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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	% of Change
	RMB'000	*RMB'000*	
Revenue	**10,132,498**	8,095,345	25.2%
Gross profit	**6,739,720**	5,265,614	28.0%
Adjusted EBITDA*	**2,480,738**	2,245,467	10.5%
Adjusted net profit for the year**	**1,323,031**	1,208,431	9.5%
Cash flows from operating activities***	**2,409,670**	2,405,362	0.2%
Adjusted earnings per share ("EPS")****	**RMB2.07**	RMB1.91	8.4%
Proposed dividend per ordinary share	**HKD0.48**	–	–

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the year ended 31 December 2018 amounted to RMB2,158.6 million (2017: RMB2,060.4 million). Adjusted EBITDA = EBITDA + Non-recurring losses of RMB16.2 million for the year ended 31 December 2018 (2017: RMB94.7 million) + Non-cash losses of RMB305.9 million for the year ended 31 December 2018 (2017: RMB90.4 million)

** Net profit for the year ended 31 December 2018 amounted to RMB843.1 million (2017: RMB928.5 million). Adjusted net profit = Net profit + EBITDA adjustment items of RMB322.1 million (2017: RMB185.1 million) + Other non-recurring losses of RMB123.8 million (2017: RMB28.3 million) + Other non-cash losses of RMB34.0 million (2017: RMB66.5 million)

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

**** Adjusted EPS = Adjusted net profit/Adjusted weighted average number of ordinary shares

The board (the "Board") of directors (the "Directors") of Health and Happiness (H&H) International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**10,132,498**	8,095,345
Cost of sales		**(3,392,778)**	(2,829,731)
Gross profit		**6,739,720**	5,265,614
Other income and gains	5	**75,375**	143,460
Selling and distribution expenses		**(3,703,414)**	(2,711,707)
Administrative expenses		**(619,577)**	(486,019)
Other expenses		**(486,103)**	(356,339)
Finance costs		**(479,377)**	(492,173)
Share of profit of an associate		**1,300**	5,902
PROFIT BEFORE TAX	6	**1,527,924**	1,368,738
Income tax expense	7	**(684,776)**	(440,240)
PROFIT FOR THE YEAR		**843,148**	928,498
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive 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		**118,609**	(119,692)
Reclassification adjustments for (losses)/gains included in profit or loss		**(142,993)**	130,880
Income tax effect		**4,649**	8,741
Exchange realignment		**(932)**	(109)
		(20,667)	19,820
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(3,182)**	(171,865)
Exchange differences on translation of foreign operations		**21,526**	(80,864)
Exchange differences on net investment in a foreign operation		**(309,655)**	321,644
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(311,978)**	88,735
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**531,170**	1,017,233

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

Year ended 31 December 2018

	Note	**2018** *RMB'000*	2017 *RMB'000*
Profit attributable to:			
Owners of the parent		**843,148**	932,846
Non-controlling interests		**–**	(4,348)
		843,148	928,498
Total comprehensive income attributable to:			
Owners of the parent		**531,170**	1,007,363
Non-controlling interests		**–**	9,870
		531,170	1,017,233
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**1.32**	1.48
Diluted		**1.30**	1.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**480,288**	503,587
Prepaid land lease payments		**57,331**	58,809
Goodwill		**5,295,242**	5,376,818
Intangible assets		**3,588,823**	3,564,964
Bonds receivable		**137,148**	136,361
Loans receivable		**–**	44,910
Deposits		**191,232**	14,965
Investment in an associate		**51,882**	41,095
Held-to-maturity investment		**–**	22,259
Deferred tax assets		**362,559**	296,907
Derivative financial instruments		**95,388**	79,529
Pledged deposits		**3,924**	–
Other non-current financial assets		**58,205**	–
Total non-current assets		**10,322,022**	10,140,204
CURRENT ASSETS			
Inventories		**1,565,152**	1,012,619
Trade and bills receivables	*10*	**861,862**	694,696
Prepayments, other receivables and other assets		**159,230**	117,394
Loan to an associate		**–**	40,000
Loans receivable		**13,678**	21,748
Derivative financial instruments		**4,301**	3,247
Pledged deposits		**15,948**	11,082
Cash and cash equivalents		**1,912,394**	2,090,280
Total current assets		**4,532,565**	3,991,066
CURRENT LIABILITIES			
Trade and bills payables	*11*	**829,607**	644,690
Other payables and accruals		**1,736,521**	1,563,339
Contract liabilities		**100,880**	–
Derivative financial instruments		**–**	5,968
Interest-bearing bank loans		**–**	508,467
Senior notes		**236,351**	284,235
Tax payable		**298,333**	291,150
Total current liabilities		**3,201,692**	3,297,849
NET CURRENT ASSETS		**1,330,873**	693,217

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2018

	2018	2017
	RMB'000	*RMB'000*
NET CURRENT ASSETS	**1,330,873**	693,217
TOTAL ASSETS LESS CURRENT LIABILITIES	**11,652,895**	10,833,421
NON-CURRENT LIABILITIES		
Senior notes	**3,038,335**	3,646,428
Interest-bearing bank loans	**2,692,250**	1,844,277
Other payables and accruals	**7,423**	32,997
Derivative financial instruments	**77,042**	186,195
Deferred tax liabilities	**988,298**	910,432
Total non-current liabilities	**6,803,348**	6,620,329
Net assets	**4,849,547**	4,213,092
EQUITY		
Issued capital	**5,473**	5,447
Other reserves	**4,579,488**	4,207,645
Proposed dividend	**264,586**	–
Total equity	**4,849,547**	4,213,092

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

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

Prior to the acquisition of an approximate 83% equity interest in Swisse Wellness Group Pty Ltd. ("Swisse") and its subsidiaries on 30 September 2015 (the "Acquisition"), the Company and its subsidiaries (the "Group") was principally involved in the manufacture and sale of premium pediatric nutrition and baby care products. Upon the completion of the Acquisition, the Group has expanded its businesses into the production and sale of adult nutrition supplements and skincare products. The Acquisition has enabled the Group to reposition itself as an all-round premium family nutrition and care provider.

On 7 February 2017, the Group acquired the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings Pty Ltd., the intermediate holding company of Swisse, (the "17% Acquisition") at a cash consideration of 311,300,000 in Australian dollars ("AUD") (equivalent to approximately 1,633,360,000 in Renminbi ("RMB")). Since then, Swisse became a wholly-owned subsidiary of the Group.

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

2. BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than those as further explained below, the application of these new and revised IFRSs in the current year has had no materiel impact on the Group's consolidated financial statements.

IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 Financial Instruments: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

IFRS 15

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract liabilities account balance between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/ (decrease)** *RMB'000*
Assets		
Prepayments, other receivables and other assets	*(i)*	3,771
Liabilities		
Other payables and accruals		
– Refund liabilities	*(i)*	459,972
– Accruals	*(i)*	(456,201)
– Deferred revenue	*(ii)*	(77,070)
– Advances from customers	*(iii)*	(21,665)
Contract liabilities	*(ii)/(iii)*	98,735
Total liabilities		3,771

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Notes	**IFRS 15** *RMB'000*	**Previous IFRS** *RMB'000*	**Increase/ (decrease)** *RMB'000*
Prepayments, other receivables and other assets	*(i)*	159,230	157,184	2,046
Total assets		14,854,587	14,852,541	2,046
Other payables and accruals	*(i)/(ii)/(iii)*	1,743,944	1,842,778	(98,834)
– Refund liabilities	*(i)*	645,835	–	645,835
– Accruals	*(i)*	609,572	1,253,361	(643,789)
– Deferred revenue	*(ii)*	–	77,889	(77,889)
– Advances from customers	*(iii)*	–	22,991	(22,991)
Contract liabilities	*(ii)/(iii)*	100,880	–	100,880
Total liabilities		10,005,040	10,002,994	2,046
Net assets and total equity		4,849,547	4,849,547	–

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 are described below:

(i) Variable consideration

Certain sales contracts of the Group provide customers with rights of return and sales rebates. Under IFRS 15, rights of return and sales rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

Rights of return

For a contract that provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns based on the average historical return rate. Before the adoption of IFRS 15, the amount of revenue related to the expected returns was reversed and the cost of the goods expected to be returned was adjusted in cost of sales, with the difference recognised as accruals which were included in other payables and accruals in the statement of financial position.

Upon adoption of IFRS 15, the Group recognised a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability was recognised based on the amount that the Group expects to return to the customers using the expected value method. Accordingly, the Group reclassified accruals of RMB21,857,000 to refund liabilities as included in other payables and accruals and right-of-return assets as included in prepayments, other receivables and other assets, amounting to RMB25,628,000 and RMB3,771,000, respectively, as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in prepayments, other receivables and other assets of RMB2,046,000, an increase in refund liabilities and a decrease in other payables and accruals by RMB22,853,000 and RMB20,807,000, respectively, both included in other payable and accruals.

Sales Rebate

Before the adoption of IFRS 15, the Group estimated the expected sales rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in accruals as included in other payables and accruals.

Upon the adoption of IFRS 15, the Group has applied either the most likely amount method or the expected value method for the estimation of the variable consideration for expected sales rebates which are recorded as refund liabilities. The Group determined the amount recognised under the most likely amount method or the expected value method should approximate to the amount recognised according to the previous accounting policy. Accordingly, the Group reclassified accruals of RMB434,344,000 to refund liabilities, both included in other payables and accruals for the expected future rebates as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in refund liabilities and a decrease in accruals of RMB622,982,000.

(ii) Customer loyalty program

The Group operates customer loyalty program which allow customers to accumulate points when they purchase Biostime branded products from the Group. Under IFRS 15, the loyalty points give rise to a separate performance obligation because they provide a material right to the customers and the Group allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the customer loyalty program should approximate to the amount recognised according to the previous accounting policy.

Before the adoption of IFRS 15, the amount of revenue related to the customer loyalty program was deferred and recognised as deferred revenue which was included in other payables and accruals in the statement of financial position. Upon the adoption of IFRS 15, it was recognised as contract liabilities. Accordingly, the Group reclassified deferred revenue of RMB77,070,000 related to the customer loyalty program as included in other payables and accruals to contract liabilities as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in contract liabilities and a decrease in deferred revenue of RMB77,889,000 included in other payables and accruals.

(iii) Advances from customers

Advance payment is normally required for the sales to customers in Mainland China except in limited circumstances for credit sales. Before the adoption of IFRS 15, the amount of revenue related to the advance payment was deferred and recognised in advances from customers included in other payables and accruals in the statement of financial position. Upon the adoption of IFRS 15, the Group reclassified the deferred revenue of RMB21,665,000 related to advance payments to contract liabilities from advances from customers as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in contract liabilities and a decrease in advance from customers of RMB22,991,000 included in other payables and accruals.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains, share of results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

Operating segment information for the year ended 31 December 2018:

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue (note 5):						
Sales to external customers	**4,508,539**	**1,044,614**	**4,244,206**	**335,139**	**–**	**10,132,498**
Segment results	**3,013,265**	**805,844**	**2,738,172**	**182,439**	**–**	**6,739,720**
Reconciliations:						
Interest income						**24,116**
Other income and unallocated gains						**51,259**
Share of profit of an associate						**1,300**
Corporate and other unallocated expenses						**(4,809,094)**
Finance costs						**(479,377)**
Profit before tax						**1,527,924**
Other segment information:						
Depreciation and amortisation	**11,244**	**5,383**	**90,212**	**10,029**	**58,513**	**175,381**
Impairment/(write-back of impairment) of trade receivables	**785**	**–**	**9**	**(564)**	**–**	**230**
Write-down of inventories to net realisable value	**34,648**	**2,216**	**37,117**	**6,554**	**–**	**80,535**
Capital expenditure*	**147,362**	**15,025**	**19,003**	**156,973**	**16,312**	**354,675**

Operating segment information for the year ended 31 December 2017:

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	3,717,214	781,741	3,413,878	182,512	–	8,095,345
Segment results	2,499,425	592,873	2,073,786	99,530	–	5,265,614
Reconciliations:						
Interest income						38,299
Other income and unallocated gains						105,161
Share of profit of an associate						5,902
Corporate and other unallocated expenses						(3,554,065)
Finance costs						(492,173)
Profit before tax						1,368,738
Other segment information:						
Depreciation and amortisation	168	1,226	166,992	9,441	59,973	237,800
Impairment/(write-back of impairment) of trade receivables	216	–	(6,142)	1,206	–	(4,720)
Write-down of inventories to net realisable value	70,217	176	18,492	6,545	–	95,430
Capital expenditure*	4,547	19,484	725,516	5,483	10,132	765,162

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

Geographical information

(a) *Revenue from external customers*

	2018 *RMB'000*	2017 *RMB'000*
Mainland China	**7,176,707**	5,482,301
Australia and New Zealand	**2,508,751**	2,312,634
Other locations*	**447,040**	300,410
	10,132,498	8,095,345

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

(b) *Non-current assets*

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**543,504**	583,829
Australia and New Zealand	**2,695,995**	3,468,705
Other locations*	**1,130,057**	130,886
	4,369,556	4,183,420

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

* Including the special administrative regions of the People's Republic of China (the "PRC").

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**10,132,498**	8,095,345

(i) *Disaggregated revenue information*

For the year ended 31 December 2018

Segments

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

* Including the special administrative regions of the PRC.

(ii) Performance obligations

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

Other income and gains

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**15,787**	26,634
Interest income from loans and bonds receivables	**8,329**	11,665
Foreign exchange gains	**–**	53,887
Fair value gains on derivative financial instruments	**5,968**	32,372
Fair value gains on financial assets	**1,103**	–
Government subsidies*	**26,615**	18,433
Gain on deemed disposal of partial interest in an associate	**9,487**	–
Others	**8,086**	469
	75,375	143,460

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

6. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**3,312,243**	2,734,301
Depreciation	**74,302**	71,526
Amortisation of intangible assets	**99,601**	164,796
Amortisation of prepaid land lease payments	**1,478**	1,478
Auditor's remuneration	**6,594**	6,378
Research and development costs**	**151,179**	98,630
Minimum lease payments under operating leases	**68,725**	65,877
Loss on disposal of items of property, plant and equipment**	**4,408**	2,081
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,039,010**	851,112
Pension scheme contributions (defined contribution schemes)	**124,185**	103,386
Staff welfare and other expenses	**75,949**	50,288
Equity-settled share option expense	**48,776**	27,879
Equity-settled share award expense	**23,078**	30,093
	1,310,998	1,062,758
Foreign exchange differences, net	**275,854****	(53,887)*
Fair value losses on derivative financial instruments, net	**21,580**	144,272
Fair value gains on financial assets*	**(1,103)**	–
Impairment/(write-back of impairment) of trade receivables**	**230**	(4,720)
Write-down of inventories to net realisable value#	**80,535**	95,430
Loss on redemption of convertible bonds	**–**	13,061
Premium paid for early redemption of part of the senior notes	**29,986**	–
Partial derecognition of early redemption option**	**9,498**	–
Impairment of intangible assets**	**–**	24,323

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

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

Included in "Cost of sales" in profit or loss.

7. INCOME TAX

	2018	2017
	RMB'000	*RMB'000*
Current		
– Charge for the year		
Mainland China	**506,341**	370,652
Hong Kong	**17,371**	5,086
Australia	**228,822**	81,667
Elsewhere	**4,601**	(8,327)
– Overprovision in the prior year	**(41,207)**	(10,995)
Deferred	**(31,152)**	2,157
Total tax charge for the year	**684,776**	440,240

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% (2017: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. Biostime (Guangzhou) Health Products Limited ("Biostime Health"), the Company's wholly-owned subsidiary operating in Mainland China, was recognised as a high-technology enterprise in December 2017, and is subject to EIT at a rate of 15% for three years from 2017 to 2019. Therefore, Biostime Health was subject to EIT at a rate of 15% (2017: 15%) for the year ended 31 December 2018.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (2017: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd. ("Biostime Healthy Australia") and its wholly owned Australian subsidiaries have elected to form an income tax consolidated group, for Australian income tax purposes.

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

In addition to its own current and deferred tax amounts, Biostime Healthy Australia also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries within the income tax consolidated 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 is recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**1,527,924**	1,368,738
Tax at the applicable PRC enterprise income tax rate	**381,981**	342,185
Overseas tax differences	**41,816**	31,259
Tax effects on preferential tax rates	**(33,144)**	–
Expenses not deductible for tax	**129,096**	108,479
Effect of lower enacted tax rate used for the recognition of deferred tax	**(57)**	–
Tax losses utilised from previous periods	**(24,300)**	(90,103)
Income not subject to tax	**(26,268)**	(36,527)
Tax losses not recognised	**55,018**	36,112
Adjustment in respect of current tax of previous periods	**(41,207)**	(10,995)
Tax on internal transfer of assets	**113,446**	–
Effect of withholding tax at 5% or 10% (2017: 5% or 10%) on the distributable profits of the Group's subsidiaries in Mainland China	**88,395**	59,830
Tax charge at the Group's effective rate	**684,776**	440,240

8. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Proposal final – HKD0.48 (2017: Nil) per ordinary share	**264,586**	–

No interim dividend was proposed during the year ended 31 December 2018 (2017: Nil).

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 637,645,122 (2017: 632,354,043) in issue during the year.

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

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**843,148**	932,846
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**639,181,952**	633,667,133
Weighted average number of shares held for the share award schemes	**(1,536,830)**	(1,313,090)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**637,645,122**	632,354,043
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**12,573,245**	7,101,930
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**650,218,367**	639,455,973

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**756,876**	636,494
Less: Impairment provision	**(5,393)**	(4,744)
	751,483	631,750
Bills receivable	**110,379**	62,946
	861,862	694,696

In Mainland China, advance payment is normally required, except in limited circumstances for credit sales. In other regions, credit sales were usually allowed with a term of 30 to 60 days from the invoice date. 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 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:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**532,291**	394,479
1 to 3 months	**307,943**	290,573
Over 3 months	**21,628**	9,644
	861,862	694,696

Impairment under IFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

			Past due		
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	0.23%	1.51%	3.48%	10.80%	0.71%
Gross carrying amount (RMB'000)	641,355	65,413	33,957	16,151	756,876
Expected credit losses (RMB'000)	1,478	988	1,183	1,744	5,393

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

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade and bills receivables of RMB4,744,000 with a carrying amount before provision of RMB4,744,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that are were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	559,524
Less than 1 month past due	113,432
1 to 3 months past due	15,947
Over 3 months past due	5,793
	694,696

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

11. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**813,659**	632,039
Bills payable	**15,948**	12,651
	829,607	644,690

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:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**499,252**	417,060
1 to 3 months	**287,672**	219,238
Over 3 months	**42,683**	8,392
	829,607	644,690

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

As at 31 December 2018, included in the trade payables was an amount due to the Group's associate of RMB1,925,000 (2017:RMB4,391,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

BUSINESS REVIEW

2018 was another successful year for the Group with all parts of its business performing strongly. Despite the macroeconomic environment becoming increasingly unstable throughout the year, the Group's two core business segments achieved double-digit revenue growth while maintaining healthy profitability.

During the year under review, total revenue reached RMB10,132.5 million for the year ended 31 December 2018, an improvement of 25.2% compared to the previous year, with the Group's baby nutrition and care ("**BNC**") and adult nutrition and care ("**ANC**") segments accounting for approximately 58.1% and 41.9% of total revenue respectively. Adjusted EBITDA for the year under review was RMB2,480.7 million, an increase of 10.5% compared to the previous year. Adjusted net profit was RMB1,323.0 million, an increase of 9.5% compared to the previous year.

In 2018, the Group continued to work towards its strategic goal of becoming a global premium wellness player by further driving the growth of its BNC and ANC businesses in core markets, accelerating the global footprint of its brands, and growing its product portfolio. The Group also successfully implemented many initiatives, including three key milestones. The first was the launch of its new Infant Milk Formula ("**IMF**") series following the introduction of new registration rules in China in 2018, which was also a landmark year for the domestic IMF market. In order to comply with the new registration rules, the Group successfully registered and launched upgraded formulas and new packaging for its new IMF series under the Biostime and Healthy Times brands in the beginning of 2018, smoothly transitioning its IMF series from old to new products.

The second milestone was completing the transition of the global distribution rights for Swisse, with the Group transitioning of the remaining markets in 2018, including Hong Kong, Singapore, Italy, Netherlands and the United Kingdom. Following this smooth transition, the Group invested in and achieved strong growth in these markets, which provides a basis of further expanding the Swisse brand in new and emerging markets.

Last but not least, the Group launched an exciting range of new products in different markets, including pregnancy and infant ranges, a probiotics range, and a lifestyle range under the Swisse brand, in response to the increasing consumer demand for these new categories in the global vitamin, herbal and mineral supplements ("**VHMS**") sector.

In 2018, the BNC segment achieved robust revenue growth both in China and other global markets. Revenue derived from the BNC business, which includes the Group's IMF, probiotic and baby care products, reached RMB5,888.3 million in 2018, up 25.8% compared to the previous year. The IMF segment in China remained the largest contributor to the BNC business, despite several challenges including the declining birth-rate, weakening economic growth, and the stricter registration rules, which is intensifying competition among major players. However, the Chinese IMF market continued to thrive in 2018, particularly the premium and super premium segments, a factor which underpinned the Group's strong performance in 2018. Its IMF business increased by 21.3% in 2018, as a result of the Group's premium positioning, strong branding and marketing initiatives, and channels investments. Sales of the Group's Biostime and Healthy Times branded IMF products increasing by 18.9% and 171.8%, respectively.

According to Nielsen, an independent market research company, the market share in China held by the Group's premium and super premium series under Biostime and Healthy Times brands increased to 5.8% for the twelve months ended 31 December 2018. Consequently, the Group's share of the overall IMF market in China increased to 5.9% for the twelve months ended 31 December 2018.

The Group also positioned itself to capture the fast growing organic IMF segment – a market that grew 42.4% in 2018, according to Nielsen. In particular, the Group continued to expand the brand exposure of its IMF products under the Healthy Times brand, building on its earlier launch in the China and US markets. At the same time, the Group appointed a well-regarded Chinese celebrity as brand ambassador for Healthy Times, while also promoting the benefits of organic and natural raw ingredients for infants. Both of these actions were highly instrumental in positioning the brand squarely at the centre of China's rapidly growing organic IMF market.

Meanwhile, the Group continued to see strong sales momentum for its probiotic products segment, with new probiotic products being introduced in the Hong Kong and French markets in 2018. Revenue derived from this segment reached RMB1,044.6 million, an increase of 33.6% compared to the previous year, which was mostly attributed to comprehensive branding and marketing campaigns, and continued robust consumer demand towards probiotic products.

Apart from the IMF and probiotic segments, sales of other pediatric products also grew rapidly in 2018, which mostly attributed to the sale of Dodie branded products in its home French market, as well as in China. In France, the Group leveraged Dodie's 60th anniversary to launch a new accessories collection, new brand campaigns, and a new personal care range for infants, which received very positive consumer feedback.

The Group also accelerated the penetration of its Dodie premium diaper range in China in 2018 – which was first launched in September 2017 – to capture opportunities arising from the recent premiumization of the domestic diaper market. This effort was supported by the appointment of Guo Jingjing, a Chinese Olympic medal-winning diver, as a brand ambassador, as well as comprehensive marketing campaigns on Chinese online and offline platforms.

Global demand for health supplements remained strong in 2018, driven by consumers' growing aspiration for healthier lifestyles, as well as increasing purchasing power in markets such as China. In 2018, Swisse continued to invest in its home markets, while launching new product categories and expanding into new markets. Revenue derived from the Group's ANC segment continued to grow very strongly in 2018, reaching AUD859.0 million, an 30.3% increase compared to the previous year on a currency-adjusted basis. Australia and New Zealand ("**ANZ**") and China active sales[1] increased by 13.7% and 63.2%, respectively. This result was primarily attributed to robust growth in the Chinese market, which contributed 35.6% of total Swisse sales in 2018, while sales in Swisse's Australian home market continued to outperform the industry, resulting in market share gain.

[1] *Note:* China active sales include sales from Cross-border E-commerce ("**CBEC**") and normal trade

According to research statistics by IRI, an independent market research company, Swisse further strengthened its leading position in the Australian VHMS market, with a market share of 18.6% for the twelve months ended 31 December 2018. Swisse also holds a leading position in the Chinese online VHMS market. This strong outcome was the result of a well-coordinated marketing strategy – which strengthened the brand's premium position in the VHMS markets of both countries – as well as the launch of new products ranges under the Swisse brand, including new pregnancy and infant series, alongside new probiotics and lifestyle ranges.

In the Chinese market, Swisse's revenue growth, particularly in the Cross-border E-Commerce ("**CBEC**") segment, was driven by a number of innovative marketing campaigns and interactions with key opinion leaders. Swisse was named the number one health brand and number one imported consumer brand across all industries during TMall's landmark "Single's Day" shopping festival in November 2018, during which it launched new product series that were well received in the Chinese CBEC market.

Swisse also expanded its normal trade business in China in 2018, successfully registering its high-selling Ultiboost Calcium + Vitamin D product with the State Administration for Market Regulation ("**SAMR**") – the first Australian-made VHMS product approved under China's new "blue hat" filing process. Meanwhile, the Group continued to expand and deepen its penetration of offline distribution channels in China, including a new cosmetics channel, to further expand Swisse's brand exposure, leveraging its more comprehensive range of products and enlarged network.

The Group also laid the foundation for future innovation and success with the launch of a new wholly owned innovation fund, NewH², which aims to invest up to a total of USD60 million in emerging and innovative technologies, product categories and business models. This initiative will enable the Group to leverage external innovation capabilities and entrepreneurial ventures to capture future growth opportunities.

In connection with NewH², the Group has entered into a licensing and co-development agreement with Relief Therapeutics Holding SA, a clinical-stage biotechnology company based in Switzerland, to develop a disruptive technology and products which are derived from whey and/or no-fat milk and have the potential to prevent allergies. The Group will also continue to leverage on the Biostime Institute for Nutrition and Care ("**BINC**") in Geneva to underpin the premium quality of the Group's products.

PROSPECTS

Following the integration of Swisse's new fully controlled markets into the wider Group, the Group will continue to implement its Premium, Proven and Aspirational ("**PPA**") model and undertake innovative marketing campaigns and celebrity endorsements to positively convey the image of its brands on a local and global scale. The Group will further leverage its Chinese distribution network and resources to facilitate brand exposure in this market, while also integrating its global brand assets to accelerate its expansion in international markets. For instance, the Group launched Biostime's organic IMF products and probiotics products in Australia at the beginning of 2019, appointing model Miranda Kerr as Biotime's brand ambassador in this market.

In addition to its existing growth strategy, the Group is also exploring new product categories including organic baby food, goat milk infant formula, and the adult natural beauty segment. In September 2018, the Group completed its acquisition of Good Goût, a French organic baby food brand, which will enable it to further capture the strong growth momentum of the organic baby food segment in France, China and other international markets where there is increasing consumer demand for proven and premium BNC products. To support the future expansion of its IMF product range, the Group recently acquired a CNCA[1]-approved factory in Australia that has the capability to produce goat milk infant formula. This acquisition will enable the Group to tap into other parts of the fast-growing IMF segment in China.

Furthermore, the Group is taking steps to explore the global premium and natural beauty segment following its acquisition of Aurelia Probiotic Skincare, an ultra-premium skincare brand that combines sustainably sourced Bio-Organic botanical ingredients and probiotics, which will further complement the care segment of its ANC business.

Baby Nutrition and Care

In 2019, the Group anticipates competition in the Chinese IMF market to remain intensely competitive. However, the Group believes that it can consolidate its leading position in the market by leveraging on its leadership in the premium and super premium segments as the premiumization trend continues. In order to stay ahead of toughening competition in both the online and offline markets, the Group will continue to invest in branding and marketing campaigns, launch new product categories, and deepen its distribution network and enhance its strategic partnerships with key customers in China. In January 2019, the Group became one of the key sponsors of the high-profile annual ceremony “Weibo Nights”, achieving 12 billion brand exposures during the event and enhancing its premium branding among consumers, as well as its customer engagement.

Adult Nutrition and Care

The Group believes that demand for health products will continue to grow, in line with increasing health-consciousness as more and more young consumers enter the category. In order to capture these opportunities, the Group will further grow Swisse’s brand exposure in the Chinese online and offline markets, as well as in other global markets, with the launch of new products, innovative marketing and branding campaigns, and through continued investment in sales channels.

The Group sees great opportunities arising from the China State Council’s decision to expand the CBEC pilot zone to 37 cities (as of 31 December 2018), which it expects will boost the sustainable growth of Swisse’s CBEC business in China. To facilitate the expansion of its normal trade business in China, the Group is currently preparing filing documents for several Swisse products in 2019, following the approval of Swisse’s Ultiboost Calcium + Vitamin D product license by SAMR in July 2018. The Group will continue to focus on new product development as one of its main growth drivers, to further meet ever-changing consumer demand in the future.

[1] *Note:* Certification and Accreditation Administration of the People’s Republic of China

In line with its PPA model, the Group recently appointed an influential and well-recognized Hollywood actor, Chris Hemsworth as Swisse's new global brand ambassador. This addition to Swisse's team of brand ambassadors, which includes critically-acclaimed actress Nicole Kidman, former international cricketer Ricky Ponting, and Australia's No.1 men's tennis player, Alex de Minaur, perfectly places the Group to further grow the Swisse brand around the world.

Capital Structure

The Group further improved its leverage ratio and capital structure in 2018 as a result of strong revenue growth and cash flow generation. In June 2018, the Group successfully optimised its capital structure with a new 3-year term loan facility that refinanced an existing senior secured term loan facility with significantly improved terms and conditions, while also redeeming some of its senior notes in the second half of 2018. Going forward, the Group expects that it will continue to generate strong cash flow from its current business operations to further improve capital efficiency.

CHALLENGES

In 2019, the Group expects that market competition would continue to intensify given the ongoing birthrate decline, weaker macro-economy and stricter regulatory environment. This competitiveness will be driven by the ongoing consolidation in the Chinese market that has been taking place since the new IMF registration rules came into force at the beginning of 2018. This consolidation has led major IMF brands to step up their investment in branding and marketing initiatives to win the market share vacated by smaller brands who are exiting the market as a result of the registration rules. In response to this toughening competition, the Group will continue to consolidate its leadership in the premium and super premium segments of the market through aspirational branding, product differentiation, the introduction of new products, continued penetration of both the online and offline markets in China, as well as through global expansion.

The Group's ANC business growth is currently facing some headwinds from the impact of the new E-commerce law in China targeting daigou-related channels. This law, which was first announced in August 2018 and came into force on 1 January 2019, requires all online merchants, including daigou, to register with SAMR and file taxes with the Tax Bureau. While the implementation of the new E-commerce law could benefit larger players operating within a more regulated environment, small-scale merchants and daigou who are currently operating without an appropriate license may face pressure to exit the market. Although its daigou channels are currently being impacted, the Group believes that overall demand for VHMS products will remain strong and will gradually shift to major CBEC and other emerging online platforms. At the same time, the Group will continue to invest in marketing globally in order to drive brand awareness, consumer education and conversion through its omni channels that better meet ever-changing consumer demand across different channels.

SOCIAL RESPONSIBILITY

Throughout 2018, the Group demonstrated its high level of commitment to sustainability and how it can be applied in ways that balance environmental, social and economic factors. The Group has also introduced discipline and structure around the application of sustainability and governance in areas including compliance, reporting and aligned community investment, while also making sustainability a standing item at all board meetings.

This was demonstrated by the development of a publicly available Supplier Code of Conduct, the accounting of all scope 1 & 2 carbon emissions across all locations globally and the subsequent offsetting of those emissions. The Group actively participates in World Environment Day and is also listed as one of the top 90 companies of the Hang Seng Corporate Sustainability Benchmark Index. Furthermore, the Group is building community-based programs, such as the launch of the global H&H Foundation, which aim to advance the story of health through the context of the needs of communities. It has also kicked off activity around World Community Day with team members from all regions volunteering within their local communities.

In 2018, the Group has become a member of three leading sustainability associations: The Sustainability Consortium, the Shared Value Project and the United Nations Global Compact. The Group intends to harness these opportunities to move the discussion beyond the basics and towards a more expansive view of sustainability that creates new forms of value and improves its competitive positioning within the different markets in which it operates. In 2019, the Group will continue to increase awareness, understanding and thought leadership, while increasing the level of support for a more pro-active and value-focused approach to sustainability.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2018, the Group's revenue increased by 25.2% to RMB10,132.5 million as compared with the year ended 31 December 2017. Despite an unstable overall macro-environment, the Group achieved double-digit revenue growth in both baby nutrition and care and adult nutrition and care segments in 2018 driven by the continued growth in both segments and effective strategic and operational initiatives taken by the Group.

	Year ended 31 December				
				% to revenue	
	2018	2017	*Change*	**2018**	2017
	RMB'000	*RMB'000*			
Baby nutrition and care products	**5,888,292**	4,681,467	25.8%	**58.1%**	57.8%
– Infant formulas	**4,508,539**	3,717,214	21.3%	**44.5%**	45.9%
– Probiotic supplements	**1,044,614**	781,741	33.6%	**10.3%**	9.7%
– Other pediatric products	**335,139**	182,512	83.6%	**3.3%**	2.2%
Adult nutrition and care products	**4,244,206**	3,413,878	24.3%	**41.9%**	42.2%
Total	**10,132,498**	8,095,345	25.2%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB4,508.5 million for the year ended 31 December 2018, representing an increase of 21.3% compared with the year ended 31 December 2017. The growth was mainly attributable to the strong demand of Biostime branded super premium and premium series IMF products resulting from continuous and effective investments in marketing and channel initiatives, despite a number of challenges in China including the declining birth-rate, lower economic growth, and stricter registration rules, which leads to intensifying competition among IMF market. Incremental sales from the Healthy Times branded organic IMF also contributed to the Group's sales growth. For the year ended 31 December 2018, revenue from the Group's Biostime and Healthy Times branded IMF products increased by 18.9% and 171.8%, respectively, as compared with last year, and the Healthy Times branded organic IMF accounted for 4.7% of the Group's total IMF revenue.

Probiotic Supplements

For the year ended 31 December 2018, the Group recorded revenue from probiotic supplements of RMB1,044.6 million, a strong growth of 33.6% compared with RMB781.7 million in 2017. The growth was mostly attributed to the growing demand for the probiotic supplements and the Group's comprehensive branding and marketing campaigns.

Other pediatric products

Revenue from other pediatric products segment increased by 83.6% to RMB335.1 million for the year ended 31 December 2018 from RMB182.5 million in last year. This rapid growth was mostly attributed to the sale of Dodie branded products in its home French market, as well as in China, which was further supported by the appointment of a Chinese Olympic medal-winning diver as a brand ambassador, as well as comprehensive marketing campaigns on Chinese online and offline platforms. Sales of Dodie branded diaper, which was launched in the Chinese market in late September 2017, increased by 702.7% to RMB131.9 million for the year ended 31 December 2018 as compared with last year.

Adult nutrition and care products

On currency adjusted basis, revenue from the adult nutrition and care products segment amounted to AUD859.0 million for the year ended 31 December 2018, representing an increase of 30.3% from AUD659.4 million for the year ended 31 December 2017. In 2018, Swisse continued to invest in its core markets, while launching new product categories and expanding into new markets. The growth was mainly attributable to robust growth in the Chinese market, which contributed 35.6% of total Swisse sales in 2018, while sales in Swisse's Australian home market continued to outperform the industry, resulting in market share gain. Revenue from Australia and New Zealand market and China active sales increased by 13.7% and 63.2% to AUD507.8 million and AUD306.2 million, respectively, for the year ended 31 December 2018 as compared with last year. Revenue from the markets of Hong Kong, Singapore, Italy and Netherlands which have been consolidated into the Group's revenue since the completion of the transfer of Swisse's distribution rights from PGT Healthcare LLP ("PGT") reached AUD25.2 million.

Gross profit and gross profit margin

In 2018, the Group recorded gross profit of RMB6,739.7 million, an increase of 28.0% compared with the prior year. The Group's gross profit margin increased from 65.0% in 2017 to 66.5% in 2018.

The gross profit of the baby nutrition and care segment increased by 25.4% to RMB4,001.5 million in 2018 compared with the last year. The gross profit margin of the baby nutrition and care segment maintained stable at 68.0% in 2018, compared with 68.2% in 2017. Despite the pressure from rising raw material prices and higher packaging and logistics costs, the gross profit margin remained stable thanks to the lower slow-moving stocks provision and write-offs resulting from the optimization of inventory management, and a more favorable product mix towards higher-margin super premium IMF series and probiotic supplements.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 38.4% to AUD554.2 million in 2018, compared with AUD400.5 million in 2017. The gross profit margin of the adult nutrition and care segment increased to 64.5% in 2018, as compared with 60.7% in 2017, which was mainly driven by the increase of sales prices of certain stock keeping units ("SKUs"), an improved product mix towards higher proportion of sales from the higher-margin SKUs, as well as the enhancement of inventory management efficiencies.

Other income and gains

Other income and gains amounted to RMB75.4 million for the year ended 31 December 2018. Other income and gains primarily consisted of regular government grant of RMB26.6 million, interest income of RMB24.1 million, gain on deemed disposal of partial interest in an associate of RMB9.5 million, fair value gains from forward currency contract of RMB6.0 million and others. In 2018, other income and gains decreased by RMB68.1 million as compared with last year. The decrease was mainly led by the combining effect of: i) a decrease in net foreign exchange gain of RMB53.9 million; and ii) a decrease in non-cash fair value gain on the early redemption option embedded in the senior notes of RMB26.4 million mainly due to the early redemption of part of the senior notes in October 2018. In 2018, the Group incurred a fair value loss on the early redemption option embedded in the senior notes and a net foreign exchange loss, which were booked under other expenses.

Selling and distribution costs

Selling and distribution costs amounted to RMB3,703.4 million in 2018, an increase by RMB991.7 million, or 36.6% as compared with 2017. Selling and distribution costs as a percentage of the Group's revenue was 36.5% in 2018, increased by 3.0 percentage point as compared with 33.5% in 2017.

As the Group recognizes the growth of both business segments is becoming more brand-driven, the Group has voluntarily shifted the investment focus from channels to advertising and marketing in order to sustain and strengthen our leading position. The Group undertook innovative advertising campaigns and added new celebrity endorsements that positively conveyed the premium and aspirational image of the Group's brands on both local and global scales. Expenses for advertising and marketing activities thus rose by 76.0% from RMB843.9 million in 2017 to RMB1,485.6 million for this year.

Advertising and marketing expense as percentage to the Group's revenue increased from 10.4% in 2017 to 14.7% in 2018. These expenses were budgeted and incurred according to the Group's strategic growth plan. The Group considered the expenses were critical especially because 2018 is the first year when the Chinese new IMF registration rules became effective, at the same time with the completion of the transition of the global distribution rights for Swisse. These investment activities proved effective with positive feedback received from consumers worldwide and market share gain achieved in all key markets where the Group operates.

Meanwhile, the selling and distribution costs other than advertising and marketing as percentage to the Group's revenue improved to 21.8% in 2018, compared with 23.1% in 2017, thanks to optimization of the selling and distribution management efficiency.

Administrative expenses

Administrative expenses increased by 27.5% from RMB486.0 million in 2017 to RMB619.6 million in 2018. The increase in administrative expenses was mainly due to the additional employee expenses incurred as the Group enhanced its operational capability to support global expansion, as well as the one-off transaction costs related to the attempted refinancing of the senior notes and mergers and acquisitions ("M&A") projects.

Administrative expenses as a percentage of the Group's revenue was 6.1% in 2018, slightly increased by 0.1 percentage point as compared with 6.0% in 2017.

Other expenses

Other expenses for 2018 increased to RMB486.1 million from RMB356.3 million in 2017. Other expenses mainly included R&D expenditure of RMB151.2 million, net foreign exchange loss of RMB275.9 million, non-cash fair value losses on the Group's derivative financial instruments of RMB27.5 million, and partial derecognition of early redemption option of RMB9.5 million and others.

During 2018, R&D expenditure increased by 53.3% as compared with last year. The increase in R&D expenditure was mainly due to the investment in new product development, as one of the main revenue growth driver, to meet the ever-changing consumer demand. The Group will continue to commit investment in R&D activities to sustain the long-term growth of the Group.

The net foreign exchange loss of RMB275.9 million mainly consisted of: 1) unrealized loss of RMB64.7 million from the revaluation on the Group's term loan post refinancing on 27 June 2018 till late September 2018 upon completion of syndication and entrance into hedge agreements, and 2) unrealized loss of RMB153.4 million due to the revaluation on intra-group loans between the Company and its subsidiaries resulting from historical intra-group transaction.

The non-cash fair value loss on derivative financial instruments of RMB27.5 million was mainly caused by the fair value loss on the early redemption option embedded in the Group's senior notes.

EBITDA and EBITDA margin

Adjusted EBITDA increased by 10.5% from RMB2,245.5 million in 2017 to RMB2,480.7 million in 2018. Adjusted EBITDA margin for 2018 was 24.5%, decreasing by 3.2 percentage points as compared with that of 2017. The lower adjusted EBITDA margin was mainly due to the Group's planned additional investments in its brands, sales channels as well as new product development, among which included: 1) higher marketing and channel investment during the critical period after the Chinese new IMF registration rules became officially effective at the beginning of 2018, and 2) investment in brand building and channel expansion activities along with the completion of the transition of the global distribution rights for Swisse.

EBITDA for the year ended 31 December 2018 amounted to RMB2,158.6 million, increased by 4.8% from RMB2,060.4 million for the year ended 31 December 2017, which was a high base including a large amount of non-cash foreign exchange gain. EBITDA margin was 21.3% during the year 2018.

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	
	2018	2017
	RMB million	*RMB million*
EBITDA	**2,158.6**	2,060.4
Reconciled by:		
Non-recurring items*:		
(1) Non-recurring transaction costs in relation to attempted refinancing of senior notes and M&A	**16.2**	–
(2) Non-recurring integration costs	**–**	29.9
(3) One-time restructuring costs related to early childhood education business	**–**	30.0
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**–**	34.8
Non-cash items*:		
(5) Net foreign exchange losses/(gains)	**275.9**	(53.9)
(6) Net fair value losses on the financial instruments and partial derecognition of early redemption option embedded in the senior notes	**30.0**	144.3
Adjusted EBITDA	**2,480.7**	2,245.5

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

Finance costs

During the year ended 31 December 2018, the Group incurred finance costs of RMB479.4 million, including interests for the term loan and senior notes of RMB415.4 million, premium of RMB30.0 million paid for early redemption of part of the senior notes and write-off of previously capitalized transaction costs of RMB34.0 million after the successful refinancing of the term loan in June 2018.

Income tax expense

Income tax expense increased from RMB440.2 million in 2017 to RMB684.8 million in 2018.

The effective tax rate increased from 32.2% in 2017 to 44.8% in 2018. The Group's normalized effective tax rate in 2018 was 33.7%, excluding (i) the one-off net capital tax gain raised from the intellectual property ("IP") transferred within the Group's subsidiaries as part of the Group-wide integration initiatives to streamline the global supply chain and accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back, which accounted for 6.1% of the current period effective tax rate; and (ii) the non-recurring foreign exchange losses and net fair value losses on the financial instruments, which accounted for 5.0% of the current period effective tax rate.

Net profit and adjusted net profit

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

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Net profit	**843.1**	928.5
Reconciled by:		
EBITDA adjusted items as listed above	**322.1**	185.1
Non-recurring items*:		
(1) One-time net capital gain tax in relation to IP transferred within the Group's subsidiaries and accelerated amortization of intangible assets of PGT royalty agreement	**93.8**	–
(2) Premium paid for early redemption of part of the senior notes and loss on redemption of the convertible bonds	**30.0**	13.1
(3) Bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse	**–**	15.2
Non-cash items*:		
(4) Write-off of transaction costs upon refinancing for the term loan	**34.0**	–
(5) One-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back	**–**	66.5
Adjusted net profit	**1,323.0**	1,208.4

* 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 2018, the Group recorded net cash generated from operating activities of RMB1,697.2 million, resulting from pre-tax cash from operations of RMB2,409.7 million, minus income tax paid of RMB712.5 million.

Investing activities

For the year ended 31 December 2018, net cash flows used in investing activities amounted to RMB748.6 million, primarily related to the payments for acquisition of subsidiaries.

Financing activities

For the year ended 31 December 2018, net cash flows used in financing activities amounted to RMB1,118.9 million. The cash outflows were primarily related to the repayment of term loans of RMB2,333.6 million, early redemption of part of the senior notes of RMB896.8 million and interest paid for term loans and senior notes of RMB522.7 million. The cash outflows were partially offset by the net proceeds from the successful refinancing of new term loan of RMB2,657.7 million.

Cash and bank balances

As of 31 December 2018, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,912.4 million.

Term loan and senior notes

In mid-June 2018, the Group successfully refinanced its existing term loan by a new three-year term loan of USD300 million with significant improvement on the terms and conditions. In September 2018, the new term loan was further upsized to USD400 million due to the oversubscription by lenders during the syndication process. As of 31 December 2018, the Group's outstanding term loans amounted to RMB2,692.3 million, all are payable after one year.

In October 2018, in order to reduce finance cost and optimize capital structure, the Company redeemed USD125 million in principle amount of its USD600 million 7.25% senior notes due 2021. As of 31 December 2018, the total carrying amount of the senior notes was RMB3,274.7 million.

For the year ended 31 December 2018, net leverage ratio decreased to 1.6 from 1.9 for the year ended 31 December 2017, calculated by dividing the net debts*Note* by adjusted EBITDA. Gearing ratio decreased to 40.2% from 44.5% for the year ended 31 December 2017, calculated by dividing the sum of the carrying amount of senior notes and interest bearing term loan by total assets.

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

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables increased slightly by 1 day from 27 days for the year ended 31 December 2017 to 28 days for the year ended 31 December 2018. The average turnover days of trade payables were 78 days for the year ended 31 December 2018, representing an increase of 4 days from 74 days as compared with that of 2017.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 137 days for the year ended 31 December 2018, representing an increase of 23 days from 114 days in 2017 mainly because the IMF inventory at end of 2017 was kept at a low base before the switch from old products to newly registered series with upgraded formulas and new packages.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HKD0.48 per ordinary share for the year ended 31 December 2018, accounting for approximately 20.0% of adjusted net profit and approximately 31.4% of net profit for the year ended 31 December 2018.

Subject to approval at the forthcoming annual general meeting on Friday, 10 May 2019, the said final dividend will be payable on or about 10 July 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 21 May 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

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

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

On 4 January 2019, the Group acquired 100% equity interest in Aurelia Probiotic Skincare, an ultra-premium skincare brand that combines Bio-Organic botanical ingredients sustainably sourced and probiotics. The total purchase consideration for the acquisition of GBP21.0 million was settled in form of cash.

To the best of the knowledge of the Directors having made all reasonable enquiries, the subject company and the vendors in this acquisition are parties independent of the Company and its connected persons. The Directors confirm that as all the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of this acquisition were less than 5% and did not involve the issue of any securities by the Company, the acquisition did not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2018 and up to the date of this announcement, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

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

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

Relationship with Employees

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

Relationship with Customers

The Mama100 membership program offers extensive membership services to the Group's customers. 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 customers and better understand consumer needs and demands.

Relationship with Suppliers

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

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2019 Annual General Meeting

The forth coming annual general meetings will be held on Friday, 10 May 2019 (the "2019 AGM"). The register of members of the Company will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019, 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 2019 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, 6 May 2019.

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 17 May 2019 to Tuesday, 21 May 2019, 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 Thursday, 16 May 2019.

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 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Throughout the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1 as disclosed below.

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

During the year ended 31 December 2018, Mr. Luo Fei, the Chairman of the Company, was also the Chief Executive Officer of the Company. The Board believed that vesting the roles of both Chairman and Chief Executive Officer in the same person could ensure consistent leadership within the Board and the Group, including an effective and efficient overall strategy, risk management and corporate governance for the Group. The Board was also of the view that such arrangement did not impair the balance of power and authority in the Group, which had been adequately ensured by the Board comprising experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Nonetheless, in light of the significant expansion of the Group in recent years, the Board is of the view that having two separate individuals performing each of these two roles will be conducive to the further development of the Group because such change will enable each of the Chairman and the Chief Executive Officer to devote more time and energy to and to focus on their respective roles. Accordingly, on 19 March 2019, Mr. Luo Fei resigned from and ceased to act in the concurrent role of the Chief Executive Officer of the Company while he continued to serve as an executive Director and the Chairman, and Mrs. Laetitia Garnier, an executive Director and the chief strategy officer of the Company, succeeded Mr. Luo and was appointed as the Chief Executive Officer of the Company. Please refer to the announcement of the Company dated 19 March 2019 titled "Change of Chief Executive Officer" for further details.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2018.

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 2018.

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

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2018 and the annual results for the year ended 31 December 2018, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and the Annual Report for the year ended 31 December 2018, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2018, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

In October 2018, the Company redeemed USD125 million in principle amount of its USD600 million 7.25% senior notes due 2021.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2018 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 19 March 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong; the non-executive Directors of the Company are Dr. Zhang Wenhui and Mr. Luo Yun; and the independent non-executive Directors of the Company are Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun.