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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	% of Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Revenue	**4,573,574**	3,551,415	28.8%
Gross profit	**3,075,690**	2,315,688	32.8%
Adjusted EBITDA*	**1,249,006**	1,074,750	16.2%
Adjusted net profit**	**701,061**	495,670	41.4%
Net cash flows from operating activities before corporate income tax	**1,149,178**	1,069,638	7.4%
Basic earnings per share	**RMB0.60**	RMB0.64	(6.3)%

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the six months ended 30 June 2018 amounted to RMB965.7 million (six months ended 30 June 2017: RMB1,004.0 million). Adjusted EBITDA = EBITDA + net foreign exchange loss/(gain) + net fair value losses on derivative financial instruments + non-recurring integration costs – gain on deemed disposal of partial interest in an associate + one-time expense paid to the original shareholders of Swisse on some tax refund

** Net profit for the six months ended 30 June 2018 amounted to RMB384.3 million (six months ended 30 June 2017: RMB396.6 million). Adjusted net profit = Adjusted EBITDA – depreciation and amortization – finance costs + interest income – income tax expenses + write-off of unamortized transaction costs upon refinancing the interest-bearing bank loans + bank charges relating to the financing for the acquisition of the remaining 17% non-controlling interest in Swisse + non-recurring loss on redemption of convertible bonds

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017, as follows:

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

Six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**4,573,574**	3,551,415
Cost of sales		**(1,497,884)**	(1,235,727)
Gross profit		**3,075,690**	2,315,688
Other income and gains	*5*	**25,756**	111,242
Selling and distribution costs		**(1,546,415)**	(1,072,163)
Administrative expenses		**(295,875)**	(219,620)
Other expenses		**(360,439)**	(195,903)
Finance costs		**(242,634)**	(306,056)
Share of profit/(loss) of an associate		**497**	(25)
PROFIT BEFORE TAX	*6*	**656,580**	633,163
Income tax expense	*7*	**(272,268)**	(236,533)
PROFIT FOR THE PERIOD		**384,312**	396,630

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
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 period	**64,123**	(107,805)
Reclassification adjustments for gains/(losses) included in profit or loss	**(70,715)**	84,198
Income tax effect	**(673)**	7,082
Exchange realignment	**(999)**	(82)
	(8,264)	(16,607)
Hedge of net investments:		
Effective portion of changes in fair value of hedging instruments arising during the period	**(30,406)**	(30,850)
Exchange differences on translation of foreign operations	**42,130**	(14,652)
Exchange differences on net investment in a foreign operation	**(201,647)**	267,501
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(198,187)**	205,392
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**186,125**	602,022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2018

	Note	**Six months ended 30 June 2018** *RMB'000* **(Unaudited)**	2017 *RMB'000* (Unaudited)
Profit attributable to:			
Owners of the parent		**384,312**	401,230
Non-controlling interests		**–**	(4,600)
		384,312	396,630
Total comprehensive income attributable to:			
Owners of the parent		**186,125**	592,137
Non-controlling interests		**–**	9,885
		186,125	602,022
		RMB (Unaudited)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**0.60**	0.64
Diluted		**0.59**	0.63

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2018

	Notes	**30 June 2018 RMB'000 (Unaudited)**	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**488,194**	503,587
Prepaid land lease payments		**58,071**	58,809
Goodwill		**5,141,865**	5,376,818
Intangible assets		**3,371,427**	3,564,964
Bonds receivable		**133,726**	136,361
Loans receivable		**6,355**	44,910
Deposits		**14,222**	14,965
Investment in an associate		**51,078**	41,095
Held-to-maturity investment		**–**	22,259
Deferred tax assets		**287,508**	296,907
Derivative financial instrument	*12*	**25,297**	79,529
Other non-current financial assets		**56,026**	–
Restricted deposit		**3,931**	–
Total non-current assets		**9,637,700**	10,140,204
CURRENT ASSETS			
Inventories		**1,357,233**	1,012,619
Trade and bills receivables	*10*	**665,088**	694,696
Prepayments, deposits and other receivables		**140,328**	117,394
Loan to an associate		**–**	40,000
Loans receivable		**17,668**	21,748
Derivative financial instruments	*12*	**1,895**	3,247
Restricted deposits		**1,411**	11,082
Cash and cash equivalents		**1,989,671**	2,090,280
Total current assets		**4,173,294**	3,991,066
CURRENT LIABILITIES			
Trade and bills payables	*11*	**741,937**	644,690
Other payables and accruals		**857,304**	1,563,339
Contract liabilities		**602,761**	–
Derivative financial instruments	*12*	**9,189**	5,968
Interest-bearing bank loans		**905**	508,467
Senior notes		**287,821**	284,235
Tax payable		**159,477**	291,150
Total current liabilities		**2,659,394**	3,297,849
NET CURRENT ASSETS		**1,513,900**	693,217
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,151,600**	10,833,421

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
30 June 2018

	Note	**30 June 2018** *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Senior notes		**3,691,596**	3,646,428
Interest-bearing bank loans		**1,949,968**	1,844,277
Other payables and accruals		**31,750**	32,997
Derivative financial instruments	*12*	**144,188**	186,195
Deferred tax liabilities		**873,553**	910,432
Total non-current liabilities		**6,691,055**	6,620,329
Net assets		**4,460,545**	4,213,092
EQUITY			
Issued capital		**5,469**	5,447
Other reserves		**4,455,076**	4,207,645
Total equity		**4,460,545**	4,213,092

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 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. ("**Biostime Healthy Australia**"), the intermediate holding company of Swisse, (the "**17% Acquisition**") at a cash consideration of 311,300,000 in Australian dollars ("**A$**") (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 AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 (the "**Period**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") (which also include International Accounting Standards and Interpretations) as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as further explained below. The application of these new and revised IFRSs in the Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

IFRS 15

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption and it elected to apply that method to only those contracts that were not completed at the date of initial application. The comparative information for each of the primary financial statements would be presented based on the requirements of IAS 18 and related interpretations.

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

The Group has concluded that revenue from sale of its products should be recognised at a point in time when control of the assets is transferred to the customer, generally on delivery of these products. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. The impact on the amount of revenue to be recognised was further explained 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

The Group uses the "expected value method" to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. Prior to the adoption of IFRS 15, the amount of revenue related to the expected returns was adjusted and recognised in the statement of financial position within *Other payables and accruals* with a corresponding adjustment to *Cost of sales*. Upon the adoption of IFRS 15, the Group presents *refund liabilities* and an asset for the right to recover products from customers within *Other payables and accruals* and *Inventories* respectively.

Sales rebates

To estimate the variable consideration to which it will be entitled, the Group applied the "expected value method". The Group determined the amount recognised under the "expected value method" should approximate to the amount recognised according to the previous accounting policy. Prior to the adoption of IFRS 15, the Group estimated the expected sales rebates using the probability-weighted average amount of rebates approach and included a provision for rebates within *Other payables and accruals*. Under IFRS 15, the Group presents *Contract liabilities* to reflect the sales rebates in the statement of financial position.

(ii) Loyalty point programmes

The Group operates loyalty point programmes 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 loyalty programme should approximate to the amount recognised according to the previous accounting policy. The deferred revenue related to this loyalty point programmes was reclassified to *Contract liabilities* from *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. Prior to the adoption of IFRS 15, the amount of revenue related to the advance payment was deferred and recognised in the statement of financial position within *Other payables and accruals*. Upon the adoption of IFRS 15, the Group reclassified the deferred revenue related to advance payments to *Contract liabilities* from *Other payable and accruals*.

(iv) Presentation and disclosure requirements

As required for the interim condensed financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature and amount of revenue are affected by economic factors. Refer to Note 4 for the disclosure on disaggregated revenue.

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.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL") and amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instrument's contractual cash flows represent solely payments of principal and interest on the principal amount outstanding (the "SPPI" criterion).

The new classification and measurement of the Group's debt instruments are as follows:

– Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's *trade and bills receivables, financial assets included in prepayments, deposits and other receivables, bonds receivable, loans receivable and loan to an associate.*

– Similar to IAS 39, IFRS 9 required derivative financial instruments which are not designated for hedge purpose to be classified as financial instruments at FVPL. However, under IFRS 9, embedded derivatives are no longer required to be separated from their host contracts. Instead, financial assets are classified based on their contractual terms and the Group's business model in its entirety. Accordingly, a loan receivable with a conversion option with an aggregate carrying amount of RMB38,687,000, adjusted for the respective fair value loss adjustment of RMB5,928,000, as at 31 December 2017 was reclassified from loans receivable and derivative financial instruments to fair value at FVPL upon the adoption of IFRS9. The Group has also reclassified its held-to-maturity investment with carrying amount of RMB22,259,000 as at 31 December 2017 upon the adoption of IFRS 9. Other non-current financial assets are financial assets at FVPL.

The assessment of the Group's business model was made as of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9, retrospectively, with the initial application date of 1 January 2018. The Group selected not to adjust the comparative information as at 31 December 2017 and recognised the transition adjustments, amounting to RMB5,928,000, against the opening balance of equity as at 1 January 2018.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss approach. This change, however, has had no material impact on the Group's financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. In the prior period, the Group used to have three reportable operating segments, including the infant formulas segment, the adult nutrition and care products segment, and other pediatric products segments. During the Period, in order to better allocate the resources of the Group and assess the performance of different operating segments, the following reportable operating segments, which are subject to risks and returns that are different from those of the other business segments, are adopted by the Group:

(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, skincare 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 six months ended 30 June 2018 (Unaudited):

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	**2,093,242**	**553,942**	**1,795,600**	**130,790**	**–**	**4,573,574**
Segment results	**1,385,100**	**431,631**	**1,176,388**	**82,571**	**–**	**3,075,690**
Reconciliations:						
Interest income						**11,158**
Other income and unallocated gains						**14,598**
Share of profit of an associate						**497**
Corporate and other unallocated expenses						**(2,202,729)**
Finance costs						**(242,634)**
Profit before tax						**656,580**
Other segment information:						
Depreciation and amortisation	**5,440**	**2,465**	**44,105**	**4,741**	**20,863**	**77,614**
Write-back of impairment of trade receivables	**(30)**	**–**	**–**	**–**	**–**	**(30)**
Write-down of inventories to net realisable value	**22,259**	**120**	**24,961**	**1,946**	**–**	**49,286**
Capital expenditure*	**7,593**	**9,283**	**6,379**	**3,898**	**841**	**27,994**

Operating segment information for the six months ended 30 June 2017 (Unaudited):

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000* (Restated)	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000* (Restated)	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	1,661,255	337,782	1,465,950	86,428	–	3,551,415
Segment results	1,134,510	254,920	877,509	48,749	–	2,315,688
Reconciliations:						
Interest income						20,905
Other income and unallocated gains						90,337
Share of loss of an associate						(25)
Corporate and other unallocated expenses						(1,487,686)
Finance costs						(306,056)
Profit before tax						633,163
Other segment information:						
Depreciation and amortisation	93	660	48,724	4,711	31,485	85,673
Impairment of trade receivables	–	–	285	–	–	285
Write-down of inventories to net realisable value	22,862	19	21,144	5,680	–	49,705
Capital expenditure*	1,128	4,325	13,130	1,097	2,603	22,283

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Restated)
Mainland China	**3,301,087**	2,359,266
Australia and New Zealand	**1,081,978**	1,045,978
Other locations#	**190,509**	146,171
	4,573,574	3,551,415

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

(b) Non-current assets

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**567,566**	583,829
Australia and New Zealand	**3,274,860**	3,468,705
Other locations[#]	**140,566**	130,886
	3,982,992	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 represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts (net of value-added tax and goods and services tax) during the Period.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	**4,573,574**	3,551,415
Other income and gains		
Bank interest income	**7,036**	15,167
Interest income from loans and bonds receivables	**4,122**	5,738
Gain on deemed disposal of partial interest in an associate	**9,487**	–
Foreign exchange gains	**–**	50,988
Fair value gain on derivative financial instruments	**–**	33,202
Fair value gains on financial assets	**1,304**	–
Government subsidies*	**2,434**	3,650
Others	**1,373**	2,497
	25,756	111,242

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

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**1,448,598**	1,186,022
Depreciation	**35,894**	35,989
Amortisation of intangible assets	**40,982**	48,946
Amortisation of prepaid land lease payments	**738**	738
Research and development costs**	**60,701**	38,723
Minimum lease payments under operating leases	**33,514**	32,587
Loss on disposal of items of property, plant and equipment	**3,435**	579
Employee benefit expenses:		
Wages and salaries	**506,571**	396,190
Pension scheme contributions (defined contribution schemes)	**59,797**	50,884
Staff welfare and other expenses	**39,212**	21,900
Equity-settled share option expense	**22,171**	5,889
Equity-settled share award expense	**14,563**	14,137
	642,314	489,000
Foreign exchange differences, net	**218,123****	(50,988)
Fair value losses on derivative financial instruments, net	**70,139****	73,935
(Write-back of)/impairment of trade receivables**	**(30)**	285
Write-down of inventories to net realisable value#	**49,286**	49,705
Loss on redemption of convertible bonds	**–**	13,322
Gain on deemed disposal of partial interest in an associate*	**(9,487)**	–

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

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

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

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	**215,365**	194,262
Hong Kong	**7,738**	4,565
Australia	**40,226**	38,287
Elsewhere	**4,058**	(9,748)
Deferred	**4,881**	9,167
Total tax charge for the period	**272,268**	236,533

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

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% (six months ended 30 June 2017: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

Australia corporate income tax

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

Tax consolidation legislation

Biostime Healthy Australia and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biostime Healthy Australia, and the wholly-owned entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the 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 the unused tax losses and unused tax credits assumed from wholly-owned entities in the 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 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.

Income tax for other jurisdictions

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

8. DIVIDENDS

No interim dividend was proposed during the Period (six months ended 30 June 2017: Nil).

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 Period attributable to ordinary equity holders of the parent of RMB384,312,000 (six months ended 30 June 2017: RMB401,230,000), and the adjusted weighted average number of ordinary shares of 636,595,218 (six months ended 30 June 2017: 629,327,032) in issue during the Period.

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**384,312**	401,230
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**638,395,052**	632,467,772
Weighted average number of shares held for the share award schemes	**(1,799,834)**	(3,140,740)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**636,595,218**	629,327,032
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**13,396,812**	8,369,791
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**649,992,030**	637,696,823

10. TRADE AND BILLS RECEIVABLES

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Trade receivables	**605,787**	636,494
Bills receivable	**63,094**	62,946
	668,881	699,440
Less: Impairment provision	**(3,793)**	(4,744)
	665,088	694,696

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 the adult nutrition and care products with credit terms of 30 to 60 days from end of month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. Bills receivable represent bank acceptance notes issued by banks in Mainland China which are non-interest-bearing.

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

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Within 1 month	**362,690**	394,479
1 to 3 months	**282,545**	290,573
Over 3 months	**19,853**	9,644
	665,088	694,696

11. TRADE AND BILLS PAYABLES

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Trade payables	**740,526**	632,039
Bills payable	**1,411**	12,651
	741,937	644,690

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Within 1 month	**475,038**	417,060
1 to 3 months	**220,034**	219,238
Over 3 months	**46,865**	8,392
	741,937	644,690

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

		30 June 2018		31 December 2017	
	Notes	**Assets** *RMB'000* **(Unaudited)**	**Liabilities** *RMB'000* **(Unaudited)**	Assets *RMB'000* (Audited)	Liabilities *RMB'000* (Audited)
Current					
Conversion option embedded in a loan receivable		**–**	**–**	2,745	–
Forward currency contracts		**1,895**	**9,189**	502	5,968
		1,895	**9,189**	3,247	5,968
Non-current					
Early redemption option embedded in the senior notes	*(a)*	**25,297**	**–**	79,529	–
The Swaps (as defined below)	*(b)*	**–**	**–**	–	52,137
The CCSs (as defined below)	*(c)*	**–**	**144,188**	–	134,058
		25,297	**144,188**	79,529	186,195

Notes:

(a) An early redemption option which is embedded in the senior notes, issued on 21 June 2016 was separately recognised. The fair value of the early redemption option as at 30 June 2018 was RMB25,297,000 (31 December 2017: RMB79,529,000). A fair value loss of RMB52,943,000 was recognised in profit or loss for the Period (six months ended 30 June 2017: a gain of RMB27,231,000).

(b) A subsidiary of the Group entered into interest rate swap, cross currency swap and cross currency interest rate swap agreements (collectively the "**Swaps**") with financial institutions with an aggregate notional amount of 239,500,000 in United Stated dollars ("**US$**") for the purpose of hedging the foreign currency risk and interest rate risk in relation to a US$ denominated floating rate bank borrowing (the "**US$ loan**").

The terms of the Swaps have been negotiated to match the terms of the US$ loan. The cash flow hedge relating to the expected interest and principal payments was assessed to be highly effective. Upon the completion of the refinancing of the US$ loan during the Period, the Swaps were terminated. Amounts previously recognised in other comprehensive income in relation to the Swaps have been reclassified to profit or loss in the Period. For the Period, a gain of RMB64,123,000 (six months ended 30 June 2017: a loss of RMB16,607,000) was included in the hedging reserve as follows and a net loss of the ineffective portion of RMB5,158,000 (six months ended 30 June 2017: a loss of RMB3,320,000) was charged to profit or loss.

	Six months ended 30 June 2018 *RMB'000* **(Unaudited)**
Total fair value gains included in the hedging reserve	**64,123**
Deferred tax on fair value gains	**(19,237)**
Reclassified from other comprehensive income and recognised in profit or loss	**(70,715)**
Deferred tax on reclassifications to profit or loss	**18,564**
Exchange realignment	**(999)**
Net loss on cash flow hedges	**(8,264)**

(c) The Company also entered into certain cross currency swap agreements ("**CCSs**") with financial institutions with an aggregate notional amount of RMB2,026,210,000 the purpose of managing the foreign currency risk of its investments in foreign operations.

In 2017, the CCSs with an aggregate nominal amount of RMB1,512,085,000 were designated as hedging instruments for hedges of net investments in foreign operation which are accounted for in a similar way to cash flow hedges. Gains or losses on those CCSs relating to the effective portion of the hedges are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. The remaining CCSs which did not qualify as hedging instruments are measured at fair value with any gains or losses arising from their changes in fair value taken directly to profit or loss.

The fair value of these CCSs as at 30 June 2018 was RMB144,188,000 (negative) (31 December 2017: RMB134,058,000 (negative)). A net loss of RMB10,247,000 (six month ended 30 June 2017: a loss of RMB103,817,000) arising from the changes in fair value of these CCSs was charged to profit or loss and a net loss on net investment hedge of RMB30,406,000 (six months ended 30 June 2017: 30,850,000) was included in exchange fluctuation reserve, for the Period, respectively. During the Period, the Company has paid net cash of RMB32,917,000 in respective of those CCSs.

13. COMPARATIVE AMOUNTS

As further explained in note 4 to the announcement due to the reorganisation of reportable segments during the Period, certain comparative amounts have been restated to conform with the current period's presentation.

BUSINESS REVIEW

During the first half of 2018, Health and Happiness (H&H) International Holdings Limited's ("**H&H**" or the "**Company**") baby nutrition and care ("**BNC**") and adult nutrition and care ("**ANC**") businesses continued to thrive, with each segment achieving strong double-digit revenue growth.

This growth was driven by rigorous consumer demand, consumption trade-up and rising health awareness in all markets where the Group's BNC and ANC businesses are present, as well as favourable industry developments. The Group's profitability during the first half of the year was also underpinned by effective and continuous investments in branding and marketing, as well as in product innovation and channel expansion.

During the first half of the year, the Group's revenue grew 28.8% to RMB4,573.6 million, compared with the same period of last year, with the BNC and ANC businesses growing 33.2% and 22.5%, respectively. Adjusted EBITDA during the period increased by 16.2% to RMB1,249.0 million, compared with the same period of last year. The Group's adjusted net profit increased by 41.4% to RMB701.1 million, compared to the same period of last year. The BNC and ANC businesses contributed approximately 60.7% and 39.3% of total revenue, respectively.

Revenue derived from the BNC business reached RMB2,778.0 million during the first half of the year, as the result of robust growth in both the infant milk formula ("**IMF**") and probiotic supplement segments. The IMF market remained competitive during the period as major players stepped up their investments in branding and channel initiatives following the commencement of the China Food and Drug Administration's ("**CFDA**") new registration rules on 1 January 2018. The Group's super premium and premium IMF series grew 27.9% compared to the same period of last year, due to ongoing consumption trade-up, as well as continuous and effective investments in marketing and channel initiatives.

Shortly after the commencement of the new registration rules, the Group was one of the first IMF players in China to launch new products with upgraded packaging and formulas for its CFDA-approved series under the Biostime brand. These new products were well received by distributors, retailers and consumers across China and the transition was completed smoothly by the end of June 2018. This positive outcome is being reflected in the Group's growing market share. According to Nielsen, an independent market research company, the market share of Group's premium and super premium series under Biostime and Healthy Times increased to 5.7% for the twelve months ended 30 June 2018, while the share of the Group's mid-tier Adimil branded IMF products weakened compared to the same period of last year. Consequently, the Group's overall market share increased to 5.9% in the first half of 2018, from 5.5% for the twelve months ended 30 June 2017.

Meanwhile, the sales momentum of the Group's probiotics products segment continued throughout the first half of the year. The revenue derived from this segment reached RMB553.9 million, an increase of 64.0% compared to the same period of last year, as a result of rising demand resulting from heightened awareness in China of the benefits of probiotics, effective sales and marketing initiatives, and the successful use of high-profile brand ambassadors. The Group also launched probiotic supplements under the Biostime brand in the French market during the first half of the year, leveraging on Dodie's existing distribution network.

In line with the Group's "Premium, Proven and Aspirational" ("**PPA**") model, the Group expanded the exposure of all brands during the first half of the year. To better capture the fast-growing organic IMF market in China, the Group recently appointed a brand ambassador for Healthy Times while profiling the organic ingredients of the brand's products to position it squarely in the premium and super premium segments. The Group also boosted the sales of the Dodie premium diaper range in China through innovative marketing and an expanded presence on both online and offline platforms. It also launched a Dodie natural skincare line for babies in France, a product that is also positioned in the premium segment.

During the period under review, revenue derived from the Group's ANC business (operating under the Swisse brand) was also robust. Sales rose 29.3% to AU$365.6 million during the period, compared to the same period of last year on a currency-adjusted basis. This result was driven by continued strong growth momentum in the Chinese and Australian markets. Higher price points for Swisse's top-selling products that were rolled out at the beginning of 2018 was well received by the market and helped strengthen the brand's premium position in the vitamin, herbal and mineral supplements ("**VHMS**") markets of both countries and was the basis of Swisse's growing market share during the period. 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 30 June 2018. It also has a leading position in the Chinese online VHMS market.

Swisse's performance in the Australian market was supported by stable growth across various channels, as well as its strong marketing calendar and through-the-line activation of key partnerships such as Scuderia Ferrari F1® Team, sponsorships across cycling with Cadel Evans, Winter Olympics, Australian Football League and the Wallabies rugby team, all of which were brought to life in store with key customers.

Building on Swisse's earlier success with Cross-border Ecommerce ("**CBEC**") platforms in China, the Group expanded this momentum to both new and existing platforms with the launch of innovative marketing campaigns and interactions with key opinion leaders, which successfully drove brand awareness and enhanced active consumer engagement. These campaigns included:

1. Super Brand Day campaigns with Tmall.hk, JD.com, VIP.com and NetEase Kaola.com

2. Marketing campaigns bringing Chinese celebrities to Australia to showcase the origin of the brand's natural ingredients and the Australian lifestyle

3. Online and offline marketing campaigns for a 618 promotional event with Tmall.hk, JD.com, VIP.com and NetEase Kaola.com

4. Sponsorship of the Color Run in cities across China

* The market share is updated by excluding the projections of those independent pharmacies stores and certain grocery stores that do not provide except scan data.

Furthermore, one of the Group's main priorities during the first half of the year was the progressive transfer of Swisse distribution rights from PGT Healthcare LLP ("**PGT**") to the Group's full ownership in Hong Kong, Singapore, Italy, Netherlands and the United Kingdom. The transfer of the Hong Kong market was completed in February 2018, while the transfer in other territories was completed by end of June 2018, marking a significant milestone for the Group. Following each transition, the Group quickly deployed its well-tested global brand assets and partnerships, including with Scuderia Ferrari F1® Team and Nicole Kidman.

In mid-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. This refinancing further improved the Group's capital efficiency and enhanced its financial stability as a whole. The Group also enhanced its net leverage ratio and further developed the financial resources needed to support its future business growth with the strong cash flow generated during the first half of this year.

PROSPECTS

Looking ahead, the Group will focus on integrating Swisse's new fully-controlled markets into the wider Group following the earlier successful transitions of other markets, while building on the significant progress achieved in integrating key functions in other parts of its business, such as new product development, supply chain and operations streamlining, and sales and marketing development.

In the second half of 2018, the Group anticipates competition in the IMF market to remain intense among major players. In response to this competitive landscape, the Group will increase its investment in branding and channel initiatives, while continuing to launch innovative marketing campaigns to build more brand awareness among consumers. The Group recently launched a breast milk nutrition campaign, in collaboration with major retailers and distributors in the maternal and infant industry. The campaign advocated the importance of breast-feeding and educated consumers about the nutritional value of breast milk.

In other parts of the BNC segment, the Group will accelerate the pace of new product development and extend its product portfolio to meet the rising demand of consumers. The Group will soon introduce probiotic drops under the Biostime brand to further build its probiotic product portfolio. It will also explore new sales opportunities for its BNC products in promising markets going forward. The Group also recently appointed Guo Jingjing as a new brand ambassador for Dodie, reinforcing its premium brand image and boosting its brand exposure in online and offline markets.

At the same time, the Group will grow the ANC business by extending and deepening the range of its product portfolio, while strengthening its branding and reputation to build consumer trust and grow its customer base. The Group will launch a highly anticipated pregnancy and infant range and adult probiotics range under the Swisse brand in the second half of this year, which will be supported with innovative brand ambassador campaigns and PR launches. These products will be rolled-out in-store and online in Australia and New Zealand, as well as across Chinese CBEC channels. Furthermore, the continued growth of Swisse's normal trade business in China will be supported with the introduction of more conventional food products, as well as the upcoming launch of Swisse's high-selling Calcium + Vitamin D product – the first Australian-made VHMS product approved by the CFDA through the new filing process. Armed with this comprehensive and innovative product range, the Group is confident about expanding Swisse's presence in China – the world's fastest-growing VHMS market and capturing the future upside of this business.

The Group anticipates great opportunities for sustainable growth within its BNC and ANC businesses, despite ongoing challenges posed by competition and regulatory changes. In regard to the ANC segment, the State Council recently announced another 22 cities as venues for the comprehensive CBEC pilot zones, on top of the 15 cities that were announced in March 2017, in an effort to boost the CBEC business and promote foreign trade. This newly expanded policy initiative signals the Chinese government's intention to develop CBEC as an important channel for meeting robust domestic consumption demands.

In June 2018, the Group launched its first global Sustainability Report, covering all of its businesses and operations worldwide in 2017. The Group was also honoured to participate in the United Nations Global Compact, the world's largest corporate sustainability initiative, completing its first carbon footprint evaluation process and offsetting all Scope 1 and 2 carbon emissions through offset projects. This achievement, coupled with the Group's Sustainability Strategy, places it in a strong position to achieve the commitments and goals set out as part of its formal commitment to build an enduring company that contributes and positively impacts the people and environment around it. Going forward, the Group has made sustainability a standing item at all future board meetings to ensure that continuous progress is made towards achieving its goals and embedding sustainability into its business.

Looking ahead, the Group will continue to develop its PPA model as its core business strategy, supporting this with more innovative marketing campaigns, channel development and product innovation that positively convey the image of its brands on a local and global scale. The Group will also continue to realise more synergies, particularly in its supply chain, distribution capabilities, research and innovation, customer relationship management, corporate culture and personnel. This will ensure that the Group continues to grow its business, as well as its global leadership in premium nutrition and wellness.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2018, the Group's revenue increased by 28.8% to RMB4,573.6 million as compared with the same period in 2017. Thanks to strong consumer demand, consumption trade-up, rising health awareness and other favorable industry developments in all markets the Group presented as well as effective strategic and operational initiatives the Group taken, both baby nutrition and care and adult nutrition and care segments saw strong sales momentum in the first half of 2018.

	Six months ended 30 June			% to revenue	
	2018	2017	*Change*	**2018**	2017
	RMB'000	*RMB'000*			
Baby nutrition and care products	**2,777,974**	2,085,465	33.2%	**60.7%**	58.7%
– Infant formulas	**2,093,242**	1,661,255	26.0%	**45.8%**	46.8%
– Probiotic supplements	**553,942**	337,782	64.0%	**12.1%**	9.5%
– Other pediatric products	**130,790**	86,428	51.3%	**2.8%**	2.4%
Adult nutrition and care products	**1,795,600**	1,465,950	22.5%	**39.3%**	41.3%
Total	**4,573,574**	3,551,415	28.8%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB2,093.2 million for the six months ended 30 June 2018. Despite the IMF market remained competitive as major players stepped up investments in branding and channel initiatives following the commencement of the CFDA's new registration rules on 1 January 2018, the Group still managed to achieve a sales growth of RMB432.0 million, or 26.0%, as compared with the same period of last year. The growth was mainly attributable to the strong demand of Biostime branded super premium and premium series IMF products due to ongoing consumption trade-up, as well as one-off restocking by distributors during the launch of new registered IMF products at the end of February. Incremental sales from the Healthy Times branded organic IMF also contributed to the Group's sales growth.

Probiotic Supplements

During the period under review, the Group recorded revenue from probiotic supplements of RMB553.9 million, delivering a robust growth of 64.0% compared to RMB337.8 million in the corresponding period in 2017. The growth was primarily driven by the rising consumer demand as a result of heightened awareness in China of the health benefits of probiotics and the launch of effective marketing initiatives. The growth was also partially attributable to the backorders placed in the fourth quarter of 2017.

Other pediatric products

Revenue from other pediatric products segment increased by 51.3% to RMB130.8 million for the six months ended 30 June 2018 from RMB86.4 million in the same period last year. The growth was mainly led by the incremental sales from Dodie branded diapers, which started contributing to the Group's revenue from the second half of 2017 and received positive feedback from customers ever since.

Adult nutrition and care products

On currency adjusted basis, revenue from the adult nutrition and care products segment amounted to AU$365.6 million for the six months ended 30 June 2018, representing an increase of 29.3% compared to revenue of AU$282.8 million in the first half of 2017. The growth was mainly attributable to the robust sales momentum in both markets in China and Australia, as well as the Group's increased price points on its top-selling stock keeping units ("**SKUs**") across both the Chinese and Australian markets starting from 1 January 2018. Together with the normal trade kicked off in April 2017, in the Chinese market, active sales in China from both CBEC and normal trade accounted for 35.2% of the total revenue from the adult nutrition and care products segment in the first half of 2018.

Gross profit and gross profit margin

In the first half of 2018, the Group recorded gross profit of RMB3,075.7 million, an increase of 32.8% compared with the same period of last year. The Group's gross profit margin increased from 65.2% in the first half of 2017 to 67.2% during the period under review.

The gross profit of the baby nutrition and care segment increased by 32.1% to RMB1,899.3 million in the first half of 2018 compared with that of last year, with the gross profit margin slightly decreased by 0.6 percentage point to 68.4%. The lowered gross profit margin was mainly caused by the increased cost of packaging materials and the increased cost of IMF ingredients resulting from the upgraded formula in IMF products. The decline in gross profit margin was partially offset by the improvement in product mix towards larger proportion of sales from the higher-margin Biostime branded infant formulas and probiotic supplements.

On currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 41.5% to AU$239.5 million in the first half of 2018, compared with AU$169.3 million in the first half of 2017. The gross profit margin of the adult nutrition and care segment significantly increased from 59.9% in the first half of 2017 to 65.5% during the period under review. The increase in gross profit margin was mainly a result of the Group's initiatives taken including sales price increase for the top-selling SKUs, reduction of discounts and bonus stocks to customers, as well as enhancement of inventory management efficiencies.

Other income and gains

For the six months ended 30 June 2018, other income and gains amounted to RMB25.8 million, primarily consisted of interest income of RMB11.2 million, gain on deemed disposal of partial interest in an associate of RMB9.5 million and others. During the period under review, other income and gains decreased by RMB85.5 million as compared to the same period in 2017. The decrease was mainly led by the combining effect of: i) a decrease in non-cash fair value gain on the early redemption option embedded in the senior notes of RMB27.2 million; and ii) a decrease in net foreign exchange gain of RMB51.0 million. In the first half of 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 was booked under other expenses.

Selling and distribution costs

Selling and distribution costs amounted to RMB1,546.4 million in the six months ended 30 June 2018, an increase by RMB474.3 million, or 44.2% as compared to the same period of 2017. Selling and distribution costs as a percentage of the Group's revenue was 33.8% in the first half of 2018, increased by 3.6 percentage point as compared to 30.2% in the comparable period in 2017.

The growth in selling and distribution costs was mainly attributable to the ramped-up investments in advertising and marketing activities when implementing the PPA model as our core business strategy, which include innovative advertising and marketing campaigns as well as celebrity endorsements that positively convey the image of our brands on a local and global scale. Expenses for advertising and marketing activities rose by RMB280.1 million from RMB299.8 million in the first half of 2017 to RMB579.9 million during the period under review.

Advertising and marketing expense as percentage to the Group's revenue increased from 8.4% in the first half of 2017 to 12.7% during the period under review. These expenses were budgeted and incurred according to the Group's new strategic plan. The Group considered the expenses critical especially the current year is the first year the Chinese new IMF registration rules became effective, and at the same time with the distribution rights of marketing and selling of Swisse products in a number of key markets have been transferred from PGT to the Group. These brand investment activities proved effective and it saw positive feedback from consumer markets worldwide.

Administrative expenses

Administrative expenses increased by 34.7% from RMB219.6 million for the six months ended 30 June 2017 to RMB295.9 million for the six months ended 30 June 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.

Administrative expenses as a percentage of the Group's revenue was 6.5% in the first half of 2018, slightly increasing by 0.3 percentage point as compared to 6.2% in the comparable period in 2017.

Other expenses

Other expenses for the six months ended 30 June 2018 increased to RMB360.4 million from RMB195.9 million from the same period of last year. Other expenses mainly included R&D expenses of RMB60.7 million, net foreign exchange loss of RMB218.1 million and non-cash fair value losses on the Group's financial derivative instruments of RMB70.1 million and others.

During the period under review, R&D expenditure increased by 56.8% or RMB22.0 million as compared to the corresponding period of last year. 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 RMB218.1 million was mainly consisted of: 1) unrealized loss of RMB31.4 million from the revaluation on the Group's interest-bearing bank loan post refinancing on 27 June 2018 and senior notes; and 2) unrealized loss of RMB145.8 million due to the revaluation on the intra-group loans between the Company and its subsidiaries resulted from the acquisition of the non-controlling interest in Swisse of AU$311.0 million as well as the first installment for PGT buy-out of US$72.0 million and others.

The net fair value loss on financial derivatives of RMB70.1 million was mainly caused by the fair value loss on the early redemption option embedded in the Group's senior notes of RMB52.9 million.

EBITDA, adjusted EBITDA and related margins

Adjusted EBITDA increased by RMB174.2 million, or 16.2%, from RMB1,074.8 million in the first half of 2017 to RMB1,249.0 million during the period under review. Adjusted EBITDA margin for the first half of 2018 was 27.3%, decreased by 3.0 percentage point as compared to the same period of last year. In the first half of 2018, the decline in adjusted EBITDA margin was mainly led by the Group's stepped-up investments in its brands, sales channel as well as new product development, which included: 1) increased marketing and channel investment during the period when the Chinese new IMF registration rules became effective; and 2) increased investment in brand building activities since the Group bought back the distribution rights from PGT in some key markets.

EBITDA for the six months ended 30 June 2018 amounted to RMB965.7 million, decreased by 3.8% from RMB1,004.0 million for the period ended 30 June 2017, which was a high base since it included a large amount of non-cash foreign exchange gain. EBITDA margin was 21.1% during the period under review.

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
EBITDA	**965.7**	1,004.0
Reconciled by:		
(1) Net foreign exchange loss/(gain)	**218.1**	(51.0)
(2) Net fair value losses on derivative financial instruments	**70.1**	73.9
(3) Non-recurring integration costs	**4.6**	13.0
(4) Gain on deemed disposal of partial interest in an associate	**(9.5)**	–
(5) One-time expense paid to the original shareholders of Swisse on some tax refund	**–**	34.9
Adjusted EBITDA	**1,249.0**	1,074.8

Finance costs

During the six months ended 30 June 2018, the Group incurred finance costs of RMB242.6 million, mainly consisted of interests for bank loans and senior notes of RMB209.2 million and write-off of transaction costs from the refinancing of the interest-bearing bank loan of RMB33.4 million.

Income tax expense

Income tax expense increased from RMB236.5 million in the six months ended 30 June 2017 to RMB272.3 million in the six months ended 30 June 2018.

The effective tax rate increased from 37.4% in the first half of 2017 to 41.5% in the first half of 2018. The Group's effective tax rate was higher than the statutory tax rates of the jurisdictions in which the Group's major subsidiaries operated because certain expenses were not deductible for tax purpose. For instance, the non-trade related foreign exchange losses and fair value losses on derivative financial instruments have accounted for an approximate 7.0% and 1.9% of the current period effective tax rate, respectively.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
Net profit	**384.3**	396.6
Reconciled by:		
(1) Net foreign exchange loss/(gain)	**218.1**	(51.0)
(2) Net fair value losses on derivative financial instruments	**70.1**	73.9
(3) Non-recurring integration costs	**4.6**	13.0
(4) Gain on deemed disposal of partial interest in an associate	**(9.5)**	–
(5) One-time expense paid to the original shareholders of Swisse on some tax refund	**–**	34.9
(6) Write-off of unamortized transaction costs upon refinancing the interest-bearing bank loans	**33.4**	–
(7) Bank charges relating to the financing for the 17% Acquisition	**–**	15.2
(8) Non-recurring loss on redemption of convertible bonds	**–**	13.3
Adjusted net profit	**701.1**	495.7

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2018, the Group recorded net cash generated from operating activities of RMB719.0 million, resulting from pre-tax cash generated from operations of RMB1,149.2 million, minus income tax paid of RMB430.2 million.

Investing activities

For the six months ended 30 June 2018, net cash flows used in investing activities amounted to RMB159.5 million, primarily resulted from the residual payment for the distribution rights buy back from PGT of RMB180.2 million and others.

Financing activities

For the six months ended 30 June 2018, net cash flows used in financing activities amounted to RMB636.5 million. The cash outflows were primarily related to the repayment of bank loans of RMB2,333.6 million and interest for bank loans and senior notes of RMB251.7 million. The cash inflows were primarily related to net proceeds from the successful refinancing of new interest-bearing bank loan of RMB1,932.1 million.

Cash and bank balances

As of 30 June 2018, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB1,989.7 million.

Interest-bearing bank loans and senior notes

In mid-June 2018, the Group successfully refinanced its existing interest-bearing bank loan by a new three-year term loan of US$300 million with significant improvement on the terms and conditions.

As of 30 June 2018, the Group's outstanding interest-bearing bank loans amounted to RMB1,950.9 million, and the total carrying amount of the senior notes was RMB3,979.4 million.

As of 30 June 2018, the annualized net leverage ratio was 1.6, calculated by dividing the net debts[*(Note)*] by annualized adjusted EBITDA. Gearing ratio was 42.9%, 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 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 decreased by 1 days from 28 days for the six months ended 30 June 2017 to 27 days for the six months ended 30 June 2018. The average turnover days of trade payables were 82 days for the six months ended 30 June 2018, representing a decrease of 1 from 83 days as compared to that of 2017.

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

The Group endeavored to maintain its inventory at a healthy level to avoid deep discounting due to excess inventory or short supply. The inventory turnover days were 142 days for the six months ended 30 June 2018, representing an increase by 20 days from 122 days in the first half of 2017.

During the first half of 2017, the Group's BNC business segment was temporarily in low stock level due to the stock lead-time resulted from the stronger-than-expected market demand. It has resumed to the normal stock level as at 30 June 2018, and this led to an increase in inventory turnover days as a result.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

On 1 July 2018, the distribution rights of marketing and selling Swisse products in Singapore, Italy and Netherland were successfully transferred from PGT to the Group, officially making the Group the sole owner of Swisse brand globally.

On 21 June 2018, the Group entered into a facility agreement for a senior secured US dollar term loan facility and a senior secured Australian dollar term loan facility in an aggregated amount of up to US$300 million to be syndicated to other financial institutions, as well as a senior secured multi-currency revolving credit facility of up to US$50 million. Up to the date of this announcement, the syndication is in progress but the facilities have already been oversubscribed by potential lenders well in excess of the facility amounts originally contemplated. Accordingly, the Company has decided to upsize the aggregate size of the facilities to US$450 million, comprised of a US$400 million refinancing term loan facility and a US$50 million revolving credit facility.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. Except for the deviation from code provision A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2018.

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

Mr. Luo Fei, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 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 six months ended 30 June 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**") was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim results announcement complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018.

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 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, 27 August 2018

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.