Proceeds from the termination of certain CCSs		**47,617**	–
Dividends paid		**(233,623)**	(407,518)
Purchase of shares for the 2022 Share Award Scheme	34	**(61,776)**	–
Net cash flows (used in)/from financing activities		**(1,489,801)**	2,768,391
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(125,364)**	647,885
Cash and cash equivalents at beginning of year		**2,400,070**	1,830,873
Effect of foreign exchange rate changes, net		**22,954**	(78,688)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,297,660**	2,400,070
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**2,297,660**	2,400,070

31 December 2022

1. CORPORATE AND GROUP INFORMATION

Health and Happiness (H&H) International Holdings Limited (the "**Company**") is incorporated as an exempted company with limited liability in the Cayman Islands. The registered 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.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Health and Happiness (H&H) China Limited*#^	The People's Republic of China ("**PRC**")/ Mainland China	USD73,010,000	100%	–	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("**Biostime Health**")*#^	PRC/Mainland China	USD34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
Dodie Baby Products Inc. (Guangzhou)*	PRC/Mainland China	USD1,000,000	100%	–	Wholesale, retail and import and export of personal care products for infants
Biostime (Changsha) Nutrition Foods Limited ("**Biostime Changsha**")#	PRC/Mainland China	RMB301,664,588	–	100%	Manufacture of infant formula products
Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**")*	PRC/Mainland China	USD10,000,000	–	100%	Provision of software and information technology services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Mama100 E-commerce Co., Limited ("**Mama100 E-commence**")**	PRC/Mainland China	RMB2,000,000	–	100%	Online sales, provision of software and information technology services
New H2 Limited	PRC/Hong Kong Special Administrative Region ("**Hong Kong**")	HKD1	–	100%	International investment
Health and Happiness (H&H) Hong Kong Limited ("**H&H HK**")***	PRC/Hong Kong	HKD3,240,571,943 USD460,000,000	–	100%	Investment holding, international investment, and trading
Health and Happiness France	France	EUR15,872,414	–	100%	Trading and sale of baby products and organic baby food
Farmland Dairy Pty Ltd. ("**Farmland**")	Australia	AUD13,684,818	–	100%	Manufacture and distribution of infant formulas
Health and Happiness (H&H) Singapore PTE. Limited	Singapore	SGD100	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) (Thailand) Co., Ltd	Thailand	THB100,000,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Trading India Private Limited	India	INR200,100,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults

31 December 2022

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PT HEALTH AND HAPPINESS INDONESIA	Indonesia	IDR10,001,000,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Italy S.R.L	Italy	EUR10,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) UK Limited	United Kingdom	GBP4,646,559	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Inc.	America	USD18,024,784	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Taiwan Limited	PRC/Taiwan	TWD500,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Hainan Nutrition Products Limited*	PRC/Mainland China	RMB1,500,000	–	100%	Trading and sale of pet food

31 December 2022

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Health and Happiness (H&H) Malaysia Sdn.Bhd.	Malaysia	MYR1,000,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Solid Gold Pet, LLC ("**Solid Gold**")	America	USD100,000	–	100%	Trading and sale of pet food
Zesty Paws, LLC ("**Zesty Paws**")^	America	USD1,935,000	–	100%	Trading and sale of nutritional supplements for pets
Health and Happiness (H&H) Research Limited	Ireland	EUR1	–	100%	Research and development of nutritional products
Biostime Pharma	France	EUR13,206,000	100%	–	Research and development of nutritional products
H&H Group DMCC	United Arab Emirates	AED50,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness Pty Ltd. ***^	Australia	AUD100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness Pty Ltd. #	New Zealand	NZD10,100	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Swisse China Limited***^	PRC/Hong Kong	HKD1	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness (Guangzhou) Limited*	PRC/Mainland China	RMB1,500,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
S W Translink Packaging Pty Ltd.	Australia	AUD1	–	100%	Packaging service

* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.

** As a result of the contractual arrangements, the Group is exposed, or has rights, to variable returns from its involvement with Mama100 E-commerce and has the ability to affect those returns through its power over Mama100 E-commerce. Therefore, the Group considers that it controls Mama100 E-commerce.

*** These subsidiaries have guaranteed both the Senior Notes and interest-bearing loans of the Group.

These subsidiaries have guaranteed the Group's interest-bearing loans.

^ Shares of these subsidiaries are pledged for the Group's interest-bearing bank loans.

The currency abbreviations shown in the list above stand for the following currencies:

USD stands for United States dollars;
RMB stands for Renminbi;
HKD stands for Hong Kong dollars;
EUR stands for Euro;
AUD stands for Australian dollars;
NZD stands for New Zealand dollars;
SGD stands for Singapore dollars;
GBP stands for Great British pounds;
THB stands for Thai baht;
TWD stands for New Taiwan dollars;
IDR stands for Indonesia rupiah;
MYR stands for Malaysian ringgit;
INR stands for Indian rupee; and
AED stands for United Arab Emirates dirham.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 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.

2.2 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.

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 IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) 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* (the "**Conceptual Framework**") issued in March 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 were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) 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 as determined by IAS 2 Inventories, 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. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) *Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is 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 from 1 January 2022. The amendment did not have significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "**2020 Amendments**")*[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "**2022 Amendments**")*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The amendments are not expected to have any significant impact on the Group's financial statements.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associate are included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("**CGU**"s), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its derivative financial instruments and other non-current financial assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual CGU if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of CGUs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	9% to 25%
Furniture, fixtures and office equipment	7.5% to 50%
Motor vehicles	18% to 25%
Leasehold improvements	7.5% to 38%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, leasehold improvements and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademark and brand name with indefinite lives and distribution rights, are stated at cost less any impairment losses, and are not amortised.

Each of the following intangible assets with finite life is stated at cost less any impairment losses and is amortised on the straight-line basis to write off the cost of each of these intangible assets over its respective estimated useful life of:

	Years
Licence	14.5-18
Customer relationships	5-14
Direct to Consumer e-commerce platform ("**D2C E-commerce Platform**")	10
Unpatented product formula	15
Product registrations	14-15
Computer software and others	5

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

	Years
Leasehold land	38-50
Buildings	1-10
Plant and machinery	2-5
Vehicles and office equipment	1-10
Supplier contract	5.5

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, derivative financial instruments, senior notes, lease liabilities and interest-bearing bank loans.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, cross currency swaps and cross currency interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.

- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying strict criteria for hedge accounting are accounted for as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Hedges of net investments

Hedges of net investments in foreign operations, including hedges of a monetary item that are accounted for as part of the net investments, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operations, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

The Group is a provider of premium pediatric nutrition and baby care products, adult nutrition and care products and pet nutrition and care products. These products are sold on their own in separately identified contracts with customers.

Revenue from the sale of the Group's products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of these products.

Some contracts for the sale of the Group's products provide customers with rights of return and sales rebates. The rights of return and sales rebates give rise to variable consideration.

(i) *Rights of return*

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) *Sales rebates*

Sales rebates may be provided to certain customers once the amount of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a sales threshold and the expected value method for contracts with more than one sales threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the sales thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customers).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to the expected level of returns, and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Company operates three share option schemes and two share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 33 and 34 to these financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and shares held for the share award schemes are reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 10 to these financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The functional currency of the Company is the HKD while the presentation currency of the Company for the financial statements is the RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the Company's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of the entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the method to estimate variable consideration and assessing the constraint for the sale of the Group's products

Certain contracts for the sale of the Group's products include a right of return and sales rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method depending on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of the Group's products with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of its products with rebates, the Group determined that using a combination of the most likely amount method and the expected value method is appropriate. The selected method that better predicts the amount of variable consideration related to sales rebates is primarily driven by the number of sales amount contained in the contract. The most likely amount method is used for those contracts with a sales threshold, while the expected value method is used for contracts with more than one sales threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Monetary item designated as the Company's net investment in a foreign operation

Inter-company loans provided by the Company to foreign operations have been designated as the Company's net investments in foreign operations as the directors consider that the Company will not demand for repayment of these inter-company loans from the foreign operations in the foreseeable future.

If the inter-company loans are considered to be repaid in the foreseeable future and are not designated as the Company's net investments in foreign operations, the foreign exchange difference included in other expenses for the year would have been increased by RMB74,746,000 while the exchange differences on net investments in foreign operations recognised in other comprehensive loss would be decreased by the same amount.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes worldwide. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for returns and sales rebates

The Group estimates variable consideration to be included in the transaction price for the sale of its products with rights of return and sales rebates.

The Group has developed a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected sales rebates are analysed on a per customer basis for contracts that are subject to a single sales threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group has applied a statistical model for estimating expected sales rebates for contracts with more than one threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Variable consideration for returns and sales rebates (continued)

The Group updates its assessment of expected returns and sales rebates monthly and the refund liabilities are adjusted accordingly. Estimates of expected returns and sales rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of the customers' actual returns and rebate entitlements in the future. As at 31 December 2022, the amount recognised as refund liabilities included in other payables and accruals was RMB761,715,000 (2021: RMB777,509,000) for the expected returns and sales rebates.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements. As at 31 December 2022, an impairment of goodwill of RMB109,062,000 (2021: RMB76,000,000) was charged to profit or loss.

Impairment of intangible assets with indefinite useful lives

The Group determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the intangible assets with indefinite useful lives. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the trademarks, brand names and distribution rights and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements. As at 31 December 2022, an impairment of trademark and brand names of RMB25,413,000 (2021: Nil) was charged to profit or loss.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Provision for obsolete and slow-moving inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for inventory items identified to be no longer suitable for sale. The assessment of the provision amount required involves management judgements and estimates. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which the estimate has been changed.

As at 31 December 2022, the carrying amount of inventories was approximately RMB2,587,701,000 (2021: RMB2,087,720,000) after netting off the allowance for inventories of approximately RMB234,878,000 (2021: RMB166,687,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was RMB68,039,000 (2021: RMB80,090,000). As at 31 December 2022, deferred tax assets of RMB36,667,000 (2021: RMB67,855,000) have not been recognised in respect of tax losses of the Group. Further details are contained in note 31 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Fair value of other non-current financial assets and derivative financial instruments

Where fair value of osther non-current financial assets and derivative financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement including considerations of inputs such as liquidity risk, credit spread and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. The fair values of the Group's other non-current financial assets and derivative financial instruments are disclosed in note 20 and note 28 to these financial statements, respectively.

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.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 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 RMB'000	2021 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 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.

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2022 RMB'000	2021 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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(i) Disaggregated revenue information (continued)

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(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 sales rebates which give rise to variable consideration subject to constraint.

Other income and gains

	2022 RMB'000	2021 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 sale of raw materials	**23,882**	25,745
Gains from sale of scraps	**12,895**	–
Gain on disposal of a leasehold land	**3,399**	–
Gains on revision of lease term or early termination of leases	**3,175**	18,598
Gains on 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. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank loans and senior notes	**524,192**	256,040
Interest on lease liabilities (note 13(b))	**6,100**	7,699
Write-off of unamortised transaction costs and losses on modification upon refinancing of interest-bearing bank loans	**31,851**	–
Amortised (gain)/loss of interest rate hedge in relation to previous term loan	**(36,484)**	21,404
	525,659	285,143

7. PROFIT BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		4,823,197	4,165,812
Depreciation of property, plant and equipment	12	72,431	82,229
Depreciation of right-of-use assets	13(a)	38,576	47,143
Amortisation of intangible assets	15	200,276	176,103
Auditor's remuneration		10,429	8,468
Research and development costs**		158,188	143,955
Lease payments not included in the measurement of lease liabilities	13(c)	18,527	13,424
Gains on revision of lease term or early termination of leases*	5	(3,175)	(18,598)
Gain on disposal of a leasehold land*	13(c)	(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) (note 8(a)):			
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	33	(64,773)	42,450
Equity-settled share award expense	34	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	28	(23,596)*	134,342**
Fair value losses on other non-current financial assets**		26,443	4,650
Impairment of property, plant and equipment**	12	3,041	–
Impairment of goodwill**	14	109,062	76,000
Impairment of intangible assets **	15	25,413	–
Impairment of trade receivables**	22	15,666	18,926
Impairment of other receivables**	23	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##	6	(36,484)	21,404
Gain on partial repurchase of the Senior Notes*	5	(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.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	**6,400**	6,400
Other emoluments:		
Salaries, allowances and benefits in kind	**20,924**	18,806
Performance-related bonuses	**24,337**	15,032
(Reversal of)/equity-settled share option expense	**(33,228)**	15,990
Equity-settled share award expense	**8,817**	–
Pension scheme contributions	**8,877**	243
Termination benefits	**6,794**	–
	36,521	50,071
	42,921	56,471

During the year and in prior years, share options and share awards were granted to certain directors and chief executive in respect of their services to the Group, further details of which are set out in notes 33 and 34 to these financial statements, respectively. The fair values of these options, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and chief executive's remuneration (continued)

The remuneration of each of the directors and the chief executive for the year ended 31 December 2022 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Reversal of equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions# RMB'000	Termination costs RMB'000	Total RMB'000
2022								
Executive directors:								
Mr. Luo Fei	800	2,969	–	–	–	23	–	3,792
Mrs. Laetitia Albertini* *(Chief executive)*	800	12,607	18,356	(28,102)	4,205	8,648	6,794	23,308
Mr. Wang Yidong	800	5,348	5,981	(5,126)	3,337	206	–	10,546
	2,400	20,924	24,337	(33,228)	7,542	8,877	6,794	37,646
Non-executive directors:								
Mr. Luo Yun	800	–	–	–	–	–	–	800
Dr. Zhang Wen hui	800	–	–	–	–	–	–	800
	1,600	–	–	–	–	–	–	1,600
Independent non-executive directors:								
Mr. Tan Wee Seng	800	–	–	–	504	–	–	1,304
Mrs. Lok Lau Yin Ching	800	–	–	–	504	–	–	1,304
Mr. Wang Can**	800	–	–	–	267	–	–	1,067
	2,400	–	–	–	1,275	–	–	3,675
	6,400	20,924	24,337	(33,228)	8,817	8,877	6,794	42,921

* Mrs. Laetitia Albertini, an executive director and the chief executive officer of the Company, has ceased to be the chief executive officer of the Company with effect from 31 December 2022 and will be redesignated as a non-executive director with effect from 1 January 2023.

** Mr. Wang Can, has resigned from the board of directors and ceased to be the chairman of the audit committee with effect from 31 December 2022 and Mr. Ding Yuan has been appointed as an independent non-executive Director and the chairman of the Audit Committee with effect from 1 January 2023.

The pension scheme contributions include the costs for social security plans paid to France social security directly.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and chief executive's remuneration (continued)

The remuneration of each of the directors and the chief executive for the year ended 31 December 2021 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2021						
Executive directors:						
Mr. Luo Fei	800	2,868	–	343	22	4,033
Mrs. Laetitia Albertini *(Chief executive)*	800	11,009	11,259	11,440	22	34,530
Mr. Wang Yidong	800	4,929	3,773	4,207	199	13,908
	2,400	18,806	15,032	15,990	243	52,471
Non-executive directors:						
Mr. Luo Yun	800	–	–	–	–	800
Dr. Zhang Wen hui	800	–	–	–	–	800
	1,600	–	–	–	–	1,600
Independent non-executive directors:						
Mr. Tan Wee Seng	800	–	–	–	–	800
Mrs. Lok Lau Yin Ching	800	–	–	–	–	800
Mr. Wang Can	800	–	–	–	–	800
	2,400	–	–	–	–	2,400
	6,400	18,806	15,032	15,990	243	56,471

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Five highest paid employees

The five highest paid employees during the year included two (2021: two) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	8,918	9,539
Performance-related bonuses	11,627	6,850
(Reversal of)/equity-settled share option expense	(2,056)	6,737
Equity-settled share award expense	4,316	–
Pension scheme contributions	122	445
	22,927	23,571

The number of non-director and non-chief executive highest paid employees whose remusneration fell within the following bands is as follows:

	Number of employees 2022	2021
HKD8,000,000 to HKD8,500,000	1	–
HKD8,500,001 to HKD9,000,000	1	1
HKD9,000,001 to HKD9,500,000	–	–
HKD9,500,001 to HKD10,000,000	1	1
HKD10,000,001 to HKD10,500,000	–	1
	3	3

During the year and in prior years, share options and share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in notes 33 and 34 to these financial statements, respectively. The fair values of these share options, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amount included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

	2022 RMB'000	2021 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 (note 31)	**(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. Guangzhou Hapai and Biostime Health, 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 years ended 31 December 2022 and 2021.

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.

9. INCOME TAX (CONTINUED)

Australia corporate income tax (continued)

Tax consolidation legislation (continued)

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.

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

	2022 RMB'000	2021 RMB'000
Profit before tax	1,030,931	850,213
Tax at the applicable PRC enterprise income tax rate	257,733	212,553
Overseas tax differences	(22,004)	(42,831)
Tax effects on preferential tax rates	(33,641)	(43,896)
Expenses not deductible for tax	154,574	161,669
Tax incentive on eligible expenses	(5,625)	–
Tax losses utilised from previous periods	(1,810)	(2,396)
Income not subject to tax	(31,504)	(17,680)
Tax losses not recognised	36,667	67,855
Tax on internal transfer of assets	33,834	–
Adjustment in respect of current tax of previous periods	(789)	(2,279)
Effect of withholding tax at 5% (2021: 5%) on the distributable profits of the Group's subsidiaries in mainland China	31,713	8,734
Tax charge at the Group's effective rate	419,148	341,729

10. DIVIDENDS

	2022 RMB'000	2021 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.

11. 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 RMB'000	2021 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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2022	275,568	383,862	161,808	14,114	117,187	23,759	976,298
Additions	31	2,108	7,783	1,073	12,739	3,522	27,256
Disposals	–	(10,706)	(25,915)	(2,805)	(3,660)	(1,018)	(44,104)
Transfers	–	–	558	–	–	(558)	–
Exchange realignment	–	1,633	2,304	29	567	851	5,384
At 31 December 2022	275,599	376,897	146,538	12,411	126,833	26,556	964,834
Accumulated depreciation and impairment:							
At 1 January 2022	90,830	225,168	125,482	8,887	81,553	–	531,920
Depreciation provided during the year (note 7)	13,348	38,942	11,464	1,363	7,314	–	72,431
Impairment for this year (note 7)	–	–	–	–	–	3,041*	3,041
Disposals	–	(7,827)	(21,454)	(2,544)	(2,332)	-	(34,157)
Exchange realignment	–	1,425	1,250	28	514	-	3,217
At 31 December 2022	104,178	257,708	116,742	7,734	87,049	3,041	576,452
Net carrying amount:							
At 31 December 2022	171,421	119,189	29,796	4,677	39,784	23,515	388,382

During the year ended 31 December 2022, an impairment of RMB3,041,000 was provided in respect of a leasehold improvement project in progress related to pet food with a carrying amount of RMB3,041,000. The Group terminated the project and the directors of the Group assessed the recoverable amount of these assets was nil and made full provision on their carrying value, by taking into account the fact that no future economic benefits are expected either from its use or disposal of those assets.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	275,568	314,369	160,124	17,157	112,225	28,659	908,102
Additions	–	58,737	12,293	1,407	8,907	25,934	107,278
Acquisition of a subsidiary (note 36)	–	–	684	–	–	–	684
Disposals	–	(412)	(11,076)	(4,329)	(6,885)	(29)	(22,731)
Transfers	–	17,971	5,871	–	5,560	(29,402)	–
Exchange realignment	–	(6,803)	(6,088)	(121)	(2,620)	(1,403)	(17,035)
At 31 December 2021	275,568	383,862	161,808	14,114	117,187	23,759	976,298
Accumulated depreciation:							
At 1 January 2021	77,488	186,714	117,186	11,715	81,103	–	474,206
Depreciation provided during the year (note 7)	13,342	44,771	14,232	1,184	8,700	–	82,229
Acquisition of a subsidiary (note 36)	–	–	123	–	–	–	123
Disposals	–	(81)	(2,696)	(3,892)	(6,229)	–	(12,898)
Exchange realignment	–	(6,236)	(3,363)	(120)	(2,021)	–	(11,740)
At 31 December 2021	90,830	225,168	125,482	8,887	81,553	–	531,920
Net carrying amount:							
At 31 December 2021	184,738	158,694	36,326	5,227	35,634	23,759	444,378

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, buildings, plant and machinery, vehicles and office equipment. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 38 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings have varying lease terms of 1 to 10 years. Leases of plant and machinery generally have lease terms between 2 and 5 years, while vehicles and office equipment generally have lease terms between 1 and 10 years. The Group identified a lease embedded within a supplier contract for packaging and production for their operations, the obligations to which are expected to expire within 5.5 years.

The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and office equipment RMB'000	Supplier contract RMB'000	Total RMB'000
As at 1 January 2021	55,853	84,246	6,280	4,651	18,561	169,591
Additions	–	40,449	275	480	–	41,204
Depreciation charge (note 7)	(1,478)	(36,135)	(1,409)	(3,003)	(5,118)	(47,143)
Early termination of leases	–	(13,527)	–	–	–	(13,527)
Exchange realignment	–	(3,239)	(441)	(306)	(1,222)	(5,208)
As at 31 December 2021 and 1 January 2022	**54,375**	**71,794**	**4,705**	**1,822**	**12,221**	**144,917**
Additions	**6,242**	**40,928**	**–**	**4,387**	**–**	**51,557**
Depreciation charge (note 7)	**(1,509)**	**(26,658)**	**(1,311)**	**(4,170)**	**(4,928)**	**(38,576)**
Early termination of leases	**–**	**(8,811)**	**–**	**–**	**–**	**(8,811)**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**–**	**(867)**	**–**	**–**	**–**	**(867)**
Disposal	**(5,999)**	**–**	**–**	**–**	**–**	**(5,999)**
Exchange realignment	**–**	**174**	**80**	**53**	**192**	**499**
As at 31 December 2022	**53,109**	**76,560**	**3,474**	**2,092**	**7,485**	**142,720**

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13. LEASES (CONTINUED)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**102,582**	149,108
New leases	**45,315**	41,204
Early termination of leases	**(12,548)**	–
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(305)**	(32,125)
Accretion of interest recognised during the year (note 6)	**6,100**	7,699
Payments	**(40,976)**	(56,413)
Exchange realignment	**975**	(6,891)
Carrying amount at 31 December	**101,143**	102,582
Analysed into:		
Current portion	**21,960**	23,533
Non-current portion	**79,183**	79,049

The maturity analysis of lease liabilities is disclosed in note 44 to these financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**6,100**	7,699
Depreciation charge of right-of-use assets	**38,576**	47,143
Gains on revision of a lease term and early termination of leases (note 7)	**(3,175)**	(18,598)
Gain on disposal of a leasehold land (note 7)	**(3,399)**	–
Expense relating to short-term leases and leases of low-value assets (note 7)	**18,527**	13,424
Total amount recognised in profit or loss	**56,629**	49,668

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 37(c) and 40(b), respectively, to these financial statements.

14. GOODWILL

	2022 RMB'000	2021 RMB'000
At 1 January		
Cost	7,547,994	6,003,809
Accumulated impairment	(76,000)	–
Net carrying amount	7,471,994	6,003,809
Cost at 1 January, net of accumulated impairment	7,471,994	6,003,809
Acquisition of a subsidiary (note 36)	–	2,011,782
Impairment during the year (note 7)	(109,062)	(76,000)
Exchange realignment	321,161	(467,597)
Net carrying amount at 31 December	7,684,093	7,471,994
At 31 December		
Cost	7,869,155	7,547,994
Accumulated impairment	(185,062)	(76,000)
Net carrying amount at 31 December	7,684,093	7,471,994

Impairment testing of goodwill

During the year ended 31 December 2022, impairment losses of RMB102,631,000 and RMB6,431,000 were provided on 2 CGUs under the adult nutrition and care products segment and the baby care products segment, respectively (2021: an impairment loss RMB76,000,000 on a CGU under the infant formulas segment).

Details of the impairment testing of goodwill have been set out in note 16 to these financial statements.

15. INTANGIBLE ASSETS

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	D2C E-commerce platform RMB'000	Unpatented products formula RMB'000	Distribution rights* RMB'000	Product registrations RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2022	3,606,232	226,366	1,675,351	31,026	55,995	556,512	4,402	119,652	6,275,536
Additions	35	–	–	–	1,749	–	–	29,876	31,660
Disposal	–	–	–	–	(564)	–	–	(1,821)	(2,385)
Exchange realignment	195,614	2,419	79,814	(765)	1,126	–	(30)	3,128	281,306
At 31 December 2022	3,801,881	228,785	1,755,165	30,261	58,306	556,512	4,372	150,835	6,586,117
Accumulated amortisation and impairment:									
At 1 January 2022	–	72,950	529,913	9,306	22,364	–	1,144	67,423	703,100
Amortisation provided during the year (note 7)	–	14,258	154,640	3,659	5,321	–	219	22,179	200,276
Impairment during the year (note 7)	25,413	–	–	–	–	–	–	–	25,413
Disposal	–	–	–	–	(361)	–	–	(1,228)	(1,589)
Exchange realignment	–	533	16,251	(187)	519	–	(25)	2,519	19,610
At 31 December 2022	25,413	87,741	700,804	12,778	27,843	–	1,338	90,893	946,810
Net carrying amount:									
At 31 December 2022	3,776,468	141,044	1,054,361	17,483	30,463	556,512	3,034	59,942	5,639,307

15. INTANGIBLE ASSETS (CONTINUED)

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	D2C E-commerce platform RMB'000	Unpatented products formula RMB'000	Distribution rights* RMB'000	Product registrations RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2021 (restated)	2,423,443	236,824	1,385,412	32,049	55,837	556,512	4,346	97,367	4,791,790
Additions	2,147	–	–	–	5,101	–	96	23,676	31,020
Acquisition of a subsidiary (note 36)	1,367,538	–	380,653	–	–	–	–	2,525	1,750,716
Disposal	(303)	–	–	–	–	–	–	(59)	(362)
Exchange realignment	(186,593)	(10,458)	(90,714)	(1,023)	(4,943)	–	(40)	(3,857)	(297,628)
At 31 December 2021	3,606,232	226,366	1,675,351	31,026	55,995	556,512	4,402	119,652	6,275,536
Accumulated amortisation:									
At 1 January 2021	–	60,313	433,733	6,409	19,485	–	850	46,439	567,229
Amortisation provided during the year (note 7)	–	14,616	130,154	3,199	4,625	–	306	23,203	176,103
Acquisition of a subsidiary (note 36)	–	–	–	–	–	–	–	374	374
Disposal	–	–	–	–	–	–	–	(56)	(56)
Exchange realignment	–	(1,979)	(33,974)	(302)	(1,746)	–	(12)	(2,537)	(40,550)
At 31 December 2021	–	72,950	529,913	9,306	22,364	–	1,144	67,423	703,100
Net carrying amount:									
At 31 December 2021	3,606,232	153,416	1,145,438	21,720	33,631	556,512	3,258	52,229	5,572,436

* Trademark, brand name and distribution rights are regarded as having indefinite useful lives as they are expected to generate net cash inflows to the Group indefinitely. As at 31 December 2022 and 2021, these intangible assets with indefinite useful lives were tested for impairment. For the year ended 31 December 2022, an impairment loss of RMB25,413,000 was provided on the trademark and brand name of a CGU under the adult nutrition and care products segment, details of which have been set out in note 16 to these financial statements.

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and trademarks with indefinite useful lives acquired through business combinations have been allocated to individual CGUs under the following five categories.

– Infant formulas;

– Adult nutrition and care products;

– Dried baby food and nutrition supplements;

– Baby care products; and

– Pet nutrition and care products.

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16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The respective carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to the different CGUs, being the acquired companies or brands, are set out below:

	2022		2021	
	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000
Infant formulas				
– Healthy Times™	42,710	32,909	39,098	30,847
– Biostime Changsha	–	–	–	–
– Farmland	73,264	–	71,837	–
	115,974	32,909	110,935	30,847
Adult nutrition and care products				
– Swisse™	4,811,326	1,765,492	4,717,627	1,731,110
– Swisse™ distribution right	–	556,512	–	556,512
– Aurelia™	–	20,575	105,227	46,607
	4,811,326	2,342,579	4,822,854	2,334,229
Dried baby food and nutrition supplements				
– Good Gout™	101,396	81,652	104,876	79,417
Baby care products				
– Dodie™	59,538	15,443	57,908	15,020
Pet nutrition and care products				
– Solid Gold™	427,068	386,029	390,956	353,545
– Zesty Paws™	2,168,791	1,474,368	1,984,465	1,349,686
	2,595,859	1,860,397	2,375,421	1,703,231
	7,684,093	4,332,980	7,471,994	4,162,744

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projection based on financial budgets or forecasts approved by management covering a period of five years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

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16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The pre-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the five-year period are as follows:

	Discount rate		Growth rate	
	2022	2021	**2022**	2021
Infant formulas	**16.2%-16.9%**	16.6%-17.5%	**2.3%**	2.3%
Adult nutrition and care products	**11.7%-15.5%**	13.3%-14.8%	**2.0%-2.7%**	2.0%-2.4%
Dried baby food and nutrition supplements	**11.7%**	13.7%	**2.0%**	2.0%
Baby care products	**16.1%**	16.2%	**2.2%**	2.2%
Pet nutrition and care products	**10.8%-11.5%**	12.2%-12.4%	**2.0%-2.3%**	2.0%-3.0%

Assumptions were used in the value in use calculation of each CGU as at 31 December 2022 and 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets with indefinite useful lives:

Forecast sales amounts – The forecast sales amounts are based on the historical sales data and market outlook perceived by management.

Forecast gross margins – The bases used to determine the values assigned to the forecast gross margins are the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant CGUs.

Forecast raw materials purchase prices – The bases used to determine the values assigned to forecast raw materials purchase prices are the forecasted price indices during the budget year for those countries where raw materials are sourced.

The values assigned to the key assumptions on market development of the CGUs, discount rates and raw materials purchase prices are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

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16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

Following the annual impairment testing, an impairment loss of RMB134,475,000 (2021: RMB76,000,000) was charged to profit or loss during the year, due to the relevant intensive market competition. The details of the impairment loss were listed below:

CGU	Notes	Reportable segment	2022 RMB'000	2021 RMB'000
Aurelia™	(a)	Adult nutrition and care products	**128,044**	-
Good Gout™	(b)	Dried baby food and nutrition supplements	**6,431**	–
Biostime Changsha	(c)	Infant formulas	**–**	76,000
			134,475	76,000

Notes:

(a) As at 31 December 2022, based on the recoverable amount of RMB46,605,000 under the value in use calculation, the impairment losses amounting to RMB102,631,000 and RMB25,413,000 were recognised on the relevant goodwill and the brand name of Aurelia™, respectively.

Aurelia™ was acquired in 2019 and was engaged in research, development and sale of probiotic skincare products. The impairment losses were due to intense competition in the market of skincare products, which resulted in a decrease in sales of the CGU for the year as compared to the budget and a corresponding decrease in expected future cash flow of the CGU.

(b) As at 31 December 2022, based on the recoverable amount of RMB207,104,000 under the value in use calculation, an impairment loss amounting to RMB6,431,000 was recognised on the relevant goodwill of Good Gout™, which arose from the expected decline in market demand. Good Gout™ was acquired in 2018 and was engaged in marketing and distribution of baby food products.

(c) As at 31 December 2021, based on the recoverable amount of RMB182,846,000 under the value in use calculation, an impairment loss amounting to RMB76,000,000 was recognised on the relevant goodwill of Biostime Changsha.

Biostime Changsha was acquired in 2013 for the manufacture of infant formula products. Due to the intense market competition, sales of domestic-produced series of infant formulas products decreased as compared to the budget, which resulted on a corresponding decrease in the expected future cash flows of the CGU.

17. BONDS RECEIVABLE

	2022 RMB'000	2021 RMB'000
Bonds receivable	**74,229**	72,197

The Group entered into a bond subscription agreement with Isigny Sainte Mère ("**ISM**") (the "**Bond Subscription Agreement**") on 2 January 2019, pursuant to which ISM issued, and the Group subscribed for 10,000,000 bonds, with a nominal value of EUR1 per bond, at a subscription price equivalent to the face value of the bond. The bonds bear interest at a rate of 2% per annum. The bonds will mature on 2 January 2024, five years from the date of the Bond Subscription Agreement. The carrying amount of bonds receivable approximates to their fair value.

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

18. DEPOSITS

	2022 RMB'000	2021 RMB'000
Deposits paid for purchase of items of property, plant and equipment	**5,943**	2,959
Deposits paid for purchase of intangible assets	**48,685**	28,984
Rental deposits	**7,214**	10,362
	61,842	42,305

19. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	**93,743**	67,712
Goodwill on acquisition	**58,392**	–
	152,135	67,712

The Group's prepayment and trade payable balances with an associate are disclosed in note 23 and 25 to these financial statements, respectively.

Particulars of the associates are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Hangzhou Coamie Personal Care Products Co., Ltd.	RMB200,000,000	PRC/Mainland China	20%	Manufacture, retail and import and export of baby diapers
Life Spectacular, Inc. ("Life Spectacular")	USD617	United States	24%	Developing and selling customised skincare products

During the year, the Group acquired additional equity interests in Life Spectacular at a consideration of USD3,000,000 (approximately RMB20,143,000), increasing its shareholding to approximately 24%. Life Spectacular became an associate of the Group with the additional investment and was accounted for using the equity method during the year.

The Group's shareholding in the associates represents equity shares held through the wholly-owned subsidiaries of the Company.

The following table illustrates the financial information of the Group's associates that is not material to the Group:

	2022 RMB'000	2021 RMB'000
Share of the associates' (losses)/profit for the year	**(21,633)**	932
Share of the associates' total comprehensive (loss)/income	**(21,633)**	932
Aggregate carrying amount of the Group's investments in the associates	**152,135**	67,712

20. OTHER NON-CURRENT FINANCIAL ASSETS

	2022 RMB'000	2021 RMB'000
Financial assets at fair value through profit or loss:		
– Unlisted equity investments (note (a))	46,439	118,257
– Other unlisted investments (note (b))	106,649	138,528
	153,088	256,785
Equity investments designated at fair value through other comprehensive income:		
– Listed equity investments: (note (c))		
BOD Australia Limited	10,511	18,074
Else Nutrition Holdings Limited ("Else")	30,180	60,924
– Other unlisted investments	1,238	–
	41,929	78,998
	195,017	335,783

Notes:

(a) These unlisted 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.

(b) 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.

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

21. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	652,111	796,011
Goods in transit	671,558	409,028
Work in progress	3,623	4,140
Finished goods	1,260,409	878,541
	2,587,701	2,087,720

22. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 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 RMB'000	2021 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

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

	2022 RMB'000	2021 RMB'000
At beginning of year	24,968	13,123
Impairment losses recognised (note 7)	20,048	21,760
Amount written off as uncollectible	(15,825)	(5,706)
Impairment losses reversed (note 7)	(4,382)	(2,834)
Exchange realignment	1,440	(1,375)
At end of year	26,249	24,968

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

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22. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

As at 31 December 2022

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	**1.26%**	**4.99%**	**14.49%**	**23.12%**	**3.51%**
Gross carrying amount (RMB'000)	**558,146**	**124,368**	**24,334**	**40,914**	**747,762**
Expected credit losses (RMB'000)	**7,060**	**6,204**	**3,527**	**9,458**	**26,249**

As at 31 December 2021

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	1.38%	12.22%	16.78%	26.78%	3.49%
Gross carrying amount (RMB'000)	635,346	21,908	21,956	36,817	716,027
Expected credit losses (RMB'000)	8,747	2,677	3,684	9,860	24,968

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

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	**85,986**	155,993
Deposits	**4,066**	6,154
Other receivables	**69,474**	95,935
Prepaid expenses	**19,743**	21,597
Right-of-return assets	**13,248**	1,083
	192,517	280,762
Impairment allowance (note 7)	**(13,213)**	–
	179,304	280,762

As at 31 December 2022, the balance due from the Group's associate included in the prepayments was RMB4,000 (2021: Nil).

Except for the balances with a former supplier amounting to RMB13,213,000, 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 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

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24. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**2,227,362**	2,400,070
Time deposits	**76,298**	–
Restricted deposits	**10,767**	–
	2,314,427	2,400,070
Less:		
Restricted deposits for customer duties	**(10,000)**	–
Restricted deposits for operating leases	**(767)**	–
	(10,767)	–
Cash and cash equivalents as stated in the consolidated statement of financial position	**2,303,660**	2,400,070
Less:		
Non-pledged time deposit with original maturity of three months or more when acquired	**(6,000)**	–
Cash and cash equivalents as stated in the consolidated statement of cashflow	**2,297,660**	2,400,070
Denominated in RMB (note)	**1,097,543**	1,189,190
Denominated in other currencies	**1,216,884**	1,210,880
	2,314,427	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. Short-term time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with an original maturity over one year when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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25. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 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 RMB'000	2021 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).

26. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Salaries and welfare payables		**208,272**	219,080
Accruals		**971,927**	876,264
Other tax payables		**140,983**	120,718
Other payables	(a)	**121,646**	190,638
Refund liabilities	(b)	**761,715**	777,509
		2,204,543	2,184,209
Less: Current portion		**(2,199,256)**	(2,175,358)
Non-current portion		**5,287**	8,851

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) Details of refund liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Sales rebate	**717,609**	769,422
Sales return	**44,106**	8,087
	761,715	777,509

27. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Advances from customers	266,613	264,215	136,307
Customer loyalty points	–	–	31,721
	266,613	264,215	168,028

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. Included in contract liabilities are advances received from customers.

28. DERIVATIVE FINANCIAL INSTRUMENTS

		2022		2021	
	Notes	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Current					
Forward currency contracts	(a)	–	–	–	104
Warrants	(b)	–	–	3,751	–
The CCSs (as defined below)					
– designated as hedge	(e)	8,936	–	–	–
The Swaps (as defined below)	(d)	–	–	1,904	–
		8,936	–	5,655	104
Non-current					
Early redemption option embedded in the senior notes	(c)	13,760	–	13,715	–
The Swaps (as defined below)	(d)	76,790	1,531	–	205,999
The CCSs (as defined below)					
– designated as hedge	(e)	37,531	139,971	–	172,384
– not designated as hedge	(e)	–	42,247	–	52,419
		128,081	183,749	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 fair value of the forward currency contracts as at 31 December 2022 was nil (2021: RMB104,000 (negative)). A fair value gain of RMB104,000 was recognised in profit or loss during the year (2021: a loss of RMB104,000).

(b) The Group was granted several warrants entitling the Group to acquire, subject to adjustment, one common share in the capital of Else for each warrant. The warrants were not exercised before maturity and were expired in September and October 2022. The fair value of the warrants as at 31 December 2022 was nil (2021: RMB3,751,000). A fair value loss of RMB3,751,000 was charged to profit or loss for the year (2021: RMB34,271,000).

28. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) An early redemption option is embedded in the senior notes, details of which are set out in note 30 to these financial statements. The fair value of the early redemption option as at 31 December 2022 was RMB13,760,000 (2021: RMB13,715,000). A fair value loss of RMB1,178,000 was charged to profit or loss for the year (2021: RMB76,161,000).

(d) Cash flow hedges

As at 31 December 2022 and 2021, the Group had certain cross currency interest rate swaps and cross currency swaps (collectively, the "Swaps") to hedge its 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 calculated by reference to the agreed notional amounts in specified 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 net fair value of the Swaps as at 31 December 2022 was RMB75,259,000 (2021: RMB204,095,000 (negative)). A gain of RMB324,640,000 (2021: RMB285,524,000) was included in the cash flow hedge reserve and a gain of the ineffective portion of RMB3,537,000 was recognised in profit or loss for the year (2021: a loss of RMB640,000).

Hedge ineffectiveness can arise from:

- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

28. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) Cash flow hedges (continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2022				
Swaps A	**517,917**	**76,790**	**Derivative financial instruments (liabilities)**	**78,138**
Swaps B	**150,000**	**(1,531)**	**Derivative financial instruments (liabilities)**	**(1,472)**
As at 31 December 2021				
Swaps A	517,917	(205,771)	Derivative financial instruments (liabilities)	(209,246)
Swaps B	150,000	(228)	Derivative financial instruments (liabilities)	(231)
Swaps C	350,000	1,904	Derivative financial instruments assets	1,932

28. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) Cash flow hedges (continued)

The impacts of the hedged items on the statement of financial position are as follows:

	Carrying amount RMB'000	Change in fair value used for measuring ineffectiveness RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2022			
USD interest-bearing bank loans	**5,208,022**	**78,169**	**54,671**
As at 31 December 2021			
USD interest-bearing bank loans	6,572,315	216,031	(5,900)

The effects of the cash flow hedge on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income			Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss	Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	RMB'000		Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
Year ended 31 December 2022									
USD interest-bearing bank loans	**324,640**	**(93,870)**	**230,770**	**3,537**	**Other expense**	**(258,594)**	**88,395**	**(170,199)**	**Finance costs/ other expense**
Year ended 31 December 2021									
USD interest-bearing bank loans	285,524	(85,147)	200,377	(640)	Other expense	(178,018)	59,316	(118,702)	Finance costs/ other expense

(e) Hedges of net investments in foreign operations

As at 31 December 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 in the 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.

28. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(e) Hedges of net investments in foreign operations (continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2022				
CCSs A	**225,000**	**(139,971)**	**Derivative financial instruments (liabilities)**	**(177,631)**
CCSs B	**50,000**	**8,936**	**Derivative financial instruments (assets)**	**12,305**
CCSs C	**321,000**	**37,531**	**Derivative financial instruments (assets)**	**37,217**
As at 31 December 2021				
CCSs A	225,000	(150,892)	Derivative financial instruments (liabilities)	(173,204)
CCSs B	50,000	(21,492)	Derivative financial instruments (liabilities)	(32,988)

28. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(e) Hedges of net investments in foreign operations (continued)

The impacts of the hedged items on the statement of financial position are as follows:

	Change in fair value used for measuring Ineffectiveness RMB'000	Exchange fluctuation reserve RMB'000
As at 31 December 2022		
Net investments in foreign subsidiaries	**(52,455)**	**(245,912)**
As at 31 December 2021		
Net investments in foreign subsidiaries	(167,755)	(308,132)

During the year, in respect of the CCSs designated as hedging instruments, a net gain of RMB62,220,000 (2021: a net loss of RMB79,020,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net gain of RMB18,523,000 (2021: RMB6,552,000) was recognised in profit or loss. For the CCSs not designated as hedging instruments, a net gain of RMB6,361,000 (2021: a net loss of RMB29,718,000) was recognised in profit or loss during the year.

29. INTEREST-BEARING BANK LOANS

	31 December 2022 Effective interest rate** (%)	31 December 2022 Maturity*	31 December 2022 RMB'000	31 December 2021 Effective interest rate** (%)	31 December 2021 Maturity	31 December 2021 RMB'000
Current						
Secured bank loan	–	–	–	LIBOR+margin	Mar-22	318,787
Secured bank loan	–	–	–	LIBOR+margin	Sep-22	2,204,380
Secured bank loan	–	–	–	BBSY+margin	Nov-22	57,490
Secured bank loan	–	–	–	LIBOR+margin	Nov-22	545,080
Secured bank loan	HIBOR+margin	Jun-23	113,166	–	–	–
Secured bank loan	SOFR+margin	Jun-23	275,512	–	–	–
Secured bank loan	HIBOR+margin	Dec-23	167,753	–	–	–
Secured bank loan	SOFR+margin	Dec-23	410,811	–	–	–
			967,242			3,125,737
Non-current						
Secured bank loan	–	–	–	BBSY+margin	Nov-22	–
Secured bank loan	–	–	–	LIBOR+margin	Nov-22	–
Secured bank loan	–	–	–	BBSY+margin	May-23	56,836
Secured bank loan	–	–	–	LIBOR+margin	May-23	537,918
Secured bank loan	–	–	–	BBSY+margin	Nov-23	265,240
Secured bank loan	–	–	–	LIBOR+margin	Nov-23	3,451,100
Secured bank loan	HIBOR+margin	Jun-24	225,663	–	–	–
Secured bank loan	SOFR+margin	Jun-24	539,536	–	–	–
Secured bank loan	HIBOR+margin	Dec-24	846,237	–	–	–
Secured bank loan	SOFR+margin	Dec-24	2,023,260	–	–	–
Secured bank loan	HIBOR+margin	Jun-25	902,652	–	–	–
Secured bank loan	SOFR+margin	Jun-25	2,158,143	–	–	–
			6,695,491			4,311,094
			7,662,733			7,436,831

* These interest-bearing bank loans shall become due in full if the Senior Notes 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.

** HIBOR stands for the Hongkong InterBank Offered Rate.

SOFR stands for the Secured Overnight Financing Rate.

BBSY stands for the Australian Bank Bill Swap Bid Rate.

LIBOR stands for the London InterBank Offered Rate.

29. INTEREST-BEARING BANK LOANS (CONTINUED)

	2022 RMB'000	2021 RMB'000
Analysed into:		
Within one year or on demand	967,242	3,125,737
In the second year	3,634,696	4,311,094
In the third to fifth years, inclusive	3,060,795	–
	7,662,733	7,436,831

Notes:

(a) As at 31 December 2022 and 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 31 December 2022, the Group's bank loans were denominated in USD, AUD and HKD at aggregate amounts of RMB5,407,262,000 (2021: RMB7,057,265,000), nil (2021: RMB379,566,000) and RMB2,255,471,000 (2021: Nil), respectively.

30. 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 the senior notes issued on 21 June 2016 and 23 January 2017.

During the period from 17 August 2022 to 26 October 2022, the Company has in aggregate repurchased the Senior Notes of USD29,844,000 in principal amount of the Senior Notes on market, representing approximately 9.95% of the outstanding principal amount, at a total consideration of USD26,159,000 (approximately RMB183,209,000), resulting in a gain of RMB25,204,000 recognised in profit or loss.

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 rate to receive interest on the relevant interest payment date).

30. SENIOR NOTES (CONTINUED)

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.

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 31 December 2022, the fair value of the early redemption option embedded in the Senior Notes amounted to RMB13,760,000 (31 December 2021: RMB13,715,000), details of which are set out in note 28 (c) to these financial statements.

The Senior Notes are 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 years ended 31 December 2021 and 2022 are set out below:

	RMB'000
At 1 January 2021	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	**1,938,452**
Partial repurchase of the Senior Notes	**(183,209)**
Gain on partial repurchase of the Senior Notes (note 5)	**(25,204)**
Interest charged during the year	**109,087**
Interest paid during the year	**(112,767)**
Exchange realignment	**179,200**
At 31 December 2022	**1,905,559**
Less: Current portion	**(19,411)**
Non-current portion	**1,886,148**

31. DEFERRED TAX

The movements in deferred tax assets and liabilities during the years ended 31 December 2022 and 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	Cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	2,942	431,498	68,303	80,090	4,721	15,292	602,846
Credited/(charged) to profit or loss for the year (note 9)	21,492	(22,819)	17,118	(15,231)	156	34,509	35,225
Deferred tax charged to equity during the year	–	–	–	–	(5,475)	–	(5,475)
Exchange realignment	–	773	–	3,180	598	653	5,204
At 31 December 2022	24,434	409,452	85,421	68,039	–	50,454	637,800
At 1 January 2021	12,336	375,618	58,395	95,021	25,014	21,155	587,539
(Charged)/credited to profit or loss for the year (note 9)	(9,394)	61,139	9,908	(9,558)	6,614	(4,405)	54,304
Deferred tax charged to equity during 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	Cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	171	61,864	756,532	–	7,565	826,132
Charged/(credited) to profit or loss for the year (note 9)	16,754	(16,017)#	(29,148)	22,255	964	(5,192)
Exchange realignment	5	149	14,549	782	6	15,491
At 31 December 2022	16,930	45,996	741,933	23,037	8,535	836,431
At 1 January 2021	111	81,466	848,665	–	7,800	938,042
Charged/(credited) to profit or loss for the year (note 9)	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 RMB31,713,000 (2021: RMB8,734,000) on the distributable profits of the Company's subsidiaries in mainland China after offsetting the realised deferred tax liabilities of RMB47,730,000 (2021: RMB27,658,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

31. DEFERRED TAX (CONTINUED)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 RMB'000	2021 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**637,800**	602,846
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(836,431)**	(826,132)
	(198,631)	(223,286)

Deferred tax assets of RMB36,667,000 (2021: RMB67,855,000) have not been recognised in respect of tax losses of the Group as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 5%.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. SHARE CAPITAL

Shares

	2022	2021
Authorised:		
10,000,000,000 (2021: 10,000,000,000) ordinary shares of HKD0.01 each	**HKD100,000,000**	HKD100,000,000
Issued and fully paid:		
645,561,354 (2021: 645,211,045) ordinary shares of HKD0.01 each	**HKD6,455,614**	HKD6,452,110
Equivalent to	**RMB5,519,000**	RMB5,516,000

32. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue	Share capital	Equivalent to
		HKD'000	RMB'000
At 1 January 2021	644,433,102	6,444	5,510
Share options exercised (note (a))	777,943	8	6
At 31 December 2021 and 1 January 2022	**645,211,045**	**6,452**	**5,516**
Share options exercised (note (b))	**350,309**	**4**	**3**
At 31 December 2022	**645,561,354**	**6,456**	**5,519**

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 year ended 31 December 2022, the subscription rights attaching to 350,309 share options were exercised at the subscription prices of HKD15.58 per share, resulting in the issue of 350,309 ordinary shares for a total cash consideration, before expenses, of HKD5,458,000 (equivalent to approximately RMB4,875,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 33 to these financial statements.

33. 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 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.

(i) Movements in share options

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

31 December 2022

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		2020 Share Option Scheme		
	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	Total number of options '000
At 1 January 2022	–	–	30.34	13,043	31.80	10,435	23,478
Forfeited during the year	–	–	32.20	(5,814)	31.82	(5,511)	(11,325)
Exercised during the year	–	–	15.58	(350)	–	–	(350)
Expired during the year	–	–	19.72	(160)	–	–	(160)
At 31 December 2022	–	–	29.76	6,719	31.78	4,924	11,643

33. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

31 December 2021

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		2020 Share Option Scheme		
	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	Total number of options '000
At 1 January 2021	2.53	57	30.68	17,020	31.88	12,729	29,806
Granted during the year	–	–	–	–	31.02	1,154	1,154
Forfeited during the year	–	–	34.82	(3,221)	31.84	(3,448)	(6,669)
Exercised during the year	2.53	(26)	18.90	(752)	–	–	(778)
Expired during the year	2.53	(31)	22.60	(4)	–	–	(35)
At 31 December 2021	–	–	30.34	13,043	31.80	10,435	23,478

The weighted average share prices at the date of exercise for share options exercised under the 2010 Share Option Scheme during the year were HKD16.55 per share (2021: HKD30.55 per share).

A total of 350,309 share options were exercised during the year under these share option schemes, resulting in the issue of 350,309 ordinary shares of the Company and new share capital of HKD4,000 (equivalent to approximately RMB3,000) and share premium of HKD5,454,000 (equivalent to approximately RMB4,872,000) (before issue expenses). An amount of RMB1,124,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share option reserve of RMB25,370,000 related to the forfeited or expired shares that have been vested was transferred to retained profits during the year (2021: RMB14,394,000).

During the year, the Group reversed share option reserve of RMB64,773,000 related to forfeited shares that have not been vested through profit or loss (2021: Nil) and no share option expense was recognised related to the share option schemes (2021: RMB42,450,000).

(ii) Outstanding share options

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme, the 2010 Share Option Scheme and the 2020 Share Option Scheme as at 31 December 2022 and 2021 are as follows:

33. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

2010 Share Option Scheme

31 December 2022 Number of options '000	31 December 2021 Number of options '000	Exercise price* HKD per share	Exercise period
–	345	15.580	30-12-16 to 30-12-22
–	10	15.580	1-4-17 to 1-4-23
360	481	15.580	1-4-18 to 1-4-24
450	513	15.580	1-4-19 to 1-4-25
–	91	21.050	30-12-16 to 30-12-22
54	54	21.050	1-4-18 to 1-4-24
36	36	21.050	1-4-19 to 1-4-25
–	49	20.920	30-12-16 to 30-12-22
26	40	20.920	1-4-18 to 1-4-24
19	19	20.920	1-4-19 to 1-4-25
13	13	23.300	1-4-17 to 1-4-23
18	31	23.300	1-4-18 to 1-4-24
33	46	23.300	1-4-19 to 1-4-25
144	147	25.750	1-4-18 to 1-4-24
148	173	25.750	1-4-19 to 1-4-25
150	150	25.750	1-4-20 to 1-4-26
19	23	22.150	1-4-18 to 1-4-24
25	30	22.150	1-4-19 to 1-4-25
4,036	5,505	29.250	1-4-21 to 1-4-27
27	40	47.100	1-4-19 to 1-4-25
13	69	47.100	1-4-21 to 1-4-27
117	205	60.020	1-4-21 to 1-4-27
147	179	59.050	1-4-21 to 1-4-27
39	39	47.270	1-4-21 to 1-4-27
114	149	49.150	1-4-21 to 1-4-27
300	300	49.150	1-4-22 to 1-4-28
81	153	45.790	1-4-21 to 1-4-27
–	23	32.650	1-4-21 to 1-4-27
–	3,780	32.650	1-4-22 to 1-4-28
350	350	26.10	1-4-22 to 1-4-28
6,719	13,043		

33. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

2020 Share Option Scheme

31 December 2022 Number of options '000	31 December 2021 Number of options '000	Exercise price* HKD per share	Exercise period
1,884	2,254	31.88	1-4-22 to 1-4-28
–	3,088	31.88	1-4-23 to 1-4-29
2,450	4,119	31.88	1-4-24 to 1-4-30
214	232	31.02	1-4-22 to 1-4-28
–	318	31.02	1-4-23 to 1-4-29
376	424	31.02	1-4-24 to 1-4-30
4,924	10,435		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At 31 December 2022, the share options outstanding under the 2010 Share Option Scheme and the 2020 Share Option Scheme were divided into two to three tranches at their respective grant dates. Generally, the first tranche vests one year after the grant date while the remaining tranches vest in the subsequent two to three years. There is a six-year exercise period for each share option granted under the 2010 Share Option Scheme and the 2020 Share Option Scheme.

The exercise in full of the outstanding share options under the share option schemes would, under the present capital structure of the Company, result in the issue of 11,643,000 additional ordinary shares of the Company and additional share capital of HKD116,000 (equivalent to approximately RMB104,000) and share premium of HKD356,294,000 (equivalent to approximately RMB318,267,000) (before issue expenses).

Subsequent to the end of the reporting period, 333,000 share options were forfeited and no share option exercised, respectively. At the date of approval of these financial statements, the Company had 11,310,000 share options outstanding under the three share option schemes, which represented approximately 1.8% of the Company's shares in issue as at that date.

33. SHARE OPTION SCHEMES (CONTINUED)

(iii) Fair value of the share options

The directors of the Company used Hull-White model to determine the fair value of the share options as at the grant date, which is to be expensed over the relevant vesting period. No share options were granted in the year ended 31 December 2022. For the year ended 31 December 2021, the weighted average fair value of share options granted to other employees are HKD9.45 (equivalent to RMB7.88) per share.

Other than the exercise price disclosed above, significant judgement on parameters, such as dividend yield, expected volatility and risk-free interest rate, are required to be made by the directors in applying the Hull White model, which are summarised below:

	2021	
	Options granted to directors	Options granted to other employees
Dividend yield (%)	–	3.39
Expected volatility (%)	–	46.84
Risk-free interest rate (%)	–	0.97

34. SHARE AWARD SCHEMES

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 year ended 31 December 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).

34. SHARE AWARD SCHEMES (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:

					Number of Awarded Shares		
Date of grant	Number of Outstanding Awarded Shares as at 31 December 2021	Shares newly granted during the period	Fair value	Vesting date	Vested during the period	Forfeited during the period	Outstanding Awarded Shares at 31 December 2022
2022/4/8	–	1,861,531	21,575,144	2023/4/1	–	(140,470)	1,721,061*
2022/4/8	–	1,861,531	20,886,378	2024/4/1	–	(742,897)	1,118,634*
2022/4/8	–	2,482,040	26,830,863	2025/4/1	–	(990,528)	1,491,512*
2022/12/14	–	111,000	1,548,450	2024/4/1	–	–	111,000
2022/12/14	–	148,000	1,984,680	2025/4/1	–	–	148,000
	–	6,464,102	72,825,515		–	(1,873,895)	4,590,207

* Among these Awarded Shares granted, 1,636,271 of the Awarded Shares were granted to the executive directors and non-executive directors.

The Group recognised a share award expense of RMB20,231,000 during the year (2021: Nil) in relation to the 2022 Share Award Scheme.

The directors of the Company determine the fair value of the share awards as at the grant date, which is measured at the market price of the entity's shares, adjusted by the present value of the expected dividends per share during the vesting period. Significant judgement on parameters, such as share price at grant date, and risk-free interest rate, are required to be made by the directors to measure the fair value of the awarded shares.

35. 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 96 and 97 of these 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.

36. BUSINESS COMBINATIONS

Acquisition in 2021

On 4 October 2021, the Group acquired 100% equity interests in Zesty Paws. Zesty Paws, with its wholly-owned subsidiaries, ZP MZP, LLC and ZP AZ, LLP (together, "**Zesty Paws Group**"), is principally engaged in the business of marketing and selling nutritional supplements for cats and dogs marketed under the brand Zesty Paws. The purchase consideration for the acquisition was USD613,256,000 (approximately RMB3,961,876,000), of which USD610,152,000 (approximately RMB3,941,827,000) has been paid by 31 December 2021.

The fair values of the identifiable assets and liabilities of Zesty Paws Group at the date of acquisition were shown below:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	12	561
Intangible assets	15	1,750,342
Inventories		174,317
Trade receivables		50,098
Prepayments, other receivables and other assets		2,499
Cash and cash equivalents		15,847
Trade payables		(27,541)
Other payables and accruals		(16,029)
Total identified net assets at fair value		1,950,094
Goodwill on acquisition	14	2,011,782
Total consideration		3,961,876
Satisfied by:		
Cash		3,941,827
Other payables		20,049
		3,961,876

36. BUSINESS COMBINATIONS (CONTINUED)

Acquisition in 2021 (continued)

The Group incurred transaction costs of RMB27,151,000 for this acquisition. These transaction costs have been expensed and were included in administrative expenses in profit or loss. The Group has paid the transaction costs of RMB23,420,000 by the end of 31 December 2021.

An analysis of the cash flows in respect of the acquisition of Zesty Paws Group for the year ended 31 December 2021 is as follows:

	RMB'000
Cash consideration	3,941,827
Cash and bank balances acquired	(15,847)
Net outflow of cash and cash equivalents included in cash flows from investing activities	3,925,980
Transaction costs of the acquisition included in cash flows from operating activities	23,420
	3,949,400

Since the acquisition, Zesty Paws Group contributed RMB190,105,000 to the Group's revenue and a loss of RMB13,215,000 to the consolidated profit for the year ended 31 December 2021.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB12,034,959,000 and RMB571,939,000, respectively.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB45,315,000 (2021: RMB41,204,000) and RMB45,315,000 (2021: RMB41,204,000), respectively, in respect of lease arrangements for buildings, plant and machinery, and vehicles.

(b) Changes in liabilities arising from financing activities

2022

	Derivative financial instruments RMB'000	Interest-bearing bank loans RMB'000	Senior notes RMB'000	Interest payables# RMB'000	Lease liabilities RMB'000
At 1 January 2022	430,802	7,436,831	1,938,452	7,609	102,582
Changes from financing cash flows	(29,485)	(858,336)	(295,976)	(33,845)	(40,976)
New leases	–	–	–	–	45,315
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	–	–	–	(305)
Early termination of leases	–	–	–	–	(12,548)
Total (gains)/losses recognised in profit or loss	(20,797)	31,851	(25,204)	–	–
Total gains recognised in other comprehensive income	(234,130)	–	–	–	–
Interest expense	–	386,978	109,087	28,127	6,100
Exchange realignment	37,359	665,409	179,200	(1,891)	975
At 31 December 2022	183,749	7,662,733	1,905,559	–	101,143

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (continued)

2021

	Derivative financial instruments RMB'000	Interest-bearing bank loans RMB'000	Senior notes RMB'000	Interest payables# RMB'000	Lease liabilities RMB'000
At 1 January 2021	684,583	4,038,793	1,985,559	9,028	149,108
Changes from financing cash flows	(39,900)	3,513,790	(108,838)	(148,978)	(56,413)
New leases	–	–	–	–	41,204
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	–	–	–	(32,125)
Total losses recognised in profit or loss	23,806	–	–	–	–
Total gains recognised in other comprehensive income	(204,572)	–	–	–	–
Interest expense	–	50,291	107,062	98,687	7,699
Exchange realignment	(33,115)	(166,043)	(45,331)	48,872	(6,891)
At 31 December 2021	430,802	7,436,831	1,938,452	7,609	102,582

Included in other payables and accruals.

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within financing activities	**40,976**	56,413

38. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

39. PLEDGE OF ASSETS

Details of the Group's bank loans and senior notes, which are secured by the assets of the Group, are included in notes 29 and 30, respectively, to these financial statements.

40. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting periods:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Intangible assets	**12,072**	10,950
Property, plant and equipment	**3,807**	1,257
	15,879	12,207

(b) There were no lease contracts that have not yet commenced as at 31 December 2022 and 2021.

41. RELATED PARTY BALANCES AND TRANSACTIONS

The Group had the following material transactions with related parties during the year:

(a) Related party transactions

	2022 RMB'000	2021 RMB'000
Purchases of finished goods from an associate [Note]	**2,636**	108,686

Note:

The transactions were conducted in accordance with mutually agreed terms.

(b) Material outstanding balances with related parties

Details of the Group's trade payable and prepayments balances with the associate as at the end of the reporting period are disclosed in notes 23 and 25 to these financial statements, respectively.

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is as follows:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**52,465**	34,665
Pension scheme contributions	**360**	760
(Reversal of)/equity-settled share option expense	**(15,171)**	15,689
Equity-settled share award expense	**9,865**	–
Termination benefits	**3,909**	–
Total compensation paid to key management personnel	**51,428**	51,114

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

2022

Financial assets

	Notes	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income – Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
		Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000			
Bonds receivable	17	–	–	–	74,229	74,229
Trade and bills receivables	22	–	–	–	769,051	769,051
Financial assets included in prepayments, other receivables and other assets		–	–	–	56,261	56,261
Derivative financial instruments	28	–	137,017	–	–	137,017
Restricted deposits	24	–	–	–	10,767	10,767
Cash and cash equivalents	24	–	–	–	2,303,660	2,303,660
Other non-current financial assets	20	46,439	106,649	41,929	–	195,017
		46,439	243,666	41,929	3,213,968	3,546,002

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	–	1,340,970	1,340,970
Financial liabilities included in other payables and accruals		–	1,093,573	1,093,573
Derivative financial instruments	28	183,749	–	183,749
Interest-bearing bank loans	29	–	7,662,733	7,662,733
Senior notes	30	–	1,905,559	1,905,559
Lease liabilities	13	–	101,143	101,143
		183,749	12,103,978	12,287,727

42. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2021

Financial assets

	Notes	Financial assets at fair value through profit or loss – Designated as such upon initial recognition RMB'000	Financial assets at fair value through profit or loss – Mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Bonds receivable	17	–	–	–	72,197	72,197
Trade and bills receivables	22	–	–	–	739,257	739,257
Financial assets included in prepayments, other receivables and other assets		–	–	–	95,935	95,935
Derivative financial instruments	28	–	19,370	–	–	19,370
Cash and cash equivalents	24	–	–	–	2,400,070	2,400,070
Other non-current financial assets	20	118,257	138,528	78,998	–	335,783
		118,257	157,898	78,998	3,307,459	3,662,612

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	–	881,458	881,458
Financial liabilities included in other payables and accruals		–	1,066,902	1,066,902
Derivative financial instruments	28	430,906	–	430,906
Interest-bearing bank loans	29	–	7,436,831	7,436,831
Senior notes	30	–	1,938,452	1,938,452
Lease liabilities	13	–	102,582	102,582
		430,906	11,426,225	11,857,131

43. 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	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	**13,760**	13,715	**13,760**	13,715
– Warrants	**–**	3,751	**–**	3,751
– The Swaps	**76,790**	1,904	**76,790**	1,904
– The CCSs	**46,467**	–	**46,467**	–
Other non-current financial assets	**195,017**	335,783	**195,017**	335,783
	332,034	355,153	**332,034**	355,153
Financial liabilities				
Derivative financial instruments				
– The Swaps	**(1,531)**	(205,999)	**(1,531)**	(205,999)
– The CCSs	**(182,218)**	(224,803)	**(182,218)**	(224,803)
– Forward currency contracts	**–**	(104)	**–**	(104)
Senior notes	**(1,905,559)**	(1,938,452)	**(1,627,580)**	(1,916,229)
	(2,089,308)	(2,369,358)	**(1,811,329)**	(2,347,135)

Management has assessed that the fair values of cash and cash equivalents, restricted deposits, 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 liabilities (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

43. 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 the 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 change in fair value as a result of the Group's own non-performance risk for lease liabilities (non-current) and interest-bearing loans, and the suppliers' non-performance risk for bonds receivable as at 31 December 2022 were assessed to be insignificant.

(b) The financial assets 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 using significant unobservable market inputs or the last transaction price method with market observable inputs.

(c) The fair values of equity investments designed at fair value through other comprehensive income included in the other non-current financial assets are based on quoted market prices.

(d) 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.

(e) The fair value of warrants is measured using the valuation technique of the Black-Scholes model using significant observable market inputs.

(f) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the CCIRSs and the CCSs, were measured by using a discounted cash flow model. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRSs and the CCSs were the same as their carrying amounts.

(g) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using the valuation technique of the Hull White model, and using significant unobservable market inputs.

The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

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

Set out 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 – investment in ISM	Discounted cash flow model	Discount rate	2022: 3.61% to 3.69% (2021: 3.58% to 3.66%)	1% (2021: 1%) increase in discount rate would result in decrease in fair value by RMB194,000 (2021: RMB209,000) 1% (2021: 1%) decrease in discount rate would result in increase in fair value by RMB191,000 (2021: RMB217,000)
Other non-current financial assets – investment in Arla	Recent transaction price method	Recent transaction price	Not applicable	Not applicable
Other non-current financial assets – the unlisted equity investment	Market approach	Enterprise value-to-sales ratio	2022: 3.22 to 3.28 (2021: not applicable)	1% (2021: not applicable) increase in enterprise value-to-sales ratio would result in increase in fair value by RMB251,000 (2021: not applicable) 1% (2021: not applicable) decrease in enterprise value-to-sales ratio would result in decrease in fair value by RMB244,000 (2021: not applicable)

43. 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 – receive leg	2022: 3.95% to 5.07% (2021: 0.21% to 1.37%)	1% (2021: 1%) increase in discount rate would result in decrease in fair value by RMB1,824,000 (2021: RMB627,000)
				1% (2021: 1%) decrease in discount rate would result in increase in fair value by RMB1,826,000 (2021: RMB627,000)
		Discount rate – pay leg	2022: 1.66% to 2.24% (2021: 2.36% to 2.91%)	1% (2021: 1%) increase in discount rate would result in increase in fair value by RMB951,000 (2021: RMB1,739,000)
				1% (2021: 1%) decrease in discount rate would result in decrease in fair value by RMB951,000 (2021: RMB1,741,000)
Derivative financial instrument – the CCSs (USD/AUD)	Discounted cash flow model	Discount rate – receive leg	2022: 3.70% to 4.87% (2021: 0.21% to 1.37%)	1% (2021: 1%) increase in discount rate would result in increase in fair value by RMB1,356,000 (2021: RMB46,000)
				1% (2021: 1%) decrease in discount rate would result in decrease in fair value by RMB1,358,000 (2021: RMB46,000)
		Discount rate – pay leg	2022: 3.25% to 4.37% (2021: 0.10% to 1.87%)	1% (2021: 1%) increase in discount rate would result in decrease in fair value by RMB1,233,000 (2021: RMB53,000)
				1% (2021: 1%) decrease in discount rate would result in increase in fair value by RMB1,235,000 (2021: RMB53,000)

43. 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	2022: 3.95% to 5.07% (2021: 0.21% to 0.82%-0.94%)	1% (2021: 1%) increase in discount rate would result in decrease in fair value by RMB247 (2021: RMB175,000) 1% (2021: 1%) decrease in discount rate would result in increase in fair value by RMB247 (2021: RMB175,000)
		Discount rate – pay leg	2022: 3.57% to 4.73% (2021: 0.27% to 0.47%-0.86%)	1% (2021: 1%) increase in discount rate would result in increase in fair value by RMB413,000 (2021: RMB207,000) 1% (2021: 1%) decrease in discount rate would result in decrease in fair value by RMB413,000 (2021: RMB207,000)
Derivative financial instrument – the Swaps (USD/AUD)	Discounted cash flow model	Discount rate – receive leg	2022: 4.26% to 4.34% (2021: 0.207% to 0.211%)	1% (2021: 1%) increase in discount rate would result in decrease in fair value by RMB834,000 (2021: RMB5,785,000) 1% (2021: 1%) decrease in discount rate would result in increase in fair value by RMB843,000 (2021: RMB5,818,000)
		Discount rate – pay leg	2022: 3.19% to 3.25% (2021: 0.067% to 0.068%)	1% (2021: 1%) increase in discount rate would result in increase in fair value by RMB7,103,000 (2021: RMB57,486,000) 1% (2021: 1%) decrease in discount rate would result in decrease in fair value by RMB7,225,000 (2021: RMB52,692,000)

43. 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 – early redemption option embedded in the senior notes	Discounted cash flow model	Discount Rate	2022: 4.48% (2021: 5.35%)	1% (2021: 1%) increase in credit spread would result in increase in fair value by RMB3,577,000 (2021: RMB2,588,000) 1% (2021: 1%) decrease in credit spread would result in decrease in fair value by RMB3,589,000 (2021: RMB2,593,000)
Other non-current financial assets – USD denominated loan receivable	Discounted cash flow model	Discount rate	2022: not applicable (2021: 5.40% to 5.50%)	Not applicable (2021: 1% increase in discount rate would result in decrease in fair value by RMB13,000) Not applicable (2021: 1% decrease in discount rate would result in increase in fair value by RMB13,000)

43. 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			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2022				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	**–**	**–**	**13,760**	**13,760**
– The Swaps	**–**	**–**	**76,790**	**76,790**
– The CCSs	**–**	**–**	**46,467**	**46,467**
Other non-current financial assets	**40,691**	**–**	**154,326**	**195,017**
	40,691	**–**	**291,343**	**332,034**
As at 31 December 2021				
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 year are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	**272,404**	228,802
Addition	**3,438**	131,934
Derecognition	**(85,913)**	–
Net cash settlement	**(59,341)**	–
Total losses charged to profit or loss	**(19,997)**	(80,811)
Total gains recognised in equity	**152,730**	1,932
Exchange realignment	**28,022**	(9,453)
At 31 December	**291,343**	272,404

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

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2022				
Derivative financial instruments				
– The CCSs	–	–	182,218	182,218
– The Swaps	–	–	1,531	1,531
	–	–	183,749	183,749
As at 31 December 2021				
Derivative financial instruments				
– Forward currency contracts	–	104	–	104
– The CCSs	–	–	224,803	224,803
– The Swaps	–	–	205,999	205,999
	–	104	430,802	430,906

The movements in fair value measurements within Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	430,802	684,583
Net cash settlement	(29,485)	(39,900)
Total (gains)/losses charged to profit or loss	(20,797)	23,806
Total gains recognised in equity	(234,130)	(204,572)
Exchange realignment	37,359	(33,115)
At 31 December	183,749	430,802

During the year, 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 (2021: Nil).

31 December 2022

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, interest-bearing bank loans, and senior notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including the foreign currency contracts, the Swaps and the CCSs. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to these financial statements.

Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

To manage the interest rate risk arising from the floating interest rate instruments, the Group has entered into the Swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At as 31 December 2022, after taking into account the effect of the Swaps, approximately 53% (2021: 44%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
Year ended 31 December 2022	**50**	**(18,274)**
Year ended 31 December 2022	**(50)**	**18,274**
Year ended 31 December 2021	50	(2,038)
Year ended 31 December 2021	(50)	2,038

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases or financing by operating units in currencies other than the units' functional currencies. Approximately 3% (2021: 4%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 68% (2021: 66%) of costs were denominated in currencies other than the units' functional currencies. Certain operating units of the Group use forward currency contracts to eliminate the foreign currency exposures. The Group also has certain bank balances denominated in AUD, HKD, USD and EUR. In addition, the Group has investments denominated in EUR, and provided loans to suppliers denominated in USD and issued senior notes in USD. Also, the Group has certain bank loans which are denominated in USD and HKD.

During the year, the Group has hedged 100% (2021: 100%) of its foreign currency exposure from its interest-bearing bank borrowings. The Group has used the Swaps to reduce the exposure to foreign currency risk arising from the borrowings.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate between RMB or AUD against each of the following currencies, with all other variables held constant, of the Group's profit before tax (arising from USD and EUR denominated financial instruments).

	Increase/(decrease) in USD/EUR rates %	Increase/ (decrease) in profit before tax RMB'000
2022		
If the RMB weakens against the USD	5	2,152
If the RMB strengthens against the USD	(5)	(2,152)
If the RMB weakens against the EUR	5	3,503
If the RMB strengthens against the EUR	(5)	(3,503)
If the AUD weakens against the USD	5	5,433
If the AUD strengthens against the USD	(5)	(5,433)
If the AUD weakens against the EUR	5	1,213
If the AUD strengthens against the EUR	(5)	(1,213)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/ (decrease) in USD/EUR rates %	Increase/ (decrease) in profit before tax RMB'000
2021		
If the RMB weakens against the USD	5	3,291
If the RMB strengthens against the USD	(5)	(3,291)
If the RMB weakens against the EUR	5	7,210
If the RMB strengthens against the EUR	(5)	(7,210)
If the AUD weakens against the USD	5	2,054
If the AUD strengthens against the USD	(5)	(2,054)
If the AUD weakens against the EUR	5	6,212
If the AUD strengthens against the EUR	(5)	(6,212)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Bonds receivable#	74,229	–	74,229
Trade receivables*	–	747,762	747,762
Bills receivable#	47,538	–	47,538
Financial assets included in prepayments, other receivables and other assets#	56,261	–	56,261
Restricted deposits	10,767		10,767
Cash and cash equivalents	2,303,660	–	2,303,660
	2,492,455	747,762	3,240,217

As at 31 December 2021

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Bonds receivable#	72,197	–	72,197
Trade receivables*	–	716,027	716,027
Bills receivable#	48,198	–	48,198
Financial assets included in prepayments, other receivables and other assets#	95,935	–	95,935
Cash and cash equivalents	2,400,070	–	2,400,070
	2,616,400	716,027	3,332,427

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to these financial statements.

The credit quality of bonds receivable, bills receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2022					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	1,322,549	18,421	–	–	1,340,970
Financial liabilities included in other payables and accruals	1,093,573	–	–	–	–	1,093,573
Derivative financial instruments	–	–	24,769	132,727	–	157,496
Interest-bearing bank loans	–	101,390	1,280,914	7,274,978	–	8,657,282
Senior notes	–	–	105,836	1,987,364	–	2,093,200
Lease liabilities	–	6,086	18,258	87,795	797	112,936
	1,093,573	1,430,025	1,448,198	9,482,864	797	13,455,457

	2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	842,811	38,647	–	–	881,458
Financial liabilities included in other payables and accruals	1,066,902	–	–	–	–	1,066,902
Derivative financial instruments	–	9,356	(58,887)	485,306	–	435,775
Interest-bearing bank loans	–	363,306	2,947,920	4,443,591	–	7,754,817
Senior notes	–	–	107,590	2,127,890	–	2,235,480
Lease liabilities	–	7,371	22,113	85,489	103	115,076
	1,066,902	1,222,844	3,057,383	7,142,276	103	12,489,508

31 December 2022

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Total liabilities	**14,821,172**	14,396,561
Total assets	**20,963,025**	20,281,747
Liabilities to assets ratio	**71%**	71%

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	–	21
Investments in subsidiaries	13,763,758	12,629,808
Due from subsidiaries	1,648,756	–
Deferred tax assets	379	347
Derivative financial instruments	51,290	13,715
Other non-current financial assets	–	37,000
Deposits	2,101	–
Total non-current assets	15,466,284	12,680,891
CURRENT ASSETS		
Prepayments, deposits and other receivables	5,269	10,241
Derivative financial instruments	8,937	1,903
Due from subsidiaries	8,490,812	8,562,108
Loans to subsidiaries	904,587	1,523,794
Cash and cash equivalents	518,989	512,327
Total current assets	9,928,594	10,610,373
CURRENT LIABILITIES		
Trade payables	25,991	9,106
Due to subsidiaries	10,226,838	9,395,164
Other payables and accruals	41,811	35,878
Tax payable	2,147	1,965
Interest-bearing bank loans	584,082	2,572,906
Senior notes	19,411	19,752
Total current liabilities	10,900,280	12,034,771
NET CURRENT LIABILITIES	(971,686)	(1,424,398)
TOTAL ASSETS LESS CURRENT LIABILITIES	14,494,598	11,256,493
NON-CURRENT LIABILITIES		
Derivative financial instruments	183,749	225,031
Senior notes	1,886,148	1,918,700
Interest-bearing bank loans	4,099,892	1,216,577
Total non-current liabilities	6,169,789	3,360,308
Net assets	8,324,809	7,896,185
EQUITY		
Issued capital	5,519	5,516
Reserves (note)	8,098,573	7,802,864
Proposed dividend	220,717	87,805
Total equity	8,324,809	7,896,185

Luo Fei
Director

Wang Yidong
Director

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	673,589	(1)	3,260,270	168,275	–	(415,234)	4,221,830	7,908,729
Total comprehensive income for the year	–	–	–	–	–	(269,184)	395,021	125,837
Shares issued for the equity-settled share option arrangements	15,406	–	–	(3,580)	–	–	–	11,826
Equity-settled option arrangements	–	–	–	42,450	–	–	–	42,450
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	(14,394)	–	–	14,394	–
Final 2020 and interim 2021 dividend declared	–	–	–	–	–	–	(198,173)	(198,173)
Proposed final 2021 dividend	–	–	–	–	–	–	(87,805)	(87,805)
At 31 December 2021 and 1 January 2022	**688,995**	**(1)**	**3,260,270**	**192,751**	**–**	**(684,418)**	**4,345,267**	**7,802,864**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**851,589**	**(94)**	**851,495**
Shares issued for the equity-settled share option arrangements	**5,996**	**–**	**–**	**(1,124)**	**–**	**–**	**–**	**4,872**
Equity-settled option arrangements	**–**	**–**	**–**	**(64,773)**	**–**	**–**	**–**	**(64,773)**
Equity-settled share award arrangements	**–**	**–**	**–**	**–**	**20,231**	**–**	**–**	**20,231**
Transfer of share option reserve upon the forfeiture or expiry of share options	**–**	**–**	**–**	**(25,370)**	**–**	**–**	**25,370**	**–**
Share purchased for the 2022 Share Award Schemes	**–**	**(61,776)**	**–**	**–**	**–**	**–**	**–**	**(61,776)**
Final 2021 and interim 2022 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**(233,623)**	**(233,623)**
Proposed final 2022 dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(220,717)**	**(220,717)**
At 31 December 2022	**694,991**	**(61,777)**	**3,260,270**	**101,484**	**20,231**	**167,171**	**3,916,203**	**8,098,573**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, pursuant to the reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

46. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 21 March 2023.

FIVE YEAR FINANCIAL SUMMARY

31 December 2022

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022 RMB'000**
RESULTS					
REVENUE	10,132,498	10,925,217	11,194,679	11,547,825	**12,775,914**
Gross profit	6,739,720	7,228,541	7,186,991	7,247,982	**7,703,488**
PROFIT BEFORE TAX	1,527,924	1,565,200	1,604,660	850,213	**1,030,931**
Income tax expense	(684,776)	(560,151)	(467,966)	(341,729)	**(419,148)**
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	843,148	1,005,049	1,136,694	508,484	**611,783**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	1.32	1.57	1.77	0.79	**0.96**
– Diluted	1.30	1.55	1.76	0.79	**0.95**

	31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022 RMB'000**
ASSETS AND LIABILITIES					
Non-current assets	10,322,022	10,663,772	12,249,872	14,768,283	**15,103,606**
Current assets	4,532,565	5,197,601	4,968,553	5,513,464	**5,859,419**
Current liabilities	(3,201,692)	(3,203,050)	(3,277,701)	(6,821,933)	**(5,134,883)**
Non-current liabilities	(6,803,348)	(7,064,517)	(7,738,037)	(7,574,628)	**(9,686,289)**
Total Equity	4,849,547	5,593,806	6,202,687	5,885,186	**6,141,853**

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HEALTH AND HAPPINESS.

IT'S IN OUR NAME.

IT'S IN OUR EVERY DAY.

IT'S IN EVERYTHING WE DO.

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