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 2017

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2017	2016	% of Change
	RMB'000	*RMB'000*	
Revenue	**8,095,345**	6,505,616	24.4%
Gross profit	**5,265,614**	4,059,067	29.7%
Adjusted EBITDA*	**2,245,467**	1,804,716	24.4%
Adjusted net profit for the year**	**1,208,431**	884,013	36.7%
Net cash flows from operating activities	**1,950,814**	1,543,193	26.4%
Basic earnings per share	**RMB1.48**	RMB1.52	(2.6)%

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the year ended 31 December 2017 amounted to RMB2,060.4 million (2016: RMB2,043.1 million). Adjusted EBITDA = EBITDA – net foreign exchange gains + net fair value losses/(gains) on derivative financial instruments + fair value loss of financial liabilities associated with put options + one-time expense paid to the original shareholders of Swisse on some tax refund + one-time restructuring costs on early childhood education business + non-recurring integration costs

** Net profit for the year ended 31 December 2017 amounted to RMB928.5 million (2016: RMB1,052.0 million). Adjusted net profit = Adjusted EBITDA – depreciation and amortization – finance costs + interest income – income tax expense + one-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back + non-recurring loss on redemption/repurchase of convertible bonds + bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse in 2017 / re-financing in 2016

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 2017, together with the comparative figures for the corresponding period in 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	*5*	**8,095,345**	6,505,616
Cost of sales		**(2,829,731)**	(2,446,549)
Gross profit		**5,265,614**	4,059,067
Other income and gains	*5*	**143,460**	323,672
Selling and distribution costs		**(2,711,707)**	(1,951,748)
Administrative expenses		**(486,019)**	(357,187)
Other expenses		**(356,339)**	(143,985)
Finance costs		**(492,173)**	(468,287)
Share of profit/(loss) of an associate		**5,902**	(5,012)
PROFIT BEFORE TAX	*6*	**1,368,738**	1,456,520
Income tax expense	*7*	**(440,240)**	(404,558)
PROFIT FOR THE YEAR		**928,498**	1,051,962
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to 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		**(119,692)**	62,313
Reclassification adjustments for gains/(losses) included in profit or loss		**130,880**	(61,320)
Income tax effect		**8,741**	(298)
Exchange realignment		**(109)**	210
		19,820	905
Hedge of net investments			
Effective portion of changes in fair value of hedging instruments arising during the year		**(171,865)**	–
Exchange differences on translation of foreign operations		**(80,864)**	64,594
Exchange differences on net investment in a foreign operation		**321,644**	(23,449)
		68,915	41,145
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**88,735**	42,050
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,017,233**	1,094,012

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

Year ended 31 December 2017

	Note	**2017**	2016
		RMB'000	*RMB'000*
Profit attributable to:			
Owners of the parent		**932,846**	954,396
Non-controlling interests		**(4,348)**	97,566
		928,498	1,051,962
Total comprehensive income attributable to:			
Owners of the parent		**1,007,363**	974,278
Non-controlling interests		**9,870**	119,734
		1,017,233	1,094,012
		RMB	*RMB*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**1.48**	1.52
Diluted		**1.46**	1.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**503,587**	531,197
Prepaid land lease payments		**58,809**	60,287
Goodwill		**5,376,818**	5,296,618
Intangible assets		**3,564,964**	3,013,432
Bonds receivable		**136,361**	127,701
Loans receivable		**44,910**	48,789
Deposits		**14,965**	5,662
Investment in an associate		**41,095**	35,193
Loan to an associate		**–**	40,000
Held-to-maturity investment		**22,259**	18,435
Deferred tax assets		**296,907**	352,973
Derivative financial instruments	*12*	**79,529**	246,751
Total non-current assets		**10,140,204**	9,777,038
CURRENT ASSETS			
Inventories		**1,012,619**	775,983
Trade and bills receivables	*10*	**694,696**	516,624
Prepayments, deposits and other receivables		**117,394**	610,004
Loan to an associate		**40,000**	–
Loans receivable		**21,748**	27,084
Derivative financial instruments	*12*	**3,247**	2,914
Pledged deposits		**11,082**	995,498
Cash and cash equivalents		**2,090,280**	1,506,203
Total current assets		**3,991,066**	4,434,310
CURRENT LIABILITIES			
Trade and bills payables	*11*	**644,690**	532,121
Other payables and accruals		**1,563,339**	864,872
Derivative financial instruments	*12*	**5,968**	3,074
Interest-bearing bank loans		**508,467**	549,387
Convertible bonds		**–**	1,223,619
Senior notes		**284,235**	201,171
Financial liabilities associated with put options		**–**	1,561,387
Tax payable		**291,150**	303,902
Total current liabilities		**3,297,849**	5,239,533
NET CURRENT ASSETS/(LIABILITIES)		**693,217**	(805,223)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2017

	Note	**2017** **RMB'000**	2016 RMB'000 (Restated)
NET CURRENT ASSETS/(LIABILITIES)		**693,217**	(805,223)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,833,421**	8,971,815
NON-CURRENT LIABILITIES			
Senior notes		**3,646,428**	2,542,703
Interest-bearing bank loans		**1,844,277**	2,242,791
Other payables and accruals		**32,997**	23,175
Derivative financial instruments	*12*	**186,195**	–
Deferred tax liabilities		**910,432**	967,042
Total non-current liabilities		**6,620,329**	5,775,711
Net assets		**4,213,092**	3,196,104
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**5,447**	5,390
Equity component of convertible bonds		**–**	24,489
Other reserves		**4,207,645**	3,131,627
		4,213,092	3,161,506
Non-controlling interests		**–**	34,598
Total equity		**4,213,092**	3,196,104

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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.

Pursuant to the special resolution passed at the annual general meeting of the Company held on 12 May 2017 and the approval from the Registry of Companies in the Cayman Islands, the name of the Company was changed from "Biostime International Holdings Limited 合生元國際控股有限公司" to "Health and Happiness (H&H) International Holdings Limited 健合 (H&H) 國際控股有限公司".

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 nutritional 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 Australia Holdings"), 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").

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 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 2017. 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 IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes.

Other than as explained above regarding the impact of amendments to IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements of the Group.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and used to have three reportable operating segments, including the infant formulas segment, the adult nutrition and care products segment and the other pediatric products segment in prior years. During the year, 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, 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 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**
(Write-back of impairment)/ 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**

Operating segment information for the year ended 31 December 2016:

	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	3,203,601	505,386	2,682,526	114,103	–	6,505,616
Segment results	2,105,436	383,773	1,542,142	27,716	–	4,059,067
Reconciliations:						
Interest income						53,663
Other income and unallocated gains						270,009
Share of loss of an associate						(5,012)
Corporate and other unallocated expenses						(2,452,920)
Finance costs						(468,287)
Profit before tax						1,456,520
Other segment information:						
Depreciation and amortisation	1,733	1,736	93,914	2,830	71,753	171,966
Impairment of trade receivables	–	–	9,857	278	–	10,135
Write-down of inventories to net realisable value	112,915	–	75,679	5,418	–	194,012
Capital expenditure*	5,847	8,996	53,062	40,134	6,515	114,554

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

Geographical information

(a) *Revenue from external customers*

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Mainland China	**5,482,301**	4,155,455
Australia and New Zealand	**2,312,634**	2,159,091
Other locations*	**300,410**	191,070
	8,095,345	6,505,616

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

(b) *Non-current assets*

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Mainland China	**583,829**	621,752
Australia and New Zealand	**3,468,705**	2,883,280
Other locations*	**130,886**	140,739
	4,183,420	3,645,771

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 year.

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**8,095,345**	6,505,616
Other income and gains		
Bank interest income	**26,634**	42,187
Interest income from loans and bonds receivables	**11,665**	11,476
Service income	**–**	93
Foreign exchange gains	**53,887**	99,141
Fair value gains on derivative financial instruments	**32,372**	160,416
Government subsidies*	**18,433**	7,179
Others	**469**	3,180
	143,460	323,672

* 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):

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	**2,734,301**	2,252,537
Depreciation	**71,526**	75,306
Amortisation of intangible assets	**164,796**	95,182
Amortisation of prepaid land lease payments	**1,478**	1,478
Research and development costs**	**98,630**	77,247
Loss on disposal of items of property, plant and equipment	**2,081**	4,265
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**851,112**	670,886
Pension scheme contributions (defined contribution schemes)	**103,386**	102,405
Staff welfare and other expenses	**50,288**	18,435
Equity-settled share option expense	**27,879**	33,004
Equity-settled share award expense	**30,093**	29,968
	1,062,758	854,698
Foreign exchange differences, net*	**(53,887)**	(99,141)
Fair value losses/(gains) on derivative financial instruments, net	**144,272**	(160,416)*
Changes in carrying amount of financial liabilities associated with put options**	**–**	21,163
(Write-back of impairment)/impairment of trade receivables**	**(4,720)**	10,135
Write-down of inventories to net realisable value#	**95,430**	194,012
Loss on redemption/repurchase of convertible bonds	**13,061**	18,003
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

	2017	2016
	RMB'000	*RMB'000*
Current – Charge for the year		
Mainland China	**370,652**	322,235
Hong Kong	**5,086**	5,686
Australia		
– Charge for the year	**81,667**	175,461
– Overprovision in prior years	**(10,995)**	–
Elsewhere	**(8,327)**	16,759
Deferred	**2,157**	(115,583)
Total tax charge for the year	**440,240**	404,558

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% (2016: 25%) on the taxable profits for the year, 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% (2016: 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% (2016: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Australia Holdings, Biostime Healthy Australia Investment Pty Ltd, Swisse and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biostime Australia Holdings, and the controlled 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 Australia Holdings also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled 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 Australia Holdings for any current tax payable assumed and are compensated by Biostime Australia Holdings for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Biostime Australia Holdings 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 or final dividend was proposed during the year ended 31 December 2017 (2016: 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 year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 632,354,043 (2016: 626,939,496) 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. As the conversion or exercise of the convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the convertible bonds.

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**932,846**	954,396
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**633,667,133**	630,353,639
Weighted average number of shares held for the share award schemes	**(1,313,090)**	(3,414,143)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**632,354,043**	626,939,496
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**7,101,930**	9,116,398
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**639,455,973**	636,055,894

10. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**636,494**	498,043
Bills receivable	**62,946**	36,103
	699,440	534,146
Less: Impairment provision	**(4,744)**	(17,522)
	694,696	516,624

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. 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 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:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**394,479**	434,166
1 to 3 months	**290,573**	79,610
Over 3 months	**9,644**	2,848
	694,696	516,624

11. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**632,039**	524,459
Bills payable	**12,651**	7,662
	644,690	532,121

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:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**417,060**	411,358
1 to 3 months	**219,238**	112,389
Over 3 months	**8,392**	8,374
	644,690	532,121

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

		2017		2016	
		Assets	**Liabilities**	Assets	Liabilities
	Notes	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*
Current					
Conversion option embedded in a loan receivable		**2,745**	**–**	2,914	–
Forward currency contracts		**502**	**5,968**	–	3,074
		3,247	**5,968**	2,914	3,074
Non-current					
Early redemption option embedded in the senior notes	*(a)*	**79,529**	**–**	55,509	–
The Swaps (as defined below)	*(b)*	**–**	**52,137**	68,957	–
The CCSs (as defined below)	*(c)*	**–**	**134,058**	122,285	–
		79,529	**186,195**	246,751	–

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 31 December 2017 was RMB79,529,000 (2016: RMB55,509,000). A fair value gain of RMB28,665,000 was recognised in profit or loss for the year (2016: a gain of RMB25,406,000).

(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 USD239,500,000 for the purpose of hedging the foreign currency risk and interest rate risk in relation to a United States dollar ("USD") denominated floating rate bank borrowing.

As at 31 December 2017, fair value of the Swaps designated for hedge purposes amounted to RMB52,137,000 (negative) (31 December 2016: RMB68,957,000).

The terms of the Swaps have been negotiated to match the terms of that bank borrowing. The cash flow hedge relating to the expected interest and principal payments were assessed to be highly effective. A net gain of RMB19,820,000 (2016: a gain of RMB905,000) was included in the hedging reserve as follows and a net loss of the ineffective portion of RMB26,857,000 (2016: a gain of RMB6,550,000) was charged to profit or loss.

	2017
	RMB'000
Total fair value losses included in the hedging reserve	**119,692**
Deferred tax on fair value losses	**(35,907)**
Reclassified from other comprehensive income and recognised in profit or loss	**(130,880)**
Deferred tax on reclassifications to profit or loss	**27,166**
Exchange realignment	**109**
Net gains on cash flow hedges	**(19,820)**

(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 for the purpose of managing the foreign currency risk of its investments in foreign operation.

During the year, the CCSs with an aggregate nominal amount of RMB1,512,085,000 are designated as hedging instruments for hedges of net investments in foreign operations 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 31 December 2017 was RMB134,058,000 (negative) (31 December 2016: RMB122,285,000). Net loss of RMB143,818,000 (2016: a gain of RMB117,094,000) 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 RMB171,865,000 (2016: Nil) was included in exchange difference reserve, respectively. During the year ended 31 December 2017, the net cash paid of these CCSs was RMB62,921,000 (2016: Nil).

13. COMPARATIVE AMOUNTS

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

Additionally, the purchase price allocation for a business combination occurred in prior year has been completed during the year. Certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

BUSINESS REVIEW

2017 was the year in which the Group commenced its full integration. During the year, we successfully concluded several key achievements under our new brand identity, while maintaining sustainable growth under a new Group name, further establishing our position as an all-round premium nutrition and wellness provider, with two equally strategic segments: baby nutrition and care ("BNC") and adult nutrition and care ("ANC").

In the first half of the year, the Group completed the acquisition of the remaining 17% minority interest in Swisse Wellness Group Pty Ltd ("Swisse"). Subsequent to the minority buyout, the Group accelerated its integration by bringing all of its businesses together under its new mission and vision. The Group later terminated Swisse's partnership with PGT Healthcare LLP ("PGT"), making it the sole owner of the Swisse brand and of the distribution rights for its expansion into new global markets. The Group's integration further consolidated the Group's various premium nutrition and wellness businesses under four major brands: Biostime™, Swisse™, Healthy Times™ and Dodie™. These four aspirational brands with superior products have already established market positions in Australia, New Zealand, China, France and the United States, and are quickly gaining recognition in other international markets.

While the Group focused on integration during the year under review, it still managed to achieve strong revenue and earnings growth throughout the year, thanks to favourable industry dynamics, a clearer regulatory environment, as well as effective strategic and operational initiatives. The Group's total revenue reached RMB8,095.3 million for the year ended 31 December 2017, an improvement of 24.4% compared to the previous year. Meanwhile, the BNC and ANC segments accounted for approximately 57.8% and 42.2% of total revenue respectively, which were similar levels of growth contribution compared to the previous year. Adjusted EBITDA for the year under review was RMB2,245.5 million, an increase of 24.4% compared to the previous year. Adjusted net profit also increased by 36.7% to RMB1,208.4 million in 2017.

During the period under review, the infant milk formula ("IMF") market in China started to recover from the challenges seen in previous years, while the Group benefited from the increasingly clearer regulatory environment and consumption trade-up within the Chinese IMF market, despite the market remaining highly competitive. In addition to these external factors, the Group's business growth was further reinforced by the efforts of its team with enhanced capabilities, its innovative sales and marketing strategies, its improved operational efficiency, as well as its strengthened distribution network.

Consequently, revenue derived from the BNC business in 2017 increased by 22.5%, compared to the previous year, as the result of the robust growth of both the Group's IMF products and probiotics supplements. The Group saw strong sales momentum for its super premium and premium IMF series, which grew 18.5% compared to the previous year, thanks to overall market growth, consumption trade-up and strong branding initiatives. The recent appointment of Chinese actor, Liu Ye (劉燁) and French movie star, Juliette Binoche as ambassadors for Biostime™ IMF and probiotics products further strengthened the brand's positioning in the premium and super premium segments, a market that will continue to expand alongside the implementation of new IMF registration rules in China on 1 January 2018. The Group also successfully registered five series with the China Food and Drug Administration ("CFDA"), including three existing series renamed α-star, β-star, and π-star series under the Biostime™ brand, the organic series under the Healthy Times™ brand, as well as the Manle series under the Adimil™ brand.

According to Nielsen, an independent market research company, the IMF market share of Biostime™ – the Group's flagship BNC brand – increased slightly, while the Healthy Times™ organic series started to contribute to overall market share. The market share of the Group's mid-tier Adimil™ branded IMF products weakened compared to the previous year. Consequently, the Group's share of the overall IMF market in China remained stable at 5.5% for the twelve months ended 31 December 2017.

Meanwhile, the sales momentum of the Group's probiotics products segment remained strong throughout the year of 2017. The revenue derived from this segment reached RMB781.7 million, an increase of 54.7% compared to the previous year, as a result of rising demand due to heightened awareness in China of the benefits of probiotics, effective marketing initiatives, as well as the introduction of high-profile brand ambassadors for the first time. The Group also launched a premium Dodie™ diaper range in China in September 2017, which has been well received by consumers who prefer premium products that are attracted to this French household name.

In 2017, the ANC segment, operated under the Swisse™ brand, saw strong sales momentum in all of its core markets, which was primarily attributed to surging consumer demand driven by increasing health awareness globally, the clearer Cross border E-commerce ("CBEC") regulatory environment in China, as well as strong branding initiatives and successful product launches. The revenue derived from the ANC segment amounted to AUD659.4 million and increased by 21.5% in 2017 compared to the previous year on a currency-adjusted basis. According to research statistics by IRI, an independent market research company, Swisse continued to retain its leading position in the Australian vitamin, herbal, and mineral supplements ("VHMS") market, with 16.1% market share for the twelve months ended 31 December 2017.

The Group has also become well recognised for its 'Premium, Proven and Aspirational' ("PPA") model. In line with its well-established premium position in the VHMS market, the Group increased the price points of its ANC products in the China online and Australian markets at the beginning of 2017. The Group stepped up its investments in branding and marketing initiatives, including entering into a partnership agreement with the Scuderia Ferrari F1® Team and through the use of new and existing brand ambassadors – movie superstars Fan Bingbing (范冰冰) and Nicole Kidman. These marketing investments greatly supported Swisse's growth in existing markets and its expansion into new markets by boosting its brand awareness worldwide. Furthermore, Swisse's normal trade in China was launched on 8 April 2017, leveraging the Group's new and existing nationwide retail network, starting with certain hero products such as Hair, Skin and Nails (HSN) and Cranberry Concentrate in liquid and effervescent forms. To accelerate both its CBEC and normal trade businesses in China, the Group invested significantly in its partnerships with major e-commerce platforms, including Tmall.com, NetEase Kaola.com, JD.com and VIP.com to develop innovative marketing campaigns and sponsorship activities, such as the 'Singles Day' campaign, which successfully enhanced brand awareness and drove consumer demand in this market.

The Group also developed new strategic partnerships with vertical e-commerce platforms and social network-based online retailers in China, such as xiaohongshu.com and AliHealth on the Tmall platform, among others, throughout the year. In addition to leveraging existing distribution channels in the offline market, the Group has also broadened its Swisse sales network to baby specialty stores such as Kidswant, personal healthcare stores such as Watsons and Mannings, as well as high-end supermarkets such as Sam's Club and Ole'. The Group expects to expand into new sales channels in China, including cosmetic stores such as Fionacos (Yan Li), while also further exploring other opportunities for sales growth and for growing its brand presence.

PROSPECTS

With a mission to make people healthier and happier, the Group will continue to prioritise the integration of its four brands under its new mission and vision to further enhance their growth potential and extract more synergies and operational efficiencies, particularly in supply chain, distribution, research and innovation, finance, customer relationship management ("CRM"), corporate culture and personnel capability.

Looking forward, the Group will continue to expand its international footprint via its regional hubs in Europe, Asia, Oceania and North America, as well as through new initiatives in R&D, brand building and marketing. The opening of the first office of the Biostime Institute for Nutrition and Care ("BINC") in Geneva will also offer sustainable scientific support to underpin the premium quality of the Group's products. Furthermore, the Group will continue to implement the PPA model as its core business strategy, which will include innovative marketing campaigns and celebrity endorsements that positively convey the image of its brands on a local and global scale. These steps will ensure that the Group continues to grow its international business, the visibility of its brands and its leadership in premium nutrition and wellness.

Baby Nutrition and Care

The visibility of the China's IMF market has improved significantly following the commencement of the CFDA's new registration rules on 1 January 2018. The Group has already launched its approved series with new packaging and upgraded formula in March 2018 and will continue to ramp up its investments in brand and marketing activities to drive sales growth in the Chinese market. In order to meet consumer demand for IMF products at different price points, the Group has submitted registrations for two other series in December 2017, featuring the Terroir series under the Biostime™ brand and the Adimil series under the Adimil™ brand. The Group anticipates that these series will meet the requirements set by the authorities and likely be approved around the middle of 2018. The Group expects to submit its registration for the Supreme Care series under the Biostime™ brand in the second half of 2018.

With inspiring brands and integrated global resources, the Group will continue to broaden its offline presence globally, building on the earlier launch of the Healthy Times™ brand in the United States and the Biostime™ branded organic IMF series in France, in order to capture opportunities in the fast-growing baby organic formula and baby care accessories markets. These new product portfolios will expand the Group's presence and accelerate its exposure in international markets.

Adult Nutrition and Care

In 2018, the Group plans to launch a wide range of innovative products under the Swisse brand, further extending its business into other territories while building on sustained leadership in Chinese market. The Group has also commenced filing and registration for its functional food products to offer a more complete range of food supplements in China, coupled with the conventional food specifically sold through normal trade. The Group has submitted filing applications for its fast-tracked supplements, such as the Calcium + Vitamin D hero product.

To accelerate its business expansion and to broaden its consumer base, the Group will leverage its global resources to accelerate Swisse's exposure in existing markets while also maintaining its current market share. All business transfers related to the buyout of distribution rights from PGT in a number of key markets, including China, the Netherlands, the United Kingdom, Singapore, Italy and Hong Kong, are scheduled to complete by June 2018.

In the Group's core market of China in particular, the termination of the partnership with PGT will allow the Group to leverage its already well-capitalised distribution network in China and fully capture the future upside of the business. The Group is committed to investing actively in Swisse's CBEC and normal trade businesses in China by further stepping up its investment in marketing initiatives to support active sales and improve consumer awareness. It will also leverage its expanding sales resources to grow Swisse's offline presence in China's fast-growing VHMS market, while progressively introducing a more complete range of food supplements in this market.

Capital Structure

In 2017, the Group generated strong and healthy cash flow based on its business model, thus significantly improving its leverage ratio and optimising its capital structure. In 2018, the Group expects to generate strong cash flow from its current business operations and as a result of improved capital efficiency.

CHALLENGES

In 2018, the Group expects the regulatory environment in China – including the new IMF registration rules, CBEC regulations, and new filing and registration procedures for healthcare products – to become even clearer. China's new IMF registration rules came into effect on 1 January 2018 and IMF players who have not registered with the CFDA are no longer eligible to sell more IMF products in China's normal trade market after their existing stocks are sold. Under the new registration requirements, all registered IMF players are required to change the labels and packaging of their approved IMF products. With major IMF players stepping up their investment in branding and marketing initiatives, the Group expects that the overall IMF market will remain competitive.

Within the ANC product segment, the effective date of new CBEC regulations in China, which was first announced on 8 April 2016, has been further postponed to the end of 2018, as stated by the State Council in September 2017. In December 2017, the Ministry of Commerce expanded the number of trial cities under the new CBEC business policy framework from 10 to 15. Currently, all commodities imported via CBEC are considered personal goods and not subject to trading goods registration requirements until further notice. With China's CBEC platform continuing to grow strongly in 2017, the Group anticipates that the Chinese government intends to maintain smooth CBEC transactions and promote the sound development of CBEC platforms beyond the current grace period. Nevertheless, the Group is committed to proactively positioning itself to be able to respond to the ever-changing environment through channel diversification that meets the demand of different consumer groups.

In response to the enactment of new filing and registration procedures for imported health food products under normal trade in China, which are complex and time-consuming, the Group has commenced the filing and registration for its functional food products to offer a more complete range of food supplements in the country. The Group expects that the sales contribution from Swisse's normal trade business in China will increase over time as it ramps up its investment in branding and marketing initiatives, as well as additional product rollouts.

SOCIAL RESPONSIBILITY

The Group is committed to making people healthier and happier – and not just simply by providing quality and proven products and delivering its business value. While creating value for its shareholders, the Group is also striving to be an organisation that incorporates its social and environmental responsibilities into its every day decision-making.

In 2018, H&H Group will focus more on better understanding of its environmental and social impact, and developing key strategic initiatives for improving its sustainability, Group-wide. It is committed to the six foundation pillars of the Group: people, brand heritage, science and innovation, quality, wellness, and citizenship.

Swisse continues to hold carbon neutral status certified by the Australian Government's National Carbon Offset Standard. It celebrated International Day of Forests by planting 1,000 native trees with Carbon Neutral, helping to develop the lungs of the future. The Celebrate Life Foundation, which was founded by Swisse in 2014, contributed 14 grants to community organisations that align with the three pillars of wellness: Mindfulness, Movement and Nutrition.

For the BNC segment, 2017 was the 10-year anniversary of the 'Biostime China Foundation for Mother & Child' ("the BC Foundation"), which was established in 2007 in cooperation with the Chinese Red Cross Foundation. The Group is committed to donating RMB0.10 to the BC Foundation for each product unit sold. Since its inception, the BC Foundation has raised a total of approximately RMB32.4 million through online and offline charity campaigns, and has supported more than 1,584 children and mothers who suffer from serious illnesses. In recognition of the Group's contribution to the improvement of social wellbeing, the Group was awarded the 'Annual Responsibility Brand' award at the China Charity Festival 2017.

With each brand possessing its own legacy of philanthropy, the Group intends to integrate all of the sustainability and CSR platforms across its organisation, echoing its mission and vision – helping people celebrate life every day.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2017, the Group's revenue increased by 24.4% to RMB8,095.3 million as compared with 2016. Thanks to the favorable industry dynamics, clearer regulatory environment as well as effective strategic and operational initiatives taken, both baby nutrition and care as well as adult nutrition and care segments saw solid growth in 2017.

	Year ended 31 December				
				% to revenue	
	2017	2016	*Change*	**2017**	2016
	RMB'000	*RMB'000*			
Baby nutrition and care products	**4,681,467**	3,823,090	22.5%	**57.8%**	58.8%
– Infant formulas	**3,717,214**	3,203,601	16.0%	**45.9%**	49.3%
– Probiotic supplements	**781,741**	505,386	54.7%	**9.7%**	7.8%
– Other pediatric products	**182,512**	114,103	60.0%	**2.2%**	1.7%
Adult nutrition and care products	**3,413,878**	2,682,526	27.3%	**42.2%**	41.2%
Total	**8,095,345**	6,505,616	24.4%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB3,717.2 million for the year ended 31 December 2017, representing an increase of RMB513.6 million, or 16.0%, as compared with the last year. The growth was mainly attributable to the strong sales momentum of Biostime™ branded super premium and premium series IMF products, as well as the incremental sales from the Healthy Times™ branded organic IMF, which was launched in December 2016 and have been well-received by customers since then. The increase was partially offset by a decline in revenue attributable to the mid-tier Adimil™ branded IMF products.

Probiotic Supplements

During the year under review, the Group recorded revenue from probiotic supplements of RMB781.7 million, a strong growth of 54.7% compared to RMB505.4 million in 2016. The increase was attributable to the rising consumer demand as a result of heightened awareness in China of the health benefits of probiotics, the launch of effective marketing initiatives, as well as the introduction of high profile brand ambassadors for the first time during the year.

Other pediatric products

Revenue from other pediatric products segment increased by 60.0% to RMB182.5 million for the year ended 31 December 2017 from RMB114.1 million in last year. The growth was contributed by the incremental sales from Dodie™ branded baby care products, which started contributing to the Group's revenue from 1 January 2017, after the Group acquired all the equity interest in AB Pharma S.A.S and its subsidiaries at the end of 2016.

Adult nutrition and care products

On currency adjusted basis, revenue from the adult nutrition and care products segment amounted to AUD659.4 million for the year ended 31 December 2017, representing an increase of 21.5% compared to revenue of AUD542.5 million in 2016. The Group saw strong sales momentum in both Australian and Chinese markets, primarily driven by surging health awareness globally, innovative marketing campaigns and celebrity endorsement, as well as the clearer CBEC regulation environment in China.

In April 2017, Swisse officially kicked off normal trade sales in China, further expanding the Chinese business beyond CBEC, which was launched in 2016. Active sales in China from both CBEC and normal trade accounted for 28.5% of the total revenue from the adult nutrition and care products segment in 2017.

Gross profit and gross profit margin

In 2017, the Group recorded gross profit of RMB5,265.6 million, an increase of 29.7% compared with the prior year. The Group's gross profit margin increased from 62.4% in 2016 to 65.0% in 2017.

The gross profit of the baby nutrition and care segment increased by 26.8% to RMB3,191.8 million in 2017 compared with the last year, with the gross profit margin increased from 65.8% to 68.2%. The higher gross profit margin was mainly attributable to: (i) an improved product mix towards higher proportion of sales from the higher-margin Biostime™ branded infant formulas and probiotic supplements; and (ii) the optimization of inventory management and a reduction of slow-moving stocks.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 28.4% to AUD400.5 million in 2017, compared with AUD311.9 million in 2016. The gross profit margin of the adult nutrition and care segment increased from 57.5% in 2016 to 60.7% in 2017, which was mainly driven by the increase of sales price, the reduction of discounts and bonus stocks to customers, as well as the enhancement of inventory management efficiencies.

Other income and gains

Other income and gains amounted to RMB143.5 million for the year ended 31 December 2017. Other income and gains primarily consisted of interest income of RMB38.3 million, foreign exchange gains of RMB53.9 million, fair value gains from the early redemption option embedded in the senior notes and forward currency contract of RMB32.4 million, government subsidiaries of RMB18.4 million and others. During the year under review, other income and gains decreased by RMB180.2 million as compared to the last year. The decrease was mainly led by the combining effect of: i) a decrease in fair value gains on financial derivatives of RMB128.0 million; and ii) a decrease of RMB45.2 million in foreign exchange gains as compared to the last year.

Selling and distribution costs

Selling and distribution costs amounted to RMB2,711.7 million in 2017, an increase by RMB760.0 million, or 38.9% as compared to 2016.

Pursuant to the collaboration agreement between Swisse and PGT entered into in November 2013 and subsequently amended in March 2015 (the "Collaboration Agreement"), Swisse granted to PGT the exclusive right to market and distribute Swisse's products across most of the world, except for the markets of Australia, New Zealand, North America and China, in exchange for royalty payments from PGT to Swisse. The Group recognized the expected royalty payments from PGT as an intangible asset of AUD17.9 million at the acquisition date of Swisse in 2015 which was subject to amortization on the straight-line basis over its estimated useful life of 8 years. On 13 November 2017, the Group entered into an Asset Transfer and Termination Agreement with PGT, buying back the distribution rights in those markets granted to PGT under the Collaboration Agreement, at an aggregate consideration of USD103.5 million with transaction costs and contingent payment included. At the same time, the Group waived the right of receiving any royalty payments from PGT. As such, a one-time accelerated amortization expense of RMB66.5 million regarding the remaining carrying value of this intangible asset was recognized during 2017.

Excluding the above mentioned one-off non-cash expense, selling and distribution costs during the year ended 31 December 2017 grew by RMB693.5 million to RMB2,645.2 million as compared to the prior year, and it as a percentage of the Group's revenue increased by 2.7 percentage points to 32.7% during the year under review from 2016.

The growth in selling and distribution costs was mainly attributable to the increased investments in advertising and marketing activities, such as introduction of new brand ambassadors, launch of sponsorship programs and customer education activities. Expenses for advertising and marketing activities rose by RMB236.1 million from RMB607.8 million in 2016 to RMB843.9 million for the year under review. These expenses were budgeted and incurred according to the Group's new strategic plan, and the Group considered the expenses incurred critical during the year before the new Chinese IMF registration rules become effective. The expenses were also necessary for the market expansion following the launch of Swisse normal trade sales, Healthy Times™ branded organic IMF and Dodie™ branded diapers in China as well as brand awareness enhancement worldwide.

Administrative expenses

Administrative expenses increased by 36.1% from RMB357.2 million for the year ended 31 December 2016 to RMB486.0 million for the year ended 31 December 2017. 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 incremental expenses related to the Group's integration projects.

Administrative expenses as a percentage of the Group's revenue was 6.0% in 2017, increasing by 0.5 percentage point as compared to 5.5% in 2016.

Other expenses

Other expenses for 2017 increased to RMB356.3 million from RMB144.0 million in 2016. Other expenses mainly included R&D expenses of RMB98.6 million and non-cash or non-recurring expenses of: (i) non-cash fair value losses on the Group's derivative financial instruments of RMB176.7 million; (ii) a one-time expense paid to the original shareholders of Swisse on some tax refund of RMB34.8 million; (iii) one-time restructuring costs related to the Group's early childhood education business of RMB30.0 million, in which RMB25.7 million was non-cash by nature.

EBITDA, adjusted EBITDA and related margins

Adjusted EBITDA increased by RMB440.8 million, or 24.4%, from RMB1,804.7 million in 2016 to RMB2,245.5 million in 2017. Adjusted EBITDA margin for 2017 was 27.7%, remaining stable as compared to that of 2016.

EBITDA for the year ended 31 December 2017 amounted to RMB2,060.4 million, slightly increased by 0.8% from RMB2,043.1 million for the year ended 31 December 2016, which was a high base including a large amount of non-cash foreign exchange gain and net fair value gains on financial derivative instruments. EBITDA margin was 25.5% during the year under review.

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

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
EBITDA	**2,060.4**	2,043.1
Reconciled by:		
(1) Net foreign exchange gains	**(53.9)**	(99.1)
(2) Net fair value losses/(gains) on the derivative financial instruments	**144.3**	(160.5)
(3) Fair value loss of financial liabilities associated with put options	**–**	21.2
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**34.8**	–
(5) One-time restructuring costs related to early childhood education business	**30.0**	–
(6) Non-recurring integration costs	**29.9**	–
Adjusted EBITDA	**2,245.5**	1,804.7

Finance costs

During the year ended 31 December 2017, the Group incurred finance costs of RMB492.2 million, including interest for bank loans of RMB166.3 million, interest for senior notes and convertible bonds of RMB297.6 million, bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse (the "17% Acquisition") of RMB15.2 million, and loss on the early redemption of the remaining part of the convertible bonds of RMB13.1 million.

Income tax expense

Income tax expense increased from RMB404.6 million in 2016 to RMB440.2 million in 2017.

The effective tax rate increased from 27.8% in 2016 to 32.2% in 2017. The increase in effective tax rate mainly resulted from the combining effect of: (i) the lower base in 2016 after the one-time utilization of carried forward tax losses in some of the US subsidiaries, and (ii) the non-deductibility of certain expenses for tax purpose in 2017, such as finance costs associated with the senior notes, fair value losses on the derivative financial instruments, loss on the early redemption of the remaining part of convertible bonds and others.

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:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Net profit	**928.5**	1,052.0
Reconciled by:		
(1) Net foreign exchange gains	**(53.9)**	(99.1)
(2) Net fair value losses/(gains) on the derivative financial instruments	**144.3**	(160.5)
(3) Fair value loss of financial liabilities associated with put options	**–**	21.2
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**34.8**	–
(5) One-time restructuring costs related to early childhood education business	**30.0**	–
(6) Non-recurring integration costs	**29.9**	–
(7) One-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back	**66.5**	–
(8) Loss on redemption/repurchase of the convertible bonds	**13.1**	18.0
(9) Bank charges relating to the financing for the 17% Acquisition in 2017 / re-financing in 2016	**15.2**	52.4
Adjusted net profit	**1,208.4**	884.0

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2017, the Group recorded net cash generated from operating activities of RMB1,950.8 million, resulting from pre-tax cash from operations of RMB2,405.4 million, minus income tax paid of RMB454.6 million.

Investing activities

For the year ended 31 December 2017, net cash flows used in investing activities amounted to RMB264.2 million, primarily resulting from the payment for the distribution rights buy back from PGT at RMB497.0 million, partially off-set by the decrease in time deposits of RMB214.0 million and others.

Financing activities

For the year ended 31 December 2017, net cash flows used in financing activities amounted to RMB848.6 million. The cash outflows were primarily related to a payment in relation to the 17% Acquisition of RMB1,108.7 million, redemption of the convertible bonds of RMB1,240.9 million, repayment of bank loans of RMB426.2 million and interest for bank loans and senior notes of RMB443.9 million. The cash inflows were primarily related to net proceeds from the issuance of senior notes of RMB1,413.5 million and the release of pledged deposits of RMB987.7 million in an escrow account.

Cash and bank balances

As of 31 December 2017, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB2,090.3 million.

Interest-bearing bank loans, senior notes and convertible bonds

As of 31 December 2017, the Group's outstanding interest-bearing bank loans amounted to RMB2,352.8 million, including RMB508.5 million payable within one year and RMB1,844.3 million payable after one year.

In January 2017, the Company issued US$200.0 million 7.25% senior notes, due in 2021. The net proceeds from this issuance, together with the Group's cash on hand, were used to fund the 17% Acquisition. Taking the US$400.0 million senior notes issued in June 2016 into account, as of 31 December 2017, the total carrying amount of the senior notes was RMB3,930.7 million.

In February 2017, the Company, at the option of the bondholders, redeemed the remaining part of the bondholders' convertibles.

As of 31 December 2017, net leverage ratio was 1.9, calculated by dividing the net debt*(Note)* by adjusted EBITDA. Gearing ratio was 44.5%, 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 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 5 days from 32 days for the year ended 31 December 2016 to 27 days for the year ended 31 December 2017. The average turnover days of trade payables were 74 days for the year ended 31 December 2017, representing a decrease of 10 days from 84 days as compared to that of 2016.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 114 days for the year ended 31 December 2017, representing a decrease of 6 days from 120 days in 2016.

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 DATE

Pursuant to the Asset Transfer and Termination Agreement with PGT, in January 2018, the Group made the final installment payment of US$28.0 million to PGT. Subsequently, the distribution right of marketing and selling Swisse products in Hong Kong smoothly transferred from PGT to the Group on 28 February 2018. On 1 March 2018, the Group started its active sales of Swisse products in Hong Kong, being the first transitional territory effectively transferred.

After CFDA's new IMF registration rules came into effect on 1 January 2018, the Group started to launch its CFDA approved series with upgraded formula in March, enabling it to secure its leading position in the Chinese IMF market.

Note: Net debt = interest bearing bank loan + senior notes – cash and bank balances – time deposits – pledged deposits.

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 2017 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 understanding of 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.

DIVIDENDS

No interim or final dividend was proposed by the Board for the year ended 31 December 2017 given the Group's priority on enhancing financial liquidity and optimizing capital structure.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at the 2018 Annual General Meeting

The forthcoming annual general meeting will be held on Friday, 11 May 2018 (the "2018 AGM"). The register of members of the Company will be closed from Tuesday, 8 May 2018 May 2018 to Friday, 11 May 2018, 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 2018 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, 7 May 2018.

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 2017, 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.

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 calibre 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. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2017.

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 2017.

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 2017 and the annual results for the year ended 31 December 2017, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 and the annual report for the year ended 31 December 2017, 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 2017, consolidated statement of profit or loss and other comprehensive income for the year then ended and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditors, 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

References are made to the announcements issued by the Company on 23 and 24 January 2017. On 23 January 2017, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US$200,000,000. The senior notes bear interest from and including 21 December 2016 at a rate of 7.25% per annum, payable semi-annually in arrears. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

On 20 February 2017, at the option of the bondholders, the Company redeemed its then remaining part of the convertible bonds due 2019, which are listed on the Stock Exchange (stock code: 6024), with an aggregate principal amount of HK$1,286,000,000 for an aggregate redemption price of HK$1,400,968,400 in accordance with the terms of such convertible bonds.

On 22 September 2017, based on the Company's instructions, the trustee of the Share Award Scheme adopted by the Company on 28 November 2011 has purchased a total of 250,500 ordinary shares of the Company on the Stock Exchange at a total consideration of HK$8,782,704.36.

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 2017.

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 2017 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, 25 March 2018

As at the date of this announcement, the executive Director of the Company is Mr. Luo Fei; the non-executive Directors of the Company are Dr. Zhang Wenhui, Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang; and the independent non-executive Directors of the Company are Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun.