H&H Group
inspiring wellness

Health and Happiness (H&H) International Holdings Limited
健合 (H&H) 國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）
(Stock Code 股份代號: 1112)

Interim Report
中期報告
2019

BIOSTIME dodie Swisse
Healthy Times GOOD GOÛT AURELIA PROBIOTIC SKINCARE

Contents

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Corporate Governance and Other Information	16
Report on Review of Interim Condensed Consolidated Financial Statements	35
Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	37
Interim Condensed Consolidated Statement of Financial Position	38
Interim Condensed Consolidated Statement of Changes in Equity	40
Interim Condensed Consolidated Statement of Cash Flows	42
Notes to Interim Condensed Consolidated Financial Statements	44

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Fei *(Chairman)*
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER *(Chief Executive Officer)*
Mr. Wang Yidong

Non-executive Directors

Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

Dr. Ngai Wai Fung
Mr. Tan Wee Seng
Professor Xiao Baichun

BOARD COMMITTEE

Audit Committee

Dr. Ngai Wai Fung *(Chairman)*
Mr. Tan Wee Seng
Mr. Luo Yun

Nomination Committee

Mr. Luo Fei *(Chairman)*
Dr. Ngai Wai Fung
Mr. Tan Wee Seng

Remuneration Committee

Mr. Tan Wee Seng *(Chairman)*
Dr. Ngai Wai Fung
Mr. Luo Fei

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee *FCS, FCIS**
Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER*
Ms. Yang Wenyun*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1–1111
Cayman Islands

HEAD OFFICE

Suites 4007-09, 40/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 4007-09, 40/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, Grand Cayman
KY1–1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

* Ms. Wong Tak Yee has resigned as one of the joint company secretaries of the Company and an authorised representative of the Company with effect from 25 June 2019. Mr. Luo Fei has ceased to be an authorised representative with effect from 25 June 2019. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Ms. Yang Wenyun have been appointed as the authorised representatives with effect from 25 June 2019.

Financial Highlights

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	% of Change
Revenue	**5,095,265**	4,573,574	11.4%
Gross profit	**3,423,302**	3,075,690	11.3%
EBITDA*	**1,298,595**	965,670	34.5%
Adjusted EBITDA*	**1,194,479**	1,249,006	-4.4%
Net profit**	**713,078**	384,312	85.5%
Adjusted net profit**	**608,962**	701,061	-13.1%
Cash flows from operating activities***	**959,962**	1,149,178	-16.5%
Basic earnings per share	**RMB1.11**	RMB0.60	85.0%
Adjusted earnings per share ("EPS")****	**RMB0.95**	RMB1.10	-13.6%

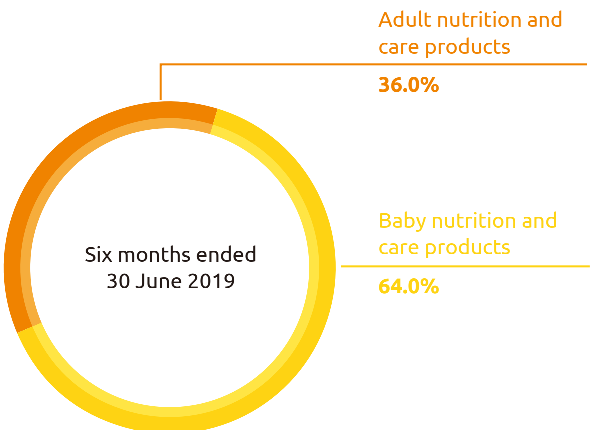
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB104.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: losses of RMB278.7 million) – Non-recurring gains of nil for the six months ended 30 June 2019 (six months ended 30 June 2018: loss of RMB4.6 million)

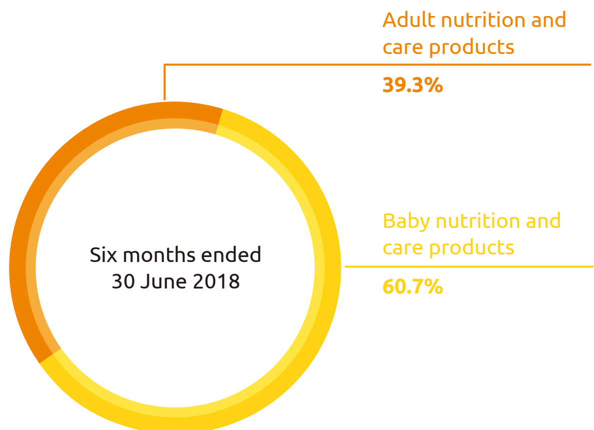
** Adjusted net profit = Net profit – EBITDA adjustment items of RMB104.1 million for the six months ended 30 June 2019 (six months ended 30 June 2018: losses of RMB283.3 million) + Other non-cash losses of nil for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB33.4 million)

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

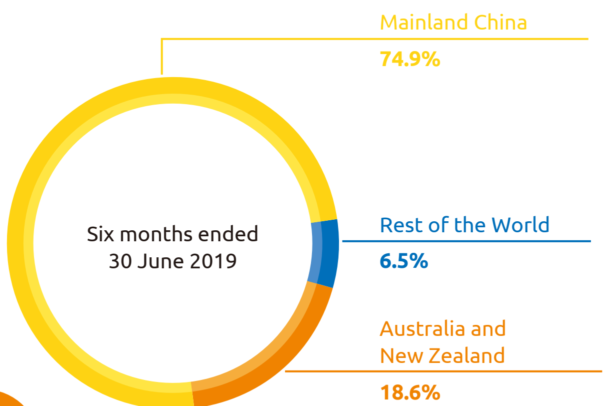
**** Adjusted EPS = Adjusted net profit/Adjusted weighted average number of ordinary shares

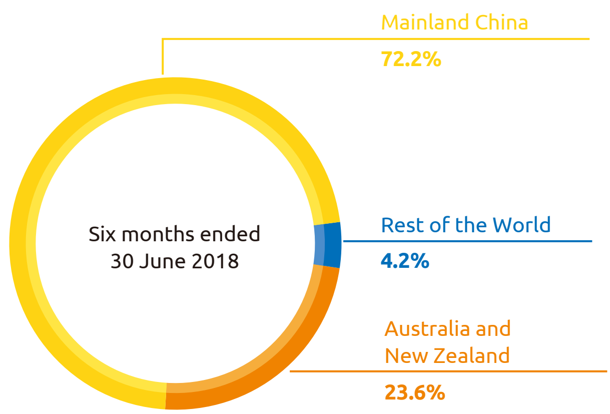
REVENUE BY BUSINESS SEGMENT





REVENUE BY GEOGRAPHY





Management Discussion and Analysis

BUSINESS REVIEW

During the first half of 2019, Health and Happiness (H&H) International Holdings Limited ("**H&H**" or the "**Company**", together with its subsidiaries, the "**Group**") contended with a volatile environment of slowing economic growth and intense market competition. Despite this, the Group achieved double-digit revenue growth and continued to expand its product portfolio and international presence in premium nutrition and wellness. At the same time, the Group also increased its reported net profitability.

During the first half of 2019, the Group's revenue grew 11.4% to RMB5,095.3 million, compared with the same period of last year, with the Baby Nutrition and Care ("**BNC**") and Adult Nutrition and Care ("**ANC**") businesses accounting for approximately 64.0% and 36.0% of total revenue respectively. Adjusted EBITDA slightly decreased by 4.4% to RMB1,194.5 million, while reported EBITDA during the period increased by 34.5% to RMB1,298.6 million compared to the same period of last year. The Group's adjusted net profit decreased by 13.1% to RMB609.0 million, while reported net profit increased 85.5% to RMB713.1 million compared to same period of last year. The Group's adjusted earnings per share ("**EPS**") decreased by 13.6% to RMB0.95, while the reported EPS increased by 85.0% to RMB1.11. The difference between adjusted and reported financial results narrowed thanks to the significant reduction of the number of non-cash and non-recurring adjustment items.

Thanks to the multi-brand/category strategy and several initiatives launched in the first half to drive consumer demand for premium BNC product categories, revenue derived from the BNC business reached RMB3,261.4 million during the first half of the year, an increase of 17.4% compared to the same period of last year. These initiatives include effectively recruiting new consumers and retaining existing consumers through the Group's proprietary MAMA100 loyalty program; and stepping up digital and social media marketing and professional endorsements to enhance brand awareness and word-of-mouth effect.

The infant milk formula ("**IMF**") market in China remained intensely competitive due to the declining birth rate in China last year, with market growth starting to slow from the beginning of this year. The IMF industry demonstrated a slower growth rate of 11.6% for the twelve months ended 30 June 2019, although growth was still strong in the premium and super premium segments. Despite this trend, the Group's IMF segment still grew faster than the market with sales growth of 14.7% compared to the same period last year, and continued to maintain a strong position in the outperformed and super premium segments. The Group has also seen its Healthy Times IMF series outperformed the wider organic IMF market with sales growth of 42.7%, accounting for 5.1% of its total IMF business.

According to Nielsen, an independent market research company, the Group's share of the overall IMF market in China remained stable at 5.9% for the twelve months ended 30 June 2019.

The Group also stepped up its presence in other markets such as Australia, Hong Kong SAR and France. This included launching Biostime's organic IMF products and probiotics products in the Australia and New Zealand ("**ANZ**") market at the beginning of 2019, and appointing Miranda Kerr, a well-known supermodel and mother of two children, as Biostime's brand ambassador. It also successfully expanded its IMF product range with the launch of its goat IMF series under the Biostime brand on the Group's Cross-border E-commerce ("**CBEC**") platforms as well as in the Hong Kong SAR market, enabling it to tap into China's fast-growing goat milk market. In France, the largest organic baby food market in Europe, the organic IMF market has shown robust sales momentum in recent years. In line with this growth trend, Biostime already ranks no.2 among organic infant formula brands in the pharmacy channel, demonstrating very solid growth and a strong acceptance by French mothers, according to an independent research data provider GERS.

Meanwhile, the Group's probiotics product segment grew at a slower rate of 6.3% compared to the same period of last year, with revenue reaching RMB588.7 million. The growth was partially affected by a high base in the first quarter of 2018, as well as intensified market competition as new brands gradually enter this segment. Despite this, the Group continued to leverage its no. 1 position and carry out consumer education on the benefits of probiotic products so as to maintain the sustainable growth of its probiotic business.

The Group's other pediatric product segment continued to grow robustly during the first half of 2019, increasing 107.4% compared to the same period last year. In the first half of 2019, Dodie achieved revenue growth of 61.3%, which was attributed to the strong performance of the brand in both France and China, especially in the latter where sales of the Dodie premium diaper range grew rapidly. The growth was driven by investment in brand awareness and consumer education activities, as well as synergies from sales team and distribution channels leveraged with the Group's other BNC products. The growth of the Group's other pediatric product segment was also supported by the consolidation of Good Goût's sales into the Group's overall sales in 2019. Following its acquisition in July 2018, Good Goût achieved sales growth of 46.7% in the French market in the first half of 2019 compared to the same period last year. This growth was further supported by the appointment of French football celebrity, Kylian Mbappé as a brand ambassador. The Group has also added Good Goût to its baby categories sold through its Tmall flagship store in May this year, further capturing the fast-growing infant and kids healthy snacks market in China.

Regarding the Group's ANC business, the implementation of the new E-commerce law in China resulted in daigou traders destocking inventory and reducing trading, which has impacted business in the Australian market since the beginning of this year, while the ANC business in the China market continued to maintain double-digit growth momentum in the first half of 2019. This overall performance has been slower than the Group's expectations, including in China, mainly due to the lower-than-expected growth of the overall Chinese vitamin, herbal and mineral supplements ("**VHMS**") market, especially in the second quarter.

Revenue derived from the ANC business reached AUD383.1 million during the first half of the year, an increase of 4.8% on a currency-adjusted basis compared to the same period of last year. ANZ sales decreased by 11.7%, while China active sales increased by 21.9% during the period, respectively. The contribution of active sales in China continued to grow gradually in the first half of 2019, reaching 40.9% of total ANC revenue. To further drive consumer demand in the Australian market, the Group has worked closely with customers to manage inventory while also engaging daigou channels with continuous education about new products and through marketing campaigns. In addition, the Group will continue to focus on new product development in this market. According to research statistics by IRI, an independent market research company, Swisse continued to hold its no.1 position in the Australian VHMS market with a market share of 16.9% for the twelve months ended 30 June 2019.

Despite the headwinds faced, the revenue growth of Swisse products, particularly in the Chinese market, was supported by strong brand and product marketing campaigns on major CBEC platforms during the 618 e-commerce season. These included celebrity endorsements and the introduction of several new categories to the China CBEC and normal trade businesses. These new products included the launch of Swisse's K2 Bones product on the Group's CBEC platforms in China and the launch of Swisse's Chlorophyll liquid and Artichoke + Raisin Tree Seed liquid products in the normal trade channel.

Since launching these products in China's normal trade market, Swisse has demonstrated fast and sustainable growth within its offline business, which grew 79.6% compared to the same period last year. The normal trade business accounted for approximately 11.9% of total Swisse sales in China in the first half of 2019 with Swisse products currently available for sale in 19,482 offline retail stores. Furthermore, the Group obtained approval for Swisse's globally best-selling Vitamin C effervescent product from the State Administration for Market Regulation ("**SAMR**") through its filing process in late June this year.

In addition, according to research statistics by Earlydata, an independent market research data provider, Swisse maintained its no.1 position in the VHMS market on Chinese online platforms with a market share of 6.0% for the twelve months ended 30 June 2019.

Outside of its core markets, Swisse demonstrated robust revenue growth in other markets, including Italy, Hong Kong SAR, Singapore, the Netherlands and the United States, which accounted for 8.3% of total ANC revenue in the first half. Swisse currently ranks no.1 in the vitamin category in the Hong Kong SAR market. Moreover, the Group's brand awareness was also boosted by the appointment of influential and recognized Hollywood actor Chris Hemsworth, and his wife Elsa Pataky, an actress and model, as Swisse's new global brand ambassadors. 2019 also marks Swisse's 50th anniversary and the Group expanded its share in core markets, as well as other markets, utilizing Swisse's new "The Quest Continues" campaign and new celebrity images.

To further grow the care segment of its ANC business, the Group has integrated a new brand, Aurelia Probiotic Skincare ("**Aurelia**"), into its overall business following its acquisition. The Group recently launched Aurelia products on the RED (Xiaohongshu) CBEC platform in China, inviting KOLs to France and London to further experience the luxuriousness of the premium and natural BioOrganic ingredients used in Aurelia's products. Aurelia is currently sold globally through its own dynamic DTC (Direct-to-Consumer) platform, as well as beauty e-commerce platforms, prestigious retail channels, hotels and spas.

To better drive innovation and access to disruptive technologies within its relevant industries, the Group has sought new partnership opportunities with promising start-ups and entrepreneurs through its NewH^2 fund. Building on its cooperation with Genclis, announced last September, the Group has acquired a minority stake in two more start-ups: Meta Flow in Israel, which has created breakthrough innovations in real-time metabolic tracking; and Proven Skincare in North America, which uses AI to personalize skincare – further growing these entrepreneurial and disruptive brands with the same vision of delivering health and wellness to both infants and adults.

In June 2019, the Group published its second annual Environmental, Social and Governance (ESG) report, which unveiled key achievements and progress in its sustainability agenda through 2018. Over the past eight months, the Group published the H&H Group Supplier Code of Conduct, its Responsible Marketing of Breast Milk Substitutes Policy and its Group Health and Safety Policy, as well as joining with leading international associations such as the UN Global Compact, The Sustainability Consortium and the Shared Value Project to better incorporate sustainable business practices into ongoing operations and strategy.

PROSPECTS

Looking ahead to the second half of the year, the Group foresees a similar degree of macro volatility and market uncertainty, which may affect consumer sentiment in many of the key markets in which the Group operates. The Group will aim to sustain positive revenue growth with healthy profits despite the headwinds ahead. The Group will continue to implement its 'Premium, Proven, Aspirational and Engaging' ("**PPAE**") model to positively convey the images of its brands globally, and will target consumers by further sharing and leveraging its distribution network and brand assets to facilitate the exposure of its brands in different markets.

Management Discussion and Analysis

For the BNC segment, the Group expects the Chinese IMF market to remain intensively competitive while still anticipating some business growth in the BNC segment. To strengthen its market share, the Group will further implement its multi-brand/ category strategy, leverage on its strong position in the premium and super premium segments of the Chinese IMF market, and continue to invest in branding and consumer education, acquire more new end-users with improved repurchase rates as well as enhance its strategic partnerships with key customers to strengthen its market share. In order to capture the fast growth momentum of the goat milk and organic categories in China, the Group will launch a goat milk IMF series with its Biostime trademark in the offline market in the second half of 2019, having recently obtained approval from SAMR, while also expanding the sales presence of Healthy Times IMF products.

For the ANC segment, despite the current headwinds, the Group remains confident about delivering positive growth for the rest of the year. Business growth opportunities remain in the ANZ market where the Group will continue to drive domestic consumption through strong branding, product innovation and channel expansion. From a China perspective, the Group will also carry on its strategy of transitioning its Swisse business from a passive sales model driven by individual daigou traders to a more manageable and sustainable active sales model in China.

In China, albeit slowing online VHMS market growth, the Group remains confident about the healthy and sustainable growth of the overall VHMS industry in light of its still low but growing penetration supported by China Government's 'Healthy China 2030' Initiative. The Group believes in healthy and sustainable growth prospects of its ANC business in China in light of the strength of the Swisse brand among Chinese consumers on CBEC and the opportunities to further grow in the normal trade channel. Swisse will be launching several new products in the second half of the year and will soon announce a new Chinese celebrity as a brand ambassador. The expansion of the brand in the normal trade channel will further be supported by the filing of more "blue hat" licenses, including Swisse's Kids Vitamin D3 (Liquid), which was recently approved by SAMR.

The Group will also launch product categories under the new sub-brand Swisse Me™ in the United Kingdom in August, which aims to embrace fast growing consumer segments and shopping trends through the launch of a new direct-to-consumer product range.

Following its recent investments in three start-up companies, the Group's NewH^2 fund has invested a minority stake of 16.75% in Bod Australia Limited (ASX: BDA) in July 2019 for an exclusive worldwide license to commercialize Bod's CBD (cannabinoid) products, which are non-addictive and non-psychoactive, to further extend its product categories in the health supplements segment and seize the growth trend and increasing global demand for these products. The Group believes this investment aligns with its sustainability journey while allowing it to lead the way with innovated product categories in different global markets.

Over the past several years, the Group has been gradually building a strong track record in successfully integrating its acquisitions, as well as consolidating and growing its business across different categories and markets. Going forward, the Group remains confident about the growth potential within its two core ANC and BNC segments and its ability to establish a global leading position in premium nutrition and wellness. The Group will also continue to increase operational efficiency and realize synergies within the businesses, strengthening its multi-brand, multi-category and multi-channel strategy, to maintain profitable growth and ensure stable and consistent returns to its shareholders.

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2019, the Group's revenue increased by 11.4% to RMB5,095.3 million as compared with the same period in 2018. Even along with a volatile environment of slowing down economic growth and intense market competition, the Group still strived to achieve double-digit revenue growth for the six months ended 30 June 2019, supported by growth in both segments.

	Six months ended 30 June				
				% to revenue	
	2019 RMB'000	2018 RMB'000	Change	2019	2018
Baby nutrition and care products	3,261,351	2,777,974	17.4%	64.0%	60.7%
– Infant formulas	2,401,324	2,093,242	14.7%	47.1%	45.8%
– Probiotic supplements	588,748	553,942	6.3%	11.6%	12.1%
– Other pediatric products	271,279	130,790	107.4%	5.3%	2.8%
Adult nutrition and care products	1,833,914	1,795,600	2.1%	36.0%	39.3%
Total	5,095,265	4,573,574	11.4%	100.0%	100.0%

Infant formulas

Revenue from IMF amounted to RMB2,401.3 million for the six months ended 30 June 2019. Despite the continuing intensive competition in Chinese IMF market due to the declining birth rate last year, the Group still managed to achieve a sales growth of 14.7% compared with the same period of 2018. The growth was mainly driven by the multi-brand/category strategy and several initiatives launched in the first half of 2019 to drive consumer demand for premium BNC product categories, including exercising a multi-brand/category strategy; effectively recruiting new consumers and retaining existing consumers through the Group's proprietary MAMA100 loyalty program; and stepping up digital and social media marketing and professional endorsements to enhance brand awareness and word-of-mouth effect. The Group has also seen its revenue from Healthy Times branded organic IMF grew by 42.7% in the six months ended 30 June 2019 compared with the same period of last year, and accounted for 5.1% of its total IMF revenue. The growth was also attributable to the successful launch of Biostime organic IMF products in Australia at the beginning of 2019, and the launch of goat IMF series under Biostime brand on the Group's CBEC platforms as well as in Hong Kong SAR market.

Probiotic Supplements

For the six months ended 30 June 2019, the Group recorded revenue from probiotic supplements of RMB588.7 million, a growth of 6.3% compared with RMB553.9 million in the same period of 2018. This slowing growth was partially affected by a high base in the first quarter of 2018, as well as intensified market competition as new brand players gradually entering this segment. Despite this, the Group continued to leverage its no. 1 position and carry out consumer education on the benefits of probiotic products so as to maintain sustainable growth of its probiotic business.

Other pediatric products

Revenue from other pediatric products segment increased by 107.4% to RMB271.3 million for the six months ended 30 June 2019 from RMB130.8 million in the same period of last year. Sales of Dodie branded products achieved a growth of 61.3% from RMB115.6 million in the six months ended 30 June 2018 to RMB186.4 million in the six months ended 30 June 2019. The rapid growth was mainly attributed to the strong performance of Dodie branded products across both France and China. Sales of Dodie branded diaper increased by 137.0% to RMB122.7 million for the six months ended 30 June 2019 as compared with the same period in 2018, supported by investment in brand awareness and consumer education activities as well as synergies of sales team and distribution channel leveraged with other BNC products of the Group. The consolidation of Good Goût sales since the acquisition in last July also contributed for the growth of the Group's other pediatric product segment. For the six months ended 30 June 2019, revenue from Good Goût products amounted to RMB80.7 million.

Adult nutrition and care products

On currency adjusted basis*Note*, revenue from the adult nutrition and care products segment amounted to AUD383.1 million for the six months ended 30 June 2019, representing an increase of 4.8% from AUD365.6 million in the first half of 2018. ANZ sales decreased by 11.7%, following the implementation of new China E-commerce law on 1 January 2019, which resulted in 'daigou' traders destocking inventory and reducing trading.

China active sales increased by 21.9% and accounted for 40.9% of total ANC revenue for the six months ended 30 June 2019. The growth of China active sales was supported by strong brand and product marketing on major CBEC platforms during the 618 e-commerce season, including celebrity endorsements and the introduction of several new categories in China CBEC and normal trade businesses.

In addition to the core markets, other markets also saw a robust revenue growth. Revenue from the markets of Hong Kong SAR, Singapore, Italy, Netherlands and United States reached AUD31.8 million for the six months ended 30 June 2019 which accounted for 8.3% of total ANC revenue during this period.

Gross profit and gross profit margin

In the first half of 2019, the Group recorded gross profit of RMB3,423.3 million, an increase of 11.3% compared with the same period of last year. During the period under review, the Group's gross profit margin remained stable at 67.2%, same as that of the corresponding period in 2018.

The gross profit of baby nutrition and care segment increased by 15.7% to RMB2,197.9 million in the first half of 2019 compared with that of last year. The gross profit margin of baby nutrition and care segment slightly decreased to 67.4% in the first half of 2019 from 68.4% in the six months ended 30 June 2018. The lowered gross profit margin was mainly caused by (i) the decrease in gross profit margin of probiotic supplements due to higher cost for the upgraded formulation; and (ii) the product mix towards higher revenue proportion from the lower-margin Dodie branded diaper and Good Goût products. The gross profit margin of IMF remained stable, resulted from the favorable exchange rate of EUR against RMB which was offset by the increased cost of raw materials and packaging materials.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 6.9% to AUD256.0 million in the first half of 2019, compared with AUD239.5 million in the first half of 2018. The gross profit margin of the adult nutrition and care segment increased to 66.8% in the first half of 2019, as compared with 65.5% in the first half of 2018. The increase of gross profit resulted from an improved product mix towards higher proportion of sales from the higher-margin stock keeping units ("**SKUs**"), and the increase of sales prices of certain SKUs.

Note: The exchange rates of AUD1 = RMB4.7871 and AUD1 = RMB4.9119 were used for the six months ended 30 June 2019 and 2018, respectively.

Other income and gains

Other income and gains amounted to RMB126.8 million for the six months ended 30 June 2019. Other income and gains primarily consisted of net foreign exchange gain of RMB58.1 million, fair value gain on derivative financial instruments of RMB45.5 million and others.

The net foreign exchange gain of RMB58.1 million mainly represented non-cash gain from the revaluation on intragroup loans between the Company and its subsidiaries resulting from historical intra-group transaction.

The non-cash fair value gain on derivative financial instruments of RMB45.5 million was mainly caused by the fair value gain on the early redemption option embedded in the Group's senior notes.

Selling and distribution costs

Selling and distribution costs amounted to RMB1,971.6 million in the six months ended 30 June 2019, an increase by 27.5% as compared with the same period of 2018. Selling and distribution costs as a percentage of the Group's revenue was 38.7% in the first half of 2019, increased by 4.9 percentage points as compared with 33.8% in the comparable period in 2018, mainly driven by the strategic investments in new markets and new product categories.

Selling and distribution costs of BNC business amounted to RMB1,259.9 million in the six months ended 30 June 2019, representing an increase of 28.4% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased from 35.3% in the first half of 2018 to 38.6% in the first half of 2019. Advertising and marketing expense of BNC business as a percentage of its revenue increased from 9.0% in the six months ended 30 June 2018 to 9.9% in the same period of 2019. The increase was mainly due to the strategic investments in new markets and new product categories, including launch of Biostime's organic IMF products and probiotics products in Australia at the beginning of 2019, appointing new celebrity endorsements and the consolidation of Good Goût since the completion of acquisition in the second half of 2018. Selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of BNC revenue increased from 26.3% in the first half of 2018 to 28.7% in the same period of 2019. The increase was mainly due to (i) the step-up investment in new markets and (ii) the increased amortization costs for intangible assets identified in the acquisition of Good Goût. Excluding these strategic investments and depreciation and amortization cost, selling and distribution costs of BNC business in the Group's core BNC market in China as a percentage to the BNC revenue decreased slightly resulting from the spending efficiency improvement.

Selling and distribution costs of ANC business amounted to RMB711.6 million in the six months ended 30 June 2019, representing an increase of 26.0% as compared with the same period of last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business increased from 31.5% in the first half of 2018 to 38.8% in the first half of 2019. Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 18.4% in the first half of 2018 to 25.7% during the period under review. The increase was mainly due to the investments in Italy, Netherlands, Hong Kong SAR and Singapore markets since the completion of the transfer of Swisse's distribution rights from PGT Healthcare LLP, and the consolidation of Aurelia since the completion of the transaction in January 2019. The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue remained stable at 13.1% resulting from the efficiency improvement in core markets while partially offset by strategic investments in new markets. Excluding these strategic investments and depreciation and amortization cost, selling and distribution costs of ANC business in the Group's core ANC markets in China and Australia as a percentage to the ANC revenue slightly increased, resulting from the increasing revenue proportion from Chinese markets which required higher advertising and marketing investments to boost brand awareness both online and offline as the overall penetration among Chinese consumers is still low.

Management Discussion and Analysis

Administrative expenses

Administrative expenses slightly increased by 1.2% from RMB295.9 million for the six months ended 30 June 2018 to RMB299.4 million for the six months ended 30 June 2019. Administrative expenses as a percentage of the Group's revenue improved to 5.9% in the first half of 2019, decreased slightly by 0.6 percentage point as compared with 6.5% in the comparable period in 2018 resulted from the improved spending efficiency.

Other expenses

Other expenses for the six months ended 30 June 2019 amounted to RMB94.7 million. Other expenses mainly included R&D expenditure of RMB74.2 million and others.

During the period under review, R&D expenditure increased by 22.2% as compared with the corresponding period of last year. The increase in R&D expenditure mainly resulted from the continuing investment in new product development in order to sustain the long-term growth of the Group.

EBITDA and EBITDA margin

EBITDA for the six months ended 30 June 2019 amounted to RMB1,298.6 million, increased by 34.5% from RMB965.7 million for the six months ended 30 June 2018. EBITDA margin was 25.5% during the period under review.

Adjusted EBITDA decreased by 4.4% from RMB1,249.0 million in the first half of 2018 to RMB1,194.5 million during the period under review. Adjusted EBITDA margin for the first half of 2019 was 23.4%, decreased by 3.9 percentage points as compared with the same period of last year. The lower Adjusted EBITDA and Adjusted EBITDA margin were mainly due to the Group's strategic stepped up investments in branding, product and channel development, as well as deeper penetration in different global markets.

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

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
EBITDA	**1,298.6**	965.7
Reconciled by:		
Non-cash items:		
(1) Net foreign exchange losses/(gains)	**(58.1)**	218.1
(2) Net fair value losses/(gains) on the financial instruments	**(46.0)**	70.1
(3) Gain on deemed disposal of partial interest in an associate	**–**	(9.5)
Non-recurring items:		
(4) Non-recurring integration costs	**–**	4.6
Adjusted EBITDA	**1,194.5**	1,249.0

Finance costs

During the six months ended 30 June 2019, the Group incurred finance costs of RMB185.6 million, including interests for the term loan and senior notes of RMB181.1 million. Thanks for the improved capital structure, finance costs for the six months ended 30 June 2019 decreased by 23.5% compared with the same period of 2018.

Income tax expense

Income tax expense increased from RMB272.3 million in the six months ended 30 June 2018 to RMB288.5 million in the six months ended 30 June 2019.

Thanks to the tax initiatives launched by the Group, the effective tax rate decreased from 41.5% in the first half of 2018 to 28.8% in the first half of 2019. The Group's normalized effective tax rate in the first half of 2019 was 32.1%, excluding the impact from net foreign exchange gain and net fair value gain on the financial instruments.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Net profit	**713.1**	384.3
Reconciled by:		
EBITDA adjusted items as listed above	**(104.1)**	283.3
Non-cash items:		
Write-off of transaction costs upon refinancing for the term loan	**–**	33.4
Adjusted net profit	**609.0**	701.1

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2019, the Group recorded net cash generated from operating activities of RMB447.4 million, resulting from pre-tax cash from operations of RMB960.0 million, minus income tax paid of RMB512.6 million.

Management Discussion and Analysis

Investing activities

For the six months ended 30 June 2019, net cash flows used in investing activities amounted to RMB179.3 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB77.5 million, subscription of bond issued by one of the Group's IMF suppliers of RMB78.5 million, investments with the Group's NewH^2 fund of RMB24.0 million and others.

Financing activities

For the six months ended 30 June 2019, net cash flows used in financing activities amounted to RMB121.7 million. The cash outflows were primarily related to interest paid for term loans and senior notes of RMB177.3 million, which was partially offset by the proceed from the EUR10 million bank loan of RMB78.5 million.

Cash and bank balances

As of 30 June 2019, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,057.7 million.

Term loan and senior notes

As of 30 June 2019, the Group's outstanding term loans amounted to RMB2,779.3 million, all are payable after one year. The total carrying amount of the senior notes was RMB3,279.7 million, including current portion of RMB171.4 million.

As of 30 June 2019, the annualized net leverage ratio slightly increased to 1.65 from 1.62 as of 30 June 2018, calculated by dividing the net debts[*Note*] by accumulated adjusted EBITDA for the last twelve months ended 30 June. Gearing ratio decreased to 38.9% from 42.9%, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables increased by 5 day from 27 days for the six months ended 30 June 2018 to 32 days for the six months ended 30 June 2019 mainly due to the temporary credit terms granted to certain customers. The average turnover days of trade payables were 96 days for the six months ended 30 June 2019, representing an increase of 14 days from 82 days for the six months ended 30 June 2018, mainly due to the different cut-off days.

The inventory turnover days were 181 days for the six months ended 30 June 2019, representing an increase of 39 days from 142 days for the six months ended 30 June 2018. The average turnover days of BNC products were 139 days for the six months ended 30 June 2019, which was stable compared with 138 days for the six months ended 30 June 2018. The average turnover days of ANC products increased 106 days from 148 days for the six months ended 30 June 2018 to 254 days for the six months ended 30 June 2019. The increase was mainly caused by the lower-than-expected growth of revenue from ANC segment. Despite the increased inventory turnover days, the overall slow-moving inventory provision decreased from RMB49.3 million for the six months ended 30 June 2018 to RMB31.8 million for the six months ended 30 June 2019.

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

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

In order to reduce financing cost and optimize capital structure, USD50 million in principal amount of the senior notes, representing approximately 10.53% of the outstanding principal amount of the senior notes, was redeemed on 15 August 2019.

The Group's NewH^2 fund has invested a minority stake of 16.75% with an amount of AUD5.5 million in Bod Australia Limited (ASX: BDA) in July 2019 for an exclusive worldwide license to commercialize Bod's CBD (cannabinoid) products, which are non-addictive and non-psychoactive, to further extend its product categories in the health supplements segment and seize the growth trend and increasing global demand for these products.

To the best of the knowledge of the Directors having made all reasonable enquiries, Bod Australia Limited is independent of the Company and its connected persons. The Directors confirmed that as all the applicable percentage ratios under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") in respect of the transactions contemplated under the exclusive global agreement were less than 5% and did not involve the issue of any securities by the Company, the transactions contemplated under the exclusive global agreement did not constitute notifiable transactions of the Company under Chapter 14 of the Listing Rules.

Based on the actual sales performance of July, the total Group revenue for the first seven months ended 31 July 2019 increased 5.3% compared with the same period of last year. The July year-to-date growth is lower than that in the first half of 2019 on the back of strong online and offline-channel promotion on VHMS products and maternal and baby products during the 618 sales season, while continuing to face the impact of "Daigou" traders reducing trading in the Australia market and the growth headwinds of both BNC and ANC industries.

Corporate Governance and Other Information

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to 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 2019.

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 the Chief Executive Officer of the Company until 19 March 2019. The Board believed that vesting the roles of both Chairman and Chief Executive Officer in the same person could ensure consistent leadership within the Group, as well as effective and efficient overall strategic planning for the Group. The Board was also of the view that such arrangement did not impair the balance of power and authority in the Group, which had been adequately ensured by the Board comprising experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2019.

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 2019. 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.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the "**Remuneration Committee**") was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The Remuneration Committee consists of three members, namely, Mr. Tan Wee Seng, Mr. Luo Fei and Dr. Ngai Wai Fung, the majority of whom are independent non-executive Directors. Mr. Tan Wee Seng was appointed as the chairman of the Remuneration Committee.

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all Directors' and senior management's remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his close associates (as defined in the Listing Rules) will be involved in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department of the Company is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

NOMINATION COMMITTEE

The nomination committee of the Board (the "**Nomination Committee**") was established on 25 November 2010 with written terms of reference in compliance with the CG Code. The chairman of the Nomination Committee is Mr. Luo Fei, an executive Director, and the two other members are Dr. Ngai Wai Fung and Mr. Tan Wee Seng, both of whom are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the diversity policy adopted by the Board on 20 August 2013, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

NOMINATION COMMITTEE (CONTINUED)

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at shareholders' meetings.

During the six months ended 30 June 2019, the Company attended 17 investors' conferences and non-deal roadshows and approximately 215 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2019 are summarized as follows:

Date	Event	Organizer	Location
January 2019	UBS China Conference	UBS	Shanghai
January 2019	Daiwa Healthcare Corporate Day	Daiwa	Hong Kong
January 2019	Citi Consumer Corporate Day	Citi	Hong Kong
January 2019	dbAccess China Conference	Deutsche Bank	Shenzhen
January 2019	Goldman Sachs Hong Kong/China China Corporate Day	Goldman Sachs	Hong Kong
January 2019	dbAccess China Industrial Day (fixed income)	Deutsche Bank	Hong Kong
March 2019	Hong Kong Roadshow	Citi	Hong Kong
March 2019	Hong Kong Roadshow	CLSA	Hong Kong
March 2019	Europe Roadshow	CLSA	London
April 2019	Singapore Roadshow	Daiwa	Singapore
April 2019	US Roadshow	Citi	New York/Boston/San Francisco
April 2019	Nomura Consumer Corporate Day	Nomura	Hong Kong
May 2019	CLSA/CITIC China Investors' Forum	CLSA/CITIC	Qingdao
May 2019	HSBC China Conference	HSBC	Shenzhen
May 2019	Daiwa Investment Conference	Daiwa	London
May 2019	H&H Corporate Day	H&H Group	Guangzhou
May 2019	Taipei Roadshow	Citi	Taipei

The last shareholders' meeting was the annual general meeting held on 10 May 2019 at Churchill Room, 26th Floor, The Park Lane Hong Kong, a Pullman Hotel, 310 Gloucester Road, Causeway Bay, Hong Kong for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, and the re-election of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

To promote effective communication, the Company maintains a website at www.hh.global, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and are available for public access. Investors may write directly to the Company or via email to IR@hh.global for any enquiries.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report 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 this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019.

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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 2019.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Main Board of the Stock Exchange. The details of both share option schemes are as follows:

Share Option Scheme

A share option scheme (the "**Share Option Scheme**") of the Company was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010.

On 29 March 2019, a total of 3,085,008 share options (the "**Share Options**") to subscribe for 3,085,008 ordinary shares of HK$0.01 each in the share capital of the Company were granted to grantees (the "**Grantees**") under the Share Option Scheme at an exercise price of HK$49.15 per share. The closing prices of the shares of the Company immediately before date of grant was HK$48.95.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2019 by category of Grantees were as follows:

			Number of Share Options				
Category of Grantees	**Date of grant (DD/MM/YYYY)**	**Exercise price per share**	**Outstanding as at 1 January 2019**	**Granted during the six months ended 30 June 2019**	**Exercised during the six months ended 30 June 2019**	**Lapsed/ cancelled during the six months ended 30 June 2019**	**Outstanding as at 30 June 2019**
Directors							
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	60,000	–	(60,000)[1]	–	–
	19/04/2017	HK$25.75	150,000	–	(100,000)[2]	–	50,000
	29/03/2019	HK$49.15	–	150,000			150,000
Mr. Tan Wee Seng	16/12/2011	HK$12.12	60,000	–	(60,000)[1]	–	–
	19/04/2017	HK$25.75	150,000	–	–	–	150,000
	29/03/2019	HK$49.15	–	150,000	–	–	150,000
Prof. Xiao Baichun	19/04/2017	HK$25.75	150,000	–	–	–	150,000
	29/03/2019	HK$49.15	–	150,000	–	–	150,000
Mr. Luo Fei	29/12/2015	HK$15.58	414,093	–	–	–	414,093
	24/08/2017	HK$29.25	616,253	–	–	–	616,253
	16/11/2018	HK$50.05	600,000	–	–	–	600,000
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	29/12/2015	HK$15.58	308,982	–	–	–	308,982
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
	16/11/2018	HK$50.05	628,536	–	–	(628,536)	–
	29/03/2019	HK$49.15	–	2,110,742	–	–	2,110,742
Mr. Wang Yidong	03/05/2016	HK$21.05	181,157	–	–	–	181,157
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
	16/11/2018	HK$50.05	628,536	–	–	–	628,536
Sub-total			**4,893,371**	**2,560,742**	**(220,000)**	**(628,536)**	**6,605,577**
Employees and others	09/06/2011	HK$15.312	7,903	–	(418)[3]	–	7,485
	29/11/2011	HK$11.52	21,558	–	(5,150)[4]	–	16,408
	01/06/2012	HK$19.64	20,041	–	(5,198)[5]	–	14,843
	07/12/2012	HK$24.70	50,574	–	(9,884)[6]	(148)	40,542
	29/12/2015	HK$15.58	3,662,084	–	(939,163)[7]	(62,483)	2,660,438
	03/05/2016	HK$21.05	18,542	–	(18,542)[8]	–	–
	30/09/2016	HK$20.92	293,280	–	(11,938)[9]	(5,069)	276,273
	23/12/2016	HK$23.30	164,204	–	(28,445)[10]	(14,045)	121,714
	19/04/2017	HK$25.75	694,712	–	(150,996)[2]	(134)	543,582
	07/07/2017	HK$22.15	180,557	–	(83,768)[11]	(4,215)	92,574
	24/08/2017	HK$29.25	9,843,377	–	–	(1,659,583)	8,183,794
	05/12/2017	HK$47.10	622,932	–	–	(262,124)	360,808
	20/04/2018	HK$60.02	631,972	–	–	(33,036)	598,936
	26/7/2018	HK$59.05	496,300	–	–	(26,426)	469,874
	28/9/2018	HK$47.27	87,382	–	–	(31,080)	56,302
	16/11/2018	HK$50.05	3,736,277	–	–	(639,363)	3,096,914
	29/03/2019	HK$49.15	–	524,266	–	(37,090)	487,176
Total			**25,425,066**	**3,085,008**	**(1,473,502)**	**(3,403,332)**	**23,633,240**

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$43.20.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$44.38.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$43.10.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$48.78.

Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$48.60.

Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$44.24.

Note 7: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$46.74.

Note 8: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$44.00.

Note 9: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$45.93.

Note 10: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$47.44.

Note 11: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$47.97.

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

All Share Options granted since the adoption of the Share Option Scheme until 7 December 2012 have vested in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "**Vesting Date**"):

Vesting Date	Percentage of Share Options to vest
Any time after the third anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fourth anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fifth anniversary of 17 December 2010	40% of the total number of Share Options granted

Among the 18,868,509 Shares Options granted on 29 December 2015, 2,732,019 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 18,868,509 Shares Options granted on 29 December 2015, 16,136,490 Share Options (including Share Options granted to Mr. Luo and Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, executive Directors) shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

Among the 483,735 Shares Options granted on 3 May 2016, 302,578 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 483,735 Shares Options granted on 3 May 2016, 181,157 Share Options granted to Mr. Wang Yidong shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

Among the 554,009 Shares Options granted on 30 September 2016, 102,487 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 554,009 Shares Options granted on 30 September 2016, 349,466 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

Among the 554,009 Shares Options granted on 30 September 2016, 102,056 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

Among the 540,804 Shares Options granted on 23 December 2016, 127,759 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 540,804 Shares Options granted on 23 December 2016, 413,045 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

Among the 1,927,499 Shares Options granted on 19 April 2017, 1,477,499 Share Options granted to eligible persons who are not Directors shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

Among the 1,927,499 Shares Options granted on 19 April 2017, 450,000 Share Options granted to certain Directors shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	One-third of the total number of Share Options granted
1 April 2019	One-third of the total number of Share Options granted
1 April 2020	One-third of the total number of Share Options granted

All 446,120 Shares Options granted on 7 July 2017 shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

All 14,318,647 Shares Options granted on 24 August 2017 (including Share Options granted to Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong, executive Directors) shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

Among the 777,607 Shares Options granted on 5 December 2017, 125,359 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2019	100% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 777,607 Shares Options granted on 5 December 2017, 652,248 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

Among the 801,283 Shares Options granted on 20 April 2018, 3,267 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2019	100% of the total number of Share Options granted

Among the 801,283 Shares Options granted on 20 April 2018, 798,016 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

All 555,375 Shares Options granted on 26 July 2018 shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

All 137,277 Shares Options granted on 28 September 2018 shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

All 5,593,349 Shares Options granted on 16 November 2018 (including Share Options granted to Mr. Luo Fei, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong, executive Directors) shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	100% of the total number of Share Options granted

Among the 3,085,008 Shares Options granted on 29 March 2019, 524,266 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 3,085,008 Shares Options granted on 29 March 2019, 2,560,742 Share Options granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2022	100% of the total number of Share Options granted

Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or their respective associates (as defined in the Listing Rules).

Other than the 628,536 Shares Options granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER which were cancelled on 29 March 2019, no Share Options granted under the Share Option Scheme were cancelled during the six months ended 30 June 2019.

The total number of shares available for issue under the Share Option Scheme was 30,912,137, representing approximately 4.82% of the Company's issued share capital as at 30 June 2019.

Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") is to give the Directors senior management, employees and business partners of the Company an opportunity to have a personal stake in the Company and help motivate the Directors, senior management, employees and business partners to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme (the "**Pre-IPO Share Options**") is HK$2.53;

(b) the total number of shares which may be issued upon the exercise of all options granted under the Pre – IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 7 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the "**Listing Date**");

(c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the third anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fourth anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fifth anniversary of the Listing Date	40% of the total numbers of options granted

(d) there is a 6-year exercise period for each option granted under the Pre-IPO Share Option Scheme.

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1.00 paid by each grantee. During the six months ended 30 June 2019, 1 employee was no longer eligible for the Pre-IPO Share Options due to her resignation, and as a result, a total of 400 Pre-IPO Share Options lapsed in accordance with the terms of the Pre-IPO Share Option Scheme. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2019 by category of grantees are set out below:

	Number of Pre-IPO Share Options			
Category of grantees	**Outstanding as at 1 January 2019**	**Exercised during the six months ended 30 June 2019**	**Lapsed during the six months ended 30 June 2019**	**Outstanding as at 30 June 2019**
Directors				
Mr. Luo Fei	372,744	–	–	372,744
Sub-total	372,744	–	–	372,744
Others				
Senior management members	249,388	–	–	249,388
Other employees	26,465	(3,028)	(400)	23,037
Business partners	60,000	–	–	60,000
Sub-total	335,853	(3,028)	(400)	332,425
Total	**708,597**	**(3,028)**	**(400)**	**705,169**

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2019.

The total number of shares available for issue under the Pre-IPO Share Option Scheme was 705,169, representing approximately 0.11% of the Company's issued share capital as at 30 June 2019.

2011 SHARE AWARD SCHEME

A share award scheme (the "**2011 Share Award Scheme**") of the Company was adopted by the Board on 28 November 2011 (the "**Adoption Date**") and amended by the Board on 30 March 2012. The purpose of the 2011 Share Award Scheme is to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the 2011 Share Award Scheme and the Listing Rules, the Board may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee of the 2011 Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the 2011 Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2011 Share Award Scheme would represent in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of shares which may be awarded to a participant under the 2011 Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the 2011 Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

Details of the 2011 Share Award Scheme are set out in the Company's announcements dated 28 November 2011 and 30 March 2012.

During the six months ended 30 June 2019, the Board either granted any awarded shares to eligible persons under the 2011 Share Award Scheme nor arranged any funds to be paid to the trustee of the 2011 Share Award Scheme for purchasing of shares of the Company on the Stock Exchange. The trustee of the 2011 Share Award Scheme did not purchase any shares of the Company on the Stock Exchange during the six months ended 30 June 2019.

Below is a summary of the particulars of the share awarded under the 2011 Share Award Scheme (the "**Awarded Shares**") which were outstanding during the six months ended 30 June 2019:

				Number of Awarded Shares		
Date of grant	**Number of Awarded Shares granted**	**Approximate percentage of the Company's share capital as at the Adoption Date**	**Vesting date**	**Vested as at 30 June 2019**	**Forfeited/ lapsed as at 30 June 2019**	**Outstanding (held by the trustee for the grantees) as at 30 June 2019**
22 September 2017	329,646*(Note 1)*	0.055%	1 April 2019	(285,254)	–	–
Total	**329,646**	**0.055%**		**(285,254)**	**–**	**–**

Note 1: Among these Awarded Shares granted, 56,613 Awarded shares were granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, 56,613 Awarded Shares were granted to Mr. Wang Yidong and 216,420 Awarded Shares were granted to 4 participants who were directors of certain subsidiaries of the Company.

2011 SHARE AWARD SCHEME (CONTINUED)

Further details in relation to the 2011 Share Award Scheme are set out in note 28 to the financial statements of this Interim Report.

2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the "**2013 Share Award Scheme**") on 29 November 2013, which was further amended on 14 May 2015. It is implemented in parallel with the 2011 Share Award Scheme. The purposes of the 2013 Share Award Scheme are to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Share Award Scheme (the "**Selected Participant**") or a group of Selected Participants for participation in the 2013 Share Award Scheme. Subject to the limit on the size of the 2013 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares which it wishes to be the subject of an award under the 2013 Share Award Scheme, or (b) instruct the trustee to allocate Returned Shares (as defined below) as awarded shares to any Selected Participant(s).

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the Board shall pay (or cause to be paid) sufficient funds to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the funds from the Company, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the Board from time to time but in any event no later than 40 business days before the vesting of the relevant awarded shares.

Such awarded shares shall then be held by the trustee for the Selected Participants in accordance with the provisions of the 2013 Share Award Scheme prior to vesting. The trustee shall not exercise any voting right attached in respect of any awarded shares held in trust by it under the 2013 Share Award Scheme (including but not limited to the awarded shares and any bonus shares and script shares derived from them).

Where awarded shares (the "**Returned Shares**"), which are referable to a Selected Participant, do not vest in accordance with the specified procedures, then the trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Participants in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme representing in excess of 1.5% of the issued share capital of the Company as at the adoption date of the same. No sum of money shall be set aside and no awarded shares shall be subscribed pursuant to the 2013 Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a subscription, if, as a result of such subscription, the number of awarded shares administered under the 2013 Share Award Scheme would represent in excess of 1% of the issued share capital of the Company as at the adoption date of the same, provided that awarded shares which have been transferred to Selected Participants upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

2013 SHARE AWARD SCHEME (CONTINUED)

The maximum number of awarded shares which may be subject to award(s) to a single Selected Participant at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date of the 2013 Share Award Scheme.

Subject to any early termination as may be determined by the Board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date of the same.

Details of the 2013 Share Award Scheme are set out in the Company's announcement dated 29 November 2013.

During the six months ended 30 June 2019, the Board did not grant any awarded shares to Selected Participants under the 2013 Share Award Scheme.

Summary of particulars of the awarded shares under the 2013 Share Award Scheme are set out below:

			Number of awarded shares			
Date of grant	**Number of Awarded Shares granted**	**Approximate percentage of the Company's share capital as at the adoption date of the 2013 Share Award Scheme**	**Vesting date**	**Vested as at 30 June 2019**	**Forfeited as at 30 June 2019**	**Outstanding (held by the trustee for the Selected Participants) as at 30 June 2019**
25 August 2017	1,198,604	0.199%	1 April 2019	(825,058)	(12,210)	–
5 December 2017	26,949	0.004%	1 April 2019	(8,296)	(18,653)	–
Total	**1,225,553**	**0.203%**		**(833,354)**	**(30,863)**	**–**

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 12)*
Luo Fei	Beneficial owner	Long position	398,359 *(Note 1)*	0.06%
	Beneficial owner	Long position	372,744 *(Note 2)*	0.06%
	Beneficial owner	Long position	1,630,346 *(Note 3)*	0.25%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 4)*	67.31%
Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	Beneficial owner	Long position	349,959 *(Note 5)*	0.05%
	Beneficial owner	Long position	2,892,631 *(Note 6)*	0.45%
Wang Yidong	Beneficial owner	Long position	164,164 *(Note 7)*	0.03%
	Beneficial owner	Long position	1,282,600 *(Note 8)*	0.20%
Luo Yun	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 4)*	67.31%
Ngai Wai Fung	Beneficial owner	Long position	360,000 *(Note 9)*	0.06%
Tan Wee Seng	Beneficial owner	Long position	360,000 *(Note 10)*	0.06%
Xiao Baichun	Beneficial owner	Long position	360,000 *(Note 11)*	0.06%

Note 1: These are the ordinary shares held by Mr. Luo Fei directly.

Note 2: These are the shares subject to the exercise of the Pre-IPO Share Options granted by the Company under the Pre-IPO Share Option Scheme on 16 July 2010. Details of the Company's Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes – Pre-IPO Share Option Scheme" above.

Note 3: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 414,093 Share Options granted on 29 December 2015, 616,253 Share Options granted on 24 August 2017 and 600,000 Share Options granted on 16 November 2018. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

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

Note 4: As at 30 June 2019, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

Note 5: These are the ordinary shares held by Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER directly.

Note 6: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 308,982 Share Options granted on 29 December 2015, 472,907 Share Options granted on 24 August 2017 and 2,110,742 Share Options granted on 29 March 2019. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

Note 7: These are the ordinary shares held by Mr. Wang Yidong directly.

Note 8: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 181,157 Share Options granted on 3 May 2016, 472,907 Share Options granted on 24 August 2017 and 628,536 Share Options granted on 16 November 2018. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

Note 9: Dr. Ngai's interests are consisted of (i) 160,000 share issued pursuant to the exercise on 14 May 2019 of the Share Options granted by the Company under the Share Option Scheme, including 60,000 Share Options granted on 16 December 2011 and 100,000 Share Options granted on 19 April 2017; and (ii) 200,000 shares subject to the exercise of the Share Options granted by the Company under the Share Options Scheme, including 50,000 Share Options granted on 19 April 2017 and 150,000 Share Options granted on 29 March 2019.

Note 10: Mr. Tan's interests are consisted of (i) 60,000 share issued pursuant to the exercise on 14 May 2019 of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011: and (ii) 300,000 shares subject to the exercise of the Share Options granted by the Company under the Share Options Scheme, including 150,000 Share Options granted on 19 April 2017 and 150,000 Share Options granted on 29 March 2019.

Note 11: Professor Xiao's interests are consisted of (i) 60,000 share issued pursuant to the exercise on 1 September 2017 of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011; and (ii) 300,000 shares subject to the exercise of the Share Options granted by the Company under the Share Options Scheme, including 150,000 Share Options granted on 19 April 2017 and 150,000 Share Options granted on 29 March 2019.

Note 12: As at 30 June 2019, the total number of the issued shares of the Company was 641,787,349.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2019.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2019, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding *(Note 2)*
Biostime Pharmaceuticals (China) Limited *(Note 1)*	Beneficial owner	Long position	432,000,000	67.31%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.31%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.31%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.31%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	432,000,000	67.31%
Templeton Asset Management Ltd.	Investment manager	Long position	32,291,300	5.03%

Note 1: As at 30 June 2019, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

Note 2: As at 30 June 2019, the total number of the issued shares of the Company was 641,787,349.

Save as mentioned above, as at 30 June 2019, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Corporate Governance and Other Information

CHANGES IN INFORMATION OF DIRECTORS

There are no changes in information of Directors of the Company required to be disclosed in this interim report pursuant to Rule 13.51B(1) of the Listing Rules.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS

References are made to the announcements issued by the Company on 21 June 2018 and 13 September 2018, regarding the entering into of a facility agreement (the "**2018 Facility Agreement**") among Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrower, the Company and certain subsidiaries as guarantors, and affiliates of The Goldman Sachs Group, Inc., as amended by an amendment agreement (the "**Amendment Agreement**") entered into on 13 September 2018, to provide for a senior secured US dollar term loan facility and a senior secured Australian dollar term loan facility (the "**Refinancing Term Loan Facilities**") in an aggregate amount of up to US$400 million and a senior secured multi-currency revolving credit facility (the "**Revolving Credit Facility**") in an aggregate amount of up to US$50 million. Pursuant to the 2018 Facility Agreement as amended by the Amendment Agreement, if Mr. Luo Fei, Mr. Luo Yun and the family members of each of them (collectively) cease to (i) hold (directly or indirectly) beneficially 23% or more of the issued voting share capital of the Company, or (ii) be the persons who hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, the Refinancing Term Loan Facilities and the Revolving Credit Facility will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rules 13.21 and 13.18 of the Listing Rules.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

EY 安永

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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 37 to 90, which comprise the interim condensed consolidated statement of financial position as at 30 June 2019, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

20 August 2019

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

Six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	5	5,095,265	4,573,574
Cost of sales		(1,671,963)	(1,497,884)
Gross profit		3,423,302	3,075,690
Other income and gains	5	126,835	25,756
Selling and distribution costs		(1,971,557)	(1,546,415)
Administrative expenses		(299,379)	(295,875)
Other expenses		(94,677)	(360,439)
Finance costs	6	(185,601)	(242,634)
Share of profit of an associate		2,627	497
PROFIT BEFORE TAX	7	1,001,550	656,580
Income tax expense	8	(288,472)	(272,268)
PROFIT FOR THE PERIOD		713,078	384,312
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) 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	22	(32,342)	64,123
Reclassification adjustments for losses included in profit or loss		(8,109)	(70,715)
Income tax effect		12,135	(673)
Exchange realignment		(168)	(999)
		(28,484)	(8,264)
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	22	4,809	(30,406)
Exchange differences on translation of foreign operations		(90,392)	42,130
Exchange differences on net investment in foreign operations		(2,713)	(201,647)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(116,780)	(198,187)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		596,298	186,125
Profit attributable to owners of the parent		713,078	384,312
Total comprehensive income attributable to owners of the parent		596,298	186,125
		RMB (Unaudited)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		1.11	0.60
Diluted		1.10	0.59

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**491,783**	480,288
Right-of-use assets	3.1	**218,853**	–
Prepaid land lease payments	12	**–**	57,331
Goodwill	13	**5,390,377**	5,295,242
Intangible assets	14	**3,611,134**	3,588,823
Bonds receivable		**214,788**	137,148
Deposits		**46,932**	191,232
Investment in an associate		**54,509**	51,882
Deferred tax assets	25	**386,875**	362,559
Derivative financial instruments	22	**103,606**	95,388
Pledged deposits	18	**3,941**	3,924
Other non-current financial assets		**82,574**	58,205
Total non-current assets		**10,605,372**	10,322,022
CURRENT ASSETS			
Inventories	15	**1,800,861**	1,565,152
Trade and bills receivables	16	**927,004**	861,862
Prepayments, other receivables and other assets	17	**179,637**	159,230
Loans receivable		**8,763**	13,678
Derivative financial instruments	22	**5,270**	4,301
Pledged deposits	18	**10,789**	15,948
Cash and cash equivalents	18	**2,057,721**	1,912,394
Total current assets		**4,990,045**	4,532,565
CURRENT LIABILITIES			
Trade and bills payables	19	**984,128**	829,607
Other payables and accruals	20	**1,590,587**	1,736,521
Contract liabilities	21	**147,980**	100,880
Lease liabilities	3.1	**36,633**	–
Senior notes	24	**171,352**	236,351
Tax payable		**146,707**	298,333
Dividend payables		**270,745**	–
Total current liabilities		**3,348,132**	3,201,692
NET CURRENT ASSETS		**1,641,913**	1,330,873
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,247,285**	11,652,895

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Senior notes	24	3,108,318	3,038,335
Interest-bearing bank loans	23	2,779,330	2,692,250
Other payables and accruals	20	4,274	7,423
Lease liabilities	3.1	135,487	–
Derivative financial instruments	22	43,303	77,042
Deferred tax liabilities	25	939,759	988,298
Total non-current liabilities		7,010,471	6,803,348
Net assets		5,236,814	4,849,547
EQUITY			
Issued capital	26	5,486	5,473
Other reserves		5,231,328	4,579,488
Proposed dividend		–	264,586
Total equity		5,236,814	4,849,547

Luo Fei

Director

Wang Yidong

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2019

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
At 31 December 2018 (Audited)		5,473	589,662*	(13,081)*	26,992*	95*	382,651*	86,595*	25,688*	(167,295)*	(1,217,025)*	(12,403)*	4,877,609*	264,586	4,849,547
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	713,078	-	713,078
Other comprehensive income/(loss) for the period:															
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	(28,484)	-	-	(28,484)
Hedge of net investments	22	-	-	-	-	-	-	-	-	4,809	-	-	-	-	4,809
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(90,392)	-	-	-	-	(90,392)
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	-	-	(2,713)	-	-	-	-	(2,713)
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	-	-	(88,296)	-	(28,484)	713,078	-	596,298
Equity-settled share option arrangements	27	13	33,586	-	-	-	-	19,610	-	-	-	-	-	-	53,209
Equity-settled share award schemes	28	-	-	9,684	-	-	-	-	(25,688)	-	-	-	19,862	-	3,858
Final 2018 dividend declared		-	-	-	-	-	-	-	-	-	-	-	(1,512)	(264,586)	(266,098)
At 30 June 2019 (Unaudited)		5,486	623,248*	(3,397)*	26,992*	95*	382,651*	106,205*	-*	(255,591)*	(1,217,025)*	(40,887)*	5,609,037*	-	5,236,814

* These reserve accounts comprise the consolidated other reserves of RMB5,231,328,000 (31 December 2018: RMB4,579,488,000) in these interim condensed consolidated statement of financial position as at 30 June 2019.

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2017 (Audited)		5,447	540,608	(26,408)	26,992	95	382,651	47,538	29,122	124,016	(1,217,025)	8,264	4,291,792	4,213,092
Impact of adopting IFRS 9		–	–	–	–	–	–	–	–	–	–	–	(5,928)	(5,928)
Restated opening balance under IFRS 9		5,447	540,608	(26,408)	26,992	95	382,651	47,538	29,122	124,016	(1,217,025)	8,264	4,285,864	4,207,164
Profit for the period		–	–	–	–	–	–	–	–	–	–	–	384,312	384,312
Other comprehensive income/(loss) for the period:														
Cash flow hedges, net of tax		–	–	–	–	–	–	–	–	–	–	(8,264)	–	(8,264)
Hedge of net investments	22	–	–	–	–	–	–	–	–	(30,406)	–	–	–	(30,406)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	42,130	–	–	–	42,130
Exchange differences on net investment in a foreign operation		–	–	–	–	–	–	–	–	(201,647)	–	–	–	(201,647)
Total comprehensive income/(loss) for the period		–	–	–	–	–	–	–	–	(189,923)	–	(8,264)	384,312	186,125
Equity-settled share option arrangements		22	37,435	–	–	–	–	15,236	–	–	–	–	–	52,693
Equity-settled share award schemes	28	–	–	13,329	–	–	–	–	(11,949)	–	–	–	13,183	14,563
At 30 June 2018 (Unaudited)		5,469	578,043	(13,079)	26,992	95	382,651	62,774	17,173	(65,907)	(1,217,025)	–	4,683,359	4,460,545

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,001,550**	656,580
Adjustments for:			
Bank interest income	5	**(6,631)**	(7,036)
Interest income from loans and bonds receivables	5	**(4,922)**	(4,122)
Finance costs	6	**185,601**	242,634
Share of profit of an associate		**(2,627)**	(497)
Gain on deemed disposal of partial interest in an associate	7	**–**	(9,487)
Depreciation of property, plant and equipment	7	**38,053**	35,894
Depreciation of right-of-use assets	7	**23,177**	–
Amortisation of intangible assets	7	**61,767**	40,982
Amortisation of prepaid land lease payments	7	**–**	738
Loss on disposal of items of property, plant and equipment	7	**109**	3,435
Equity-settled share option expense	7	**27,322**	22,171
Equity-settled share award expense	7	**3,858**	14,563
Foreign exchange differences, net	7	**(58,145)**	218,123
Fair value (gains)/losses on derivative financial instruments, net	7	**(45,544)**	70,139
Fair value gains on financial assets	5	**(427)**	(1,304)
Impairment/(write-back of impairment) of trade receivables	7	**1,340**	(30)
Write-down of inventories to net realisable value	7	**31,793**	49,286
		1,256,274	1,332,069
Increase in inventories		**(262,547)**	(374,872)
(Increase)/decrease in trade and bills receivables		**(64,582)**	56,242
Increase in prepayments, other receivables and other assets		**(18,526)**	(23,481)
Increase in rental deposits		**(2,070)**	(604)
Increase in trade and bills payables		**153,515**	83,420
(Decrease)/increase in other payables and accruals and contract liabilities		**(102,102)**	76,404
Cash generated from operations		**959,962**	1,149,178
Corporate income tax paid		**(512,551)**	(430,169)
Net cash flows from operating activities		**447,411**	719,009

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Net cash flows from operating activities		**447,411**	719,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(67,823)**	(34,617)
Purchases of items of intangible assets		**(9,639)**	(1,184)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**1,767**	64
Residual payment for the acquisition of intangible assets in prior year		**–**	(180,219)
Repayment of loans receivable		**4,758**	6,714
Repayment of a loan from an associate		**–**	40,000
Interest received		**6,681**	9,781
Addition to other non-current financial assets		**(23,976)**	–
Subscription of bonds receivable		**(78,473)**	–
Acquisition of a subsidiary	30	**(12,574)**	–
Net cash flows used in investing activities		**(179,279)**	(159,461)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	26	**25,887**	30,522
Repayment of bank loans		**–**	(2,333,551)
Payment of lease liabilities	3.1	**(25,604)**	–
New bank loans		**78,521**	1,932,079
Decrease in restricted deposits	18	**5,142**	5,740
Proceeds from the termination of the Swaps (as defined in note 22)		**–**	13,297
Payment for the CCSs (as defined in note 22)	22	**(28,397)**	(32,917)
Interest paid		**(177,253)**	(251,693)
Net cash flows used in financing activities		**(121,704)**	(636,523)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**146,428**	(76,975)
Cash and cash equivalents at beginning of the period		**1,912,394**	2,090,280
Effect of foreign exchange rate changes, net		**(1,101)**	(23,634)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**2,057,721**	1,989,671
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**2,057,721**	1,989,671

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019

1. CORPORATE AND GROUP INFORMATION

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

The Group is principally engaged in the manufacture and sale of premium pediatric nutrition and baby care products and adult nutrition and care products.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 (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 Renminbi ("**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 2018, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") (which also include International Accounting Standards ("**IASs**") and Interpretations) as disclosed in note 3.1 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 2018.

3.1 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:

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Lease* and IFRIC 23 *Uncertainty over Income Tax Treatments*, 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.

(a) IFRS 16 replaces IAS *17 Leases,* IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

New definition of a lease (continued)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, offices, vehicles and office equipments. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease; and
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impact arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (unaudited)
Assets	
Increase in right-of-use assets	219,807
Decrease in prepaid land lease payments	(57,331)
Decrease in prepayment, other receivable and other assets	(1,478)
Increase in total assets	160,998
Liabilities	
Increase in lease liabilities	171,071
Decrease in other payable and accruals	(10,073)
Increase in total liabilities	160,998

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RMB'000 (unaudited)
Operating lease commitments as at 31 December 2018	170,710
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	162,606
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,608)
Add:	
Accrued rental expenses recorded in other payables and accruals as at 31 December 2018	10,073
Lease liabilities as at 1 January 2019	171,071

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

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

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease offices for additional terms of three to ten years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group did not include the renewal period as part of the lease term for leases of offices as the Group has determined not to exercise the renewal option.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the Period are as follow:

	Right-of-use assets				
	Land	**Offices**	**Vehicles and office equipments**	**Total**	**Lease liabilities**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	58,809	155,066	5,932	219,807	171,071
Acquisition of a subsidiary	–	1,471	–	1,471	1,471
Additions	–	21,016	–	21,016	21,016
Depreciation expense	(738)	(21,419)	(1,020)	(23,177)	–
Interest expense	–	–	–	–	4,464
Payments	–	–	–	–	(25,604)
Exchange realignment	–	(241)	(23)	(264)	(298)
As at 30 June 2019	58,071	155,893	4,889	218,853	172,120

The Group recognised rental expenses from short-term leases of RMB8,918,000 for the six months ended 30 June 2019.

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendment to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendment to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

The directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2019 (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	2,401,324	588,748	1,833,914	271,279	–	5,095,265
Segment results	1,601,764	447,529	1,225,365	148,644	–	3,423,302
Reconciliations:						
Interest income						11,553
Other income and unallocated gains						115,282
Share of profit of an associate						2,627
Corporate and other unallocated expenses						(2,365,613)
Finance costs						(185,601)
Profit before tax						1,001,550
Other segment information:						
Depreciation and amortisation	19,349	3,278	58,596	5,875	35,899	122,997
Impairment/(write-back of impairment) of trade receivables	(278)	–	383	1,136	99	1,340
Write-down of inventories to net realisable value	5,494	83	24,302	1,914	–	31,793
Capital expenditure*	9,155	7,010	112,201	11,420	1,177	140,963

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	**3,815,800**	3,301,087
Australia and New Zealand	**946,906**	1,081,978
Other locations#	**332,559**	190,509
	5,095,265	4,573,574

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

(b) Non-current assets

	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Mainland China	**562,558**	543,504
Australia and New Zealand	**2,729,431**	2,695,995
Other locations#	**1,131,222**	1,130,057
	4,423,211	4,369,556

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

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	5,095,265	4,573,574

Disaggregated revenue information

For the six months ended 30 June 2019 (unaudited)

Segments	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Total RMB'000
Geographical markets					
Mainland China	2,365,930	575,418	750,789	123,663	3,815,800
Australia and New Zealand	14,602	1,475	930,829	-	946,906
Other locations*	20,792	11,855	152,296	147,616	332,559
Total	2,401,324	588,748	1,833,914	271,279	5,095,265
Timing of revenue recognition					
Goods transferred at a point in time	2,401,324	588,748	1,833,914	271,279	5,095,265

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

Disaggregated revenue information (continued)

For the six months ended 30 June 2018 (unaudited)

Segments	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Total RMB'000
Geographical markets					
Mainland China	2,070,234	535,952	631,991	62,910	3,301,087
Australia and New Zealand	–	–	1,081,978	–	1,081,978
Other locations*	23,008	17,990	81,631	67,880	190,509
Total	2,093,242	553,942	1,795,600	130,790	4,573,574
Timing of revenue recognition					
Goods transferred at a point in time	2,093,242	553,942	1,795,600	130,790	4,573,574

* Including the special administrative regions of the PRC.

Other income and gains

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Bank interest income	6,631	7,036
Interest income from loans and bonds receivables	4,922	4,122
Gain on deemed disposal of partial interest in an associate	–	9,487
Foreign exchange gains	58,145	–
Fair value gains on derivative financial instruments, net	45,544	–
Fair value gains on financial assets	427	1,304
Government subsidies*	2,485	2,434
Others	8,681	1,373
	126,835	25,756

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

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans and senior notes	**181,137**	209,221
Write off of unamortised transaction cost upon refinancing of interest-bearing bank loans	**–**	33,413
Interest expense on lease liabilities (note 3.1)	**4,464**	–
	185,601	242,634

7. PROFIT BEFORE TAX

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

		Six months ended 30 June	
		2019	2018
	Notes	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Cost of inventories sold		**1,640,170**	1,448,598
Depreciation of property, plant and equipment	11	**38,053**	35,894
Depreciation of right-of-use assets	3.1	**23,177**	–
Amortisation of intangible assets	14	**61,767**	40,982
Amortisation of prepaid land lease payments		**–**	738
Research and development costs**		**74,205**	60,701
Minimum lease payments under operating leases		**8,918**	33,514
Loss on disposal of items of property, plant and equipment		**109**	3,435
Employee benefit expenses:			
Wages and salaries		**550,797**	506,571
Pension scheme contributions (defined contribution schemes)		**78,201**	59,797
Staff welfare and other expenses		**41,048**	39,212
Equity-settled share option expense	27	**27,322**	22,171
Equity-settled share award expense	28	**3,858**	14,563
		701,226	642,314
Foreign exchange differences, net		**(58,145)***	218,123**
Fair value (gains)/losses on derivative financial instruments, net		**(45,544)***	70,139**
Impairment/(write-back of impairment) of trade receivables**	16	**1,340**	(30)
Write-down of inventories to net realisable value#		**31,793**	49,286
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

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	**255,575**	215,365
Hong Kong SAR	**33,301**	7,738
Australia	**69,940**	40,226
Elsewhere	**3,201**	4,058
Deferred (note 25)	**(73,545)**	4,881
Total tax charge for the period	**288,472**	272,268

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

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong SAR during the Period.

8. INCOME TAX EXPENSE (CONTINUED)

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2018: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd. ("**Biostime Healthy Australia**") and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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

In addition to its own current and deferred tax amounts, Biostime Healthy Australia also recognises the current tax liabilities (or assets) and the deferred tax assets arising from the unused tax losses and unused tax credits assumed from subsidiaries in the income tax consolidated group.

The entities have also entered into a tax funding arrangement under which the wholly-owned entities fully compensate Biostime Healthy Australia for any current tax payable assumed and are compensated by Biostime Healthy Australia for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Biostime Healthy Australia under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding arrangement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement is recognised as a contribution to (or distribution from) the wholly owned tax consolidated entities.

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.

9. DIVIDENDS

No interim dividend was proposed during the Period (six months ended 30 June 2018: Nil).

10. 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 RMB713,078,000 (six months ended 30 June 2018: RMB384,312,000), and the adjusted weighted average number of ordinary shares of 640,144,212 (six months ended 30 June 2018: 636,595,218) 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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	713,078	384,312

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	640,979,549	638,395,052
Weighted average number of shares held for the share award schemes	(835,337)	(1,799,834)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	640,144,212	636,595,218
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	8,899,281	13,396,812
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	649,043,493	649,992,030

11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB51,282,000 (six months ended 30 June 2018: RMB26,810,000). During the Period, depreciation of RMB38,053,000 (six months ended 30 June 2018: RMB35,894,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB1,876,000 (six months ended 30 June 2018: RMB3,499,000) were disposed of by the Group. Besides, exchange realignment with an amount of RMB142,000 was recognised in the Period (six months ended 30 June 2018: RMB2,810,000).

12. PREPAID LAND LEASE PAYMENTS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Carrying amount at 1 January	**58,809**	60,287
Recognised during the Period/year	**–**	(1,478)
Reclassified to right-of-use assets (note 3.1)	**(58,809)**	–
Carrying amount at end of the Period/year	**–**	58,809
Current portion included in prepayments, other receivables and other assets (note 17)	**–**	(1,478)
Non-current portion	**–**	57,331

13. GOODWILL

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cost and carrying amount:		
At 1 January	**5,295,242**	5,376,818
Acquisition of subsidiaries (note 30)	**105,270**	190,326
Exchange realignment	**(10,135)**	(271,902)
At end of the Period/year	**5,390,377**	5,295,242

14. INTANGIBLE ASSETS

During the Period, the Group acquired intangible assets with an aggregate cost of RMB89,681,000 (six months ended 30 June 2018: RMB1,184,000). During the Period, amortisation of RMB61,767,000 (six months ended 30 June 2018: RMB40,982,000) was charged by the Group, and no intangible asset (six months ended 30 June 2018: Nil) was disposed of by the Group. Besides, exchange realignment with an amount of RMB5,603,000 was recognised in the Period (six months ended 30 June 2018: RMB153,739,000).

15. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	**635,599**	585,998
Goods in transit	**296,218**	190,681
Work in progress	**–**	2,190
Finished goods	**869,044**	786,283
	1,800,861	1,565,152

16. TRADE AND BILLS RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	**826,783**	756,876
Bills receivable	**106,397**	110,379
	933,180	867,255
Less: Impairment provision	**(6,176)**	(5,393)
	927,004	861,862

Advance payment is normally required for sales to customers in Mainland China except in limited circumstances for credit sales. Credit sales are usually allowed for customers outside Mainland China with credit terms of 30 to 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.

16. TRADE AND BILLS RECEIVABLES (CONTINUED)

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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**543,725**	532,291
1 to 3 months	**336,138**	307,943
Over 3 months	**47,141**	21,628
	927,004	861,862

The movements in provision for impairment of trade and bills receivables are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
At beginning of the Period/year	**5,393**	4,744
Acquisition of subsidiaries	**–**	1,109
Impairment losses recognised	**3,138**	2,241
Amount written off as uncollectible	**(562)**	(739)
Impairment losses reversed	**(1,798)**	(2,011)
Exchange realignment	**5**	49
	6,176	5,393

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

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

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepayments	72,147	70,120
Deposits	3,004	3,524
Other receivables	92,687	80,604
Prepaid expenses	7,438	1,458
Right-of-return assets	4,361	2,046
Current portion of prepaid land lease payments (note 12)	–	1,478
	179,637	159,230

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The Group has applied the general approach to provide for expected credit losses for the receivables and considered the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate.

As at 30 June 2019, the Group estimated the expected loss for financial assets included in prepayments, other receivables and other assets is minimal.

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and bank balances	2,056,432	1,861,100
Time deposits	1,289	51,294
Pledged deposits	14,730	19,872
	2,072,451	1,932,266
Less:		
Restricted deposits for an operating lease	(3,941)	(3,924)
Restricted deposits for bills issued	(10,789)	(15,948)
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	2,057,721	1,912,394
Denominated in RMB (note)	1,328,625	1,210,844
Denominated in other currencies	743,826	721,422
	2,072,451	1,932,266

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (CONTINUED)

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between three month and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with original maturity over one year when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

19. TRADE AND BILLS PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	**978,677**	813,659
Bills payable	**5,451**	15,948
	984,128	829,607

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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**608,018**	499,252
1 to 3 months	**306,480**	287,672
Over 3 months	**69,630**	42,683
	984,128	829,607

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

As at 30 June 2019, included in trade payables is an amount due to an associate of the Group of RMB33,697,000 (31 December 2018: RMB1,925,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

20. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Salaries and welfare payables		176,079	278,391
Accruals		551,746	609,572
Other tax payables		129,360	97,485
Other payables	(a)	93,623	112,661
Refund liabilities	(b)	644,053	645,835
		1,594,861	1,743,944
Less: Current portion		(1,590,587)	(1,736,521)
Non-current portion		4,274	7,423

Notes:

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

(b) Details of refund liabilities as at 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Sales rebate	623,774	622,982
Sales return	20,279	22,853
	644,053	645,835

21. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Advances from customers	24,657	22,991
Customer loyalty points	123,323	77,889
	147,980	100,880

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. Included in contract liabilities are advances received from customers and the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the reporting period.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2019 Assets RMB'000 (Unaudited)	30 June 2019 Liabilities RMB'000 (Unaudited)	31 December 2018 Assets RMB'000 (Audited)	31 December 2018 Liabilities RMB'000 (Audited)
Current					
Forward currency contracts	(a)	5,270	–	4,301	–
Non-current					
Early redemption option embedded in the senior notes	(b)	81,911	–	36,792	–
The CCIRSs (as defined below)	(c)	21,695	–	58,596	–
The CCSs (as defined below)	(d)	–	43,303	–	77,042
		103,606	43,303	95,388	77,042

Notes:

(a) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The fair value of the forward currency contracts as at 30 June 2019 was RMB5,270,000 (31 December 2018: RMB4,301,000). A fair value net gain of RMB984,000 was recognised in profit or loss during the Period (six months ended 30 June 2018: a loss of RMB1,791,000).

(b) An early redemption option is embedded in the senior notes, details of which are set out in note 24 to these financial statements. The fair value of the early redemption option as at 30 June 2019 was RMB81,911,000 (31 December 2018: RMB36,792,000). A fair value gain of RMB47,983,000 was recognised in profit or loss for the Period (six months ended 30 June 2018: a loss of RMB52,943,000).

(c) As at 30 June 2019, a subsidiary of the Group, whose functional currency is Australian dollars ("**AUD**"), had several cross currency interest rate swaps agreements (collectively the "**CCIRSs**") with financial institutions with an aggregate notional amount of USD333,670,000 whereby it receives a floating rate of interest on the United States dollars ("**USD**") notional amount at the London InterBank Offered Rate ("**Libor**") +2% quarterly and pays a fixed rate of interest on the AUD notional amount. The CCIRSs are being used to hedge the foreign currency risk and interest rate risk in relation to a USD denominated floating rate bank borrowing with a principal of USD333,670,000 (the "**USD Term Loan**").

There is an economic relationship between the hedged items and the hedging instruments as the terms of the CCIRSs match the term of the USD Term Loans. The cash flow hedge relating to the expected interest and principal payments was assessed to be highly effective. The fair value of the CCIRs as at 30 June 2019 was RMB21,695,000 (31 December 2018: RMB58,596,000). A loss of RMB32,342,000 was included in the hedging reserve and a loss of the ineffective portion of RMB4,227,000 was charged to profit or loss for the Period.

During the six months ended 30 June 2018, the aforementioned subsidiary had 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 USD denominated floating rate bank borrowing with the principal of USD239,500,000 (the "**Old USD Loan**"). With the completion of the refinancing of the Old USD Loan to the USD Term Loan, the Swaps were terminated. A gain of RMB64,123,000 was included in the hedging reserve and a loss of the ineffective portion of RMB5,158,000 was charged to profit or loss for the six months ended 30 June 2018.

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) The Company entered into several cross currency swap agreements (the "**CCSs**") with financial institutions with aggregate notional amounts of USD300,000,000 and RMB2,026,210,000 whereby the Company receives a fixed rate of interest on the USD notional amount and pays a fixed rate of interest on the RMB notional amount. These CCSs are for the purpose of managing the foreign currency risk of its investments in Mainland China.

During the periods ended 30 June 2019 and 2018, the CCSs with aggregate notional amounts of USD225,000,000 and RMB1,512,085,000, together with the relevant interests based on a fixed rate on the notional amount, are designated as hedging instruments for hedges of net investments in Mainland China 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 2019 was RMB43,303,000 (negative) (31 December 2018: RMB77,042,000 (negative)). A gain of RMB804,000 (six month ended 30 June 2018: a loss of RMB10,247,000) arising from the changes in fair value of these CCSs was charged to profit or loss and a gain on net investment hedge of RMB4,809,000 (six months ended 30 June 2018: a loss of RMB30,406,000) was included in exchange fluctuation reserve for the Period. During the Period, the Company has paid net cash of RMB28,397,000 (six month ended 30 June 2018: RMB32,917,000) in respective of those CCSs.

23. INTEREST-BEARING BANK LOANS

	30 June 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Non-current						
Secured bank loan	BBSY+margin	Jun-2021	437,963	BBSY+margin	Jun-2021	439,360
Secured bank loan	LIBOR+margin	Jun-2021	2,263,197	LIBOR+margin	Jun-2021	2,252,890
Secured bank loan	EURIBOR+margin	May-2021	78,170			–
			2,779,330			2,692,250

23. INTEREST-BEARING BANK LOANS (CONTINUED)

Analysed into:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bank loans repayable:		
Within one year	–	–
In the second year	2,779,330	–
In the third to fifth years, inclusive	–	2,692,250
	2,779,330	2,692,250

BBSY stands for Australian Bank Bill Swap Bid Rate

EURIBOR stands for Euro InterBank Offered Rate

Notes:

(a) As at 30 June 2019, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges over all present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.

(b) As at 30 June 2019, the Group's bank loans were denominated in USD, AUD and EUR at aggregate amounts of RMB2,263,197,000 (31 December 2018: RMB2,252,890,000), RMB437,963,000 (31 December 2018: RMB439,360,000) and RMB78,170,000 (31 December 2018: Nil) respectively.

24. SENIOR NOTES

On 21 June 2016, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of USD400,000,000. On 23 January 2017, the Company issued additional senior notes due 21 June 2021 with an aggregate principal amount of USD200,000,000, which were under the same indenture entered by the Company on 21 June 2016 and formed part of the same series as the aforesaid USD400,000,000 senior notes. On 22 October 2018, the Company redeemed the senior notes with a principal amount of USD125,000,000 at a total consideration of USD129,531,000 (approximately RMB896,823,000). As at 30 June 2019, the Company had senior notes with an aggregate principal amount of USD475,000,000.

The coupon interest rate of the senior notes is 7.25% per annum and interests are paid semi-annually. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

The senior notes are secured by a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries) on a second-ranking basis. Besides, the senior notes are jointly and severally guaranteed on a senior subordinated basis by certain subsidiaries.

Pursuant to the terms of the senior notes, the senior notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

On or after 21 June 2018, the Company may on any one or more occasions redeem all or any part of the senior notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the senior notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on 21 June of the years indicated below (subject to the rights of holders of senior notes on the relevant record date to receive interest on the relevant interest payment date).

Period	**Redemption price**
2018	103.6250%
2019	101.8125%
2020 and thereafter	100.0000%

The Company may at its option redeem the senior notes, in whole but not in part, at any time prior to 21 June 2018, at a redemption price equal to 100% of the principal amount of the senior notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

24. SENIOR NOTES (CONTINUED)

At any time prior to 21 June 2018, the Company may at its option, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the senior notes with the net cash proceeds of one or more sales of common stock of the Company in one or more equity offerings or of common stock of Biostime Health Australia Holdings in a qualifying initial public offering ("**Qualifying IPO**"), which is a transaction or series of related transactions upon the consummation of which Biostime Health Australia Holdings has its ordinary shares listed on an internationally recognised stock exchange, at a redemption price of 107.25% of the principal amount of the senior notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the applicable redemption date, provided that at least 60% of the aggregate principal amount of the senior notes originally issued on the 21 June 2016 and 23 January 2017 remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the equity offering or the Qualifying IPO, as the case may be.

As at 30 June 2019, the fair value of the early redemption option embedded in the senior notes which was separately recognised amounted to RMB81,911,000 (31 December 2018: RMB36,792,000), details of which are set out in note 22(b) to these interim condensed consolidated financial statements.

The movements of the senior notes during the Period and the year ended 31 December 2018 are set out below:

	RMB'000
At 1 January 2018 (Audited)	3,930,663
Redemption of senior notes	(896,823)
Premium paid for early redemption of part of the senior notes	29,986
Interest charged during the year	281,570
Interest paid during the year	(279,822)
Exchange realignment	209,112
At 31 December 2018 and 1 January 2019 (Audited)	3,274,686
Interest charged during the Period	116,684
Interest paid during the Period	(117,900)
Exchange realignment	6,200
At 30 June 2019 (Unaudited)	3,279,670
Less: Current portion	(171,352)
Non-current portion	3,108,318

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period and the year ended 31 December 2018 are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Tax losses recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019 (Audited)	8,932	251,558	36,539	–	32,605	–	32,925	362,559
Credited/(charged) to profit or loss for the Period (note 8)	(3,687)	(2,328)	(5,337)	–	33,014	–	2,585	24,247
Exchange realignment	–	(150)	(1)	–	269	–	(49)	69
At 30 June 2019 (Unaudited)	5,245	249,080	31,201	–	65,888	–	35,461	386,875
At 1 January 2018 (Audited)	15,951	217,094	14,556	8,804	9,274	31,228	–	296,907
Credited/(charged) to profit or loss for the year	(7,019)	28,867	21,984	–	23,632	(34,942)	33,715	66,237
Reclassification*	–	8,804	–	(8,804)	–	–	–	–
Charged to equity for the year	–	–	–	–	–	4,649	–	4,649
Exchange realignment	–	(3,207)	(1)	–	(301)	(935)	(790)	(5,234)
At 31 December 2018 (Audited)	8,932	251,558	36,539	–	32,605	–	32,925	362,559

* Reclassification due to the adoption of IFRS 15

25. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019 (Audited)	**242**	**107,669**	**859,282**	**17,579**	**3,526**	**988,298**
(Credited)/charged to profit or loss for the Period (note 8)	**(240)**	**(36,650)#**	**(13,601)**	**1,165**	**28**	**(49,298)**
Acquisition of a subsidiary (note 30)	**–**	**–**	**14,841**	**–**	**–**	**14,841**
Charged to equity for the Period	**–**	**–**	**–**	**(12,135)**	**–**	**(12,135)**
Exchange realignment	**(2)**	**(108)**	**(1,731)**	**(100)**	**(6)**	**(1,947)**
At 30 June 2019 (Unaudited)	**–**	**70,911**	**858,791**	**6,509**	**3,548**	**939,759**
At 1 January 2018 (Audited)	288	65,277	839,487	–	5,380	910,432
(Credited)/charged to profit or loss for the year	(31)	43,395#	(24,616)	18,000	(1,663)	35,085
Acquisition of subsidiaries	–	–	87,112	–	–	87,112
Exchange realignment	(15)	(1,003)	(42,701)	(421)	(191)	(44,331)
At 31 December 2018 (Audited)	242	107,669	859,282	17,579	3,526	988,298

The amount represented a deferred tax provision of RMB26,350,000 (year ended 31 December 2018: RMB88,395,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB63,000,000 (year ended 31 December 2018: RMB45,000,000) arising from dividends declared by these subsidiaries to their foreign investors during the Period.

26. SHARE CAPITAL

Shares

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Authorised: 10,000,000,000 (31 December 2018: 10,000,000,000) ordinary shares of 0.01 each in Hong Kong dollars ("HKD")	HKD100,000,000	HKD100,000,000
Issued and fully paid: 641,787,349 (31 December 2018: 640,310,819) ordinary shares of HKD0.01 each	HKD6,417,873	HKD6,403,108
Equivalent to	RMB5,486,000	RMB5,473,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HKD'000	Equivalent to RMB'000
At 1 January 2018 (Audited)	637,042,042	6,370	5,447
Share options exercised (note (a))	3,006,750	30	24
Shares issued for 2013 Share Award Scheme (note (b))	262,027	3	2
At 31 December 2018 and 1 January 2019 (Audited)	640,310,819	6,403	5,473
Share options exercised (note (c))	1,476,530	15	13
At 30 June 2019 (Unaudited)	641,787,349	6,418	5,486

26. SHARE CAPITAL (CONTINUED)

Shares (continued)

Notes:

(a) During the year ended 31 December 2018, the subscription rights attaching to 3,006,750 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 3,006,750 ordinary shares for a total cash consideration, before expenses, of HKD49,574,000 (equivalent to approximately RMB39,359,000).

(b) During the year ended 31 December 2018, the Company issued 262,027 shares of HKD0.01 each pursuant to 2013 Share Award Scheme, resulting in an increase in share capital of HKD3,000 (equivalent to RMB2,000).

(c) During the Period, the subscription rights attaching to 1,476,530 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 1,476,530 ordinary shares for a total cash consideration, before expenses, of HKD26,128,000 (equivalent to RMB25,887,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 27 to these interim condensed consolidated financial statements.

Share award schemes

Details of the Company's share award schemes and the shares awarded under the schemes are included in note 28 to these interim condensed consolidated financial statements.

27. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") on 12 July 2010 and a share option scheme (the "**Share Option Scheme**") on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The Pre-IPO Share Option Scheme will expire on 17 December 2020 while the Share Option Scheme will remain in force for ten years from 25 November 2010 unless otherwise cancelled or amended.

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HKD2.53. In respect of the Share Option Scheme, the exercise price of the share options is determined by the board of directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

27. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices are set out below:

Six months ended 30 June 2019

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Total number of options '000
At 1 January 2019	2.53	709	32.79	25,425	26,134
Granted during the Period	2.53	–	49.15	3,085	3,085
Forfeited during the Period	2.53	–	38.99	(3,403)	(3,403)
Exercised during the Period	2.53	(3)	17.73	(1,474)	(1,477)
At 30 June 2019	2.53	706	34.97	23,633	24,339

Six months ended 30 June 2018

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Total number of options '000
At 1 January 2018	2.53	740	24.99	23,967	24,707
Granted during the period	2.53	–	60.02	801	801
Forfeited during the period	2.53	–	26.72	(1,278)	(1,278)
Exercised during the period	2.53	(8)	16.55	(2,735)	(2,743)
At 30 June 2018	2.53	732	27.35	20,755	21,487

The weighted average share prices at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the Period were HKD46.50 per share (six months ended 30 June 2018: HKD60.31 per share) and HKD46.18 per share (six months ended 30 June 2018: HKD59.25 per share), respectively.

27. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options (continued)

A total of 1,477,000 share options were exercised during the Period under the two share option schemes, resulting in the issue of 1,477,000 ordinary shares of the Company and new share capital of HKD15,000 (equivalent to approximately RMB13,000) and share premium of HKD26,113,000 (equivalent to approximately RMB25,874,000) (before issue expenses). An amount of RMB7,712,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

No share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the Period (six months ended 30 June 2018: Nil).

During the Period, the Group has recognised share option expense related to the two share option schemes of RMB27,322,000 (six months ended 30 June 2018: RMB22,171,000) in total.

Fair value of the share option

The directors of the Company used Hull White model to determine the fair value of the share options as at the grant date, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the Period was HKD22.94 per share (equivalent to approximately RMB19.68 per share) (six months ended 30 June 2018: HKD24.34 per share (equivalent to RMB19.51 per share)).

Other than the exercise price disclosed above, significant judgement on parameters, such as dividend yield, expected volatility and risk-free interest rate, are required to be made by the directors in applying the Hull White model, which are summarised below:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend yield (%)	**0.57**	–
Expected volatility (%)	**48.93**	37.20-41.58
Risk-free interest rate (%)	**1.42**	2.02-2.07

28. SHARE AWARD SCHEMES

Share Award Scheme

The share award scheme (the "**Share Award Scheme**") of the Company was adopted by the board of directors on 28 November 2011 and amended by the board of directors on 30 March 2012.

Subject to the terms of the Share Award Scheme and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the board of directors may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee (the "**Trustee**") of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

During the Period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (six months ended 30 June 2018: Nil).

Summary of particulars of the shares granted under the Share Award Scheme ("**Awarded Shares**") during the Period is as follows:

					Number of Awarded Shares		
Date of grant	Number of outstanding Awarded Shares at 31 December 2018	Shares newly granted during the Period	Fair value RMB	Vesting date	Vested during the Period	Forfeited during the Period	Outstanding Awarded Shares at 30 June 2019
22 September 2017	285,254	–	9,957,000	1 April 2019	(285,254)	–	–

The Group recognised a share award expense of RMB1,445,000 during the Period (six months ended 30 June 2018: RMB3,990,000) in relation to the Share Award Scheme.

285,254 shares for the Share Award Scheme amounted to RMB9,677,000 were awarded upon vesting during the Period (six months ended 30 June 2018: RMB13,319,000). Share award reserve of RMB996,000 (negative) related to the vested Awarded Shares was transferred to retained profits during the Period (six months ended 30 June 2018: RMB5,968,000 (negative)).

28. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme

The board of directors of the Company has approved the adoption of the 2013 share award scheme ("**2013 Share Award Scheme**") on 29 November 2013.

For the purpose of satisfying awards granted under 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the board of directors by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the board of directors shall pay (or cause to be paid) sufficient funds (the "**Referable Amount**") to the Trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the Referable Amount, the Trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the Trustee and the board of directors from time to time but in any event no later than 40 business days before the vesting of the relevant Awarded Shares.

Summary of particulars of the shares granted under 2013 Share Award Scheme ("**2013 Awarded Shares**") during the Period is as follows:

					Number of 2013 Awarded Shares		
Date of grant	Number of outstanding 2013 Awarded Shares at 31 December 2018	Shares newly granted during the Period	Fair value	Vesting date	Vested during the Period	Forfeited during the Period	Outstanding 2013 Awarded Shares at 30 June 2019
			RMB				
25 August 2017	837,268	–	29,578,000	1 April 2019	(825,058)	(12,210)	–
5 December 2017	26,949	–	1,073,000	1 April 2019	(8,296)	(18,653)	–
Total	864,217	–	30,651,000		(833,354)	(30,863)	–

28. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme (continued)

During the Period, no shares were issued for 2013 Share Award Scheme (six months ended 30 June 2018: Nil).

The Group recognised a share award expense of RMB2,413,000 during the Period (six months ended 30 June 2018: RMB10,573,000) in relation to 2013 Share Award Scheme.

833,354 shares for the 2013 Share Award Scheme amounted to RMB7,000 were awarded upon vesting during the Period (six months ended 30 June 2018: RMB10,000). Share award reserve of RMB20,858,000 related to the vested 2013 Awarded Shares was transferred to retained profits during the Period (six months ended 30 June 2018: RMB19,151,000).

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 40 and 41 of these financial statements.

The Group's contributed surplus represents the excess of the previous nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation (the "**Reorganisation**") over the previous nominal value of the Company's shares issued and cash consideration paid in exchange therefor.

The Group's capital surplus represents 1% of the equity in Biostime Health contributed by Biostime Pharmaceuticals (China) Limited, the ultimate shareholder, during the year ended 31 December 2009 when Biostime Health became a wholly-owned subsidiary of the Group.

In accordance with the Company Law of the People's Republic of China, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

30. BUSINESS COMBINATIONS

On 4 January 2019, the Group acquired an 100% equity interests in Aurelia Skincare Limited and Aurelia Skincare (International) Limited (collectively "**Aurelia**"). Aurelia is principally engaged in the research, development and sale of probiotic skin care products. The acquisition was made as part of the Group's strategy to explore the global premium and natural beauty sector. The purchase consideration for the acquisition of GBP21,147,000 (approximately RMB183,162,000) has been paid by 30 June 2019.

The fair values of the identifiable assets and liabilities of Aurelia at the date of acquisition were shown below:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	234
Intangible assets	87,300
Right-of-use assets	1,471
Inventories	5,152
Trade receivables	1,724
Prepayment, other receivables and other assets	138
Cash and cash equivalents	764
Trade payable	(2,223)
Other payable and accruals	(356)
Deferred tax liabilities	(14,841)
Lease Liability	(1,471)
Total identified net assets at fair value	77,892
Goodwill on acquisition	105,270
Total consideration	183,162
Satisfied by:	
Cash	183,162

The purchase price allocation of Aurelia above is still preliminary, pending the finalisation of the valuation of certain intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB2,035,000 for this acquisition. These transaction costs have been expensed and were included in administrative expenses in profit or loss. The Group has paid all the transaction costs by the end of 30 June 2019.

An analysis of the cash flows in respect of the acquisition of Aurelia is as follows:

	RMB'000
Cash consideration	183,162
Cash paid in 2018	(169,824)
Cash and bank balances acquired	(764)
Net outflow of cash and cash equivalents included in cash flows from investing activities	12,574
Transaction costs of the acquisitions included in cash flows from operating activities	2,035
	14,609

31. OPERATING LEASE ARRANGEMENTS

As lessee

As at 30 June 2019 and 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within one year	2,584	61,907
In the second to fifth years, inclusive	1,215	101,255
After five years	–	7,548
	3,799	170,710

The Group leases certain of its offices, vehicles, office equipment and warehouses under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years. The Group classified them as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balance as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3.1 to these interim condensed consolidated financial statements). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3.1.

32. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	3,634	–
Property, plant and equipment	540	10,735
	4,174	10,735

33. RELATED PARTY BALANCES AND TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the Period:

(a) Related party transactions

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Purchases of finished goods from an associate	(i)	**57,873**	46,481
Interest from a loan to an associate	(ii)	**–**	49
Repayment of a loan from an associate	(ii)	**–**	40,000

Notes:

(i) The transactions were conducted in accordance with mutually agreed terms.

(ii) Loan to an associate was subject to interest at a rate of 4% per annum and has been repaid on 12 January 2018.

(b) Outstanding balance with a related party

Details of the Group's trade payable balance with its associate as at the end of the reporting period are disclosed in note 19 to these interim condensed consolidated financial statements.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Fees	**1,020**	880
Short-term employee benefits	**24,493**	19,073
Pension scheme contributions	**324**	344
Equity-settled share option expense	**18,417**	6,039
Equity-settled share award expense	**2,199**	6,533
Total compensation paid to key management personnel	**46,453**	32,869

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	81,911	36,792	81,911	36,792
– The CCIRSs	21,695	58,596	21,695	58,596
– Forward currency contracts	5,270	4,301	5,270	4,301
Other non-current financial assets	82,574	58,205	82,574	58,205
	191,450	157,894	191,450	157,894
Financial liabilities				
Derivative financial instruments				
– The CCSs	43,303	77,042	43,303	77,042
Senior notes	3,279,670	3,274,686	3,331,478	3,299,727
	3,322,973	3,351,728	3,374,781	3,376,769

Management has assessed that the fair values of cash and cash equivalents, pledged deposits (current), trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank loans (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of pledged deposits (non-current), bonds receivable, loans receivable, lease liabilities, and interest-bearing bank loans (non-current) have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivables as at 30 June 2019 were assessed to be insignificant.

(b) Other non-current financial assets are measured using valuation technique of discounted cash flow model using significant unobservable market inputs or the last transaction price method with market observable input.

(c) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market observable input. The carrying amounts of forward currency contracts are the same as their fair values.

(d) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the Swaps and the CCSs, are measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRSs and the CCSs were the same as their carrying amounts.

(e) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of Hull-White model using significant unobservable market inputs.

(f) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets-USD denominated loan receivable	Discounted cash flow model	Discount rate	13.83% to 14.11% (31 December 2018:15.19% to 15.50%)	1% (31 December 2018: 1%) increase in discount rate would result in decrease in fair value by RMB61,000 (31 December 2018: RMB65,000) 1% (31 December 2018: 1%) decrease in discount rate would result in increase in fair value by RMB61,000 (31 December 2018: RMB65,000)
Other non-current financial assets-investment in ISM	Discounted cash flow model	Discount rate	3.59% to 3.66% (31 December 2018: 3.72% to 3.79%)	1% (31 December 2018: 1%) increase in discount rate would result in decrease in fair value by RMB63,000 (31 December 2018: RMB71,000) 1% (31 December 2018: 1%) decrease in discount rate would result in increase in fair value by RMB63,000 (31 December 2018: RMB71,000)
Derivative financial instrument – Early redemption option embedded in the senior notes	Hull white model	Credit spread	4.16% to 4.25% (31 December 2018: 6.08% to 6.20%)	1% (31 December 2018: 1%) increase in credit spread would result in increase in fair value by RMB1,748,000 (31 December 2018: RMB2,981,000) 1% (31 December 2018: 1%) decrease in credit spread would result in decrease in fair value by RMB1,750,000 (31 December 2018: RMB2,987,000)

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – The CCSs	Discounted cash flow model	Discount Rate – Receive leg	1.74% to 2.32% (31 December 2018: 2.57% to 2.81%)	1% (31 December 2018: 1%) increase in discount rate would result in decrease in fair value by RMB876,000 (31 December 2018: RMB1,402,000) 1% (31 December 2018: 1%) decrease in discount rate would result in increase in fair value by RMB877,000 (31 December 2018: RMB1,387,000)
		Discount Rate – Pay leg	2.36% to 2.65% (31 December 2018: 2.74% to 2.92%)	1% (31 December 2018: 1%) increase in discount rate would result in increase in fair value by RMB1,121,000 (31 December 2018: RMB1,354,000) 1% (31 December 2018: 1%) decrease in discount rate would result in decrease in fair value by RMB1,122,000 (31 December 2018: RMB1,371,000)

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – The CCIRSs	Discounted cash flow model	Discount Rate – Receive leg	2.36% to 2.40% (31 December 2018: 1.63% to 1.67%)	1% (31 December 2018: 1%) increase in discount rate would result in decrease in fair value by RMB6,785,000 (31 December 2018: RMB6,898,000)
				1% (31 December 2018: 1%) decrease in discount rate would result in increase in fair value by RMB6,814,000 (31 December 2018: RMB6,936,000)
		Discount Rate – Pay leg	1.49% to 1.52% (31 December 2018: 1.34% to 1.36%)	1% (31 December 2018: 1%) increase in discount rate would result in increase in fair value by RMB51,135,000 (31 December 2018: RMB58,407,000)
				1% (31 December 2018: 1%) decrease in discount rate would result in decrease in fair value by RMB51,641,000 (31 December 2018: RMB59,063,000)

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 30 June 2019 (Unaudited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	**–**	**–**	**81,911**	**81,911**
– The CCIRSs	**–**	**–**	**21,695**	**21,695**
– Forward currency contracts	**–**	**5,270**	**–**	**5,270**
Other non-current financial assets	**–**	**23,976**	**58,598**	**82,574**
	–	**29,246**	**162,204**	**191,450**
At 31 December 2018 (Audited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	36,792	36,792
– The CCIRSs	–	–	58,596	58,596
– Forward currency contracts	–	4,301	–	4,301
Other non-current financial assets	–	–	58,205	58,205
	–	4,301	153,593	157,894

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2018 are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
At 1 January	**153,593**	82,274
Additions	**–**	52,273
Derecognition	**–**	(9,498)
Total gain/(loss) recognised in profit or loss	**44,183**	(32,078)
Total (loss)/gain recognised in equity	**(32,342)**	54,110
Exchange realignment	**(3,230)**	6,512
At end of the Period/year	**162,204**	153,593

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 30 June 2019 (Unaudited)				
Derivative financial instruments				
– The CCSs	**–**	**–**	**43,303**	**43,303**
At 31 December 2018 (Audited)				
Derivative financial instruments				
– The CCSs	–	–	77,042	77,042

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2018 are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
At 1 January	**77,042**	186,195
Net cash settlement	**(28,397)**	(48,577)
Total gain recognised in profit or loss	**(804)**	(1,553)
Total gain recognised in equity	**(4,809)**	(61,317)
Exchange realignment	**271**	2,294
At end of the Period/year	**43,303**	77,042

During the Period and the year ended 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

35. EVENT AFTER THE END OF THE REPORTING PERIOD

On 9 July 2019, a total of 251,718 share options were granted under the Share Option Scheme. The share options shall vest in accordance with the relevant timetables with a 6-year exercise period at an exercise price of HKD45.79 per share. The share options shall vest on 1 April 2021.

On 15 August 2019 (the "**Redemption Date**"), the Company redeemed USD50 million in principal amount of the senior notes (the "**Redemption Principal Amount**"), representing approximately 10.53% of the outstanding principal amount of the senior notes at a redemption price equal to 101.8125% of the Redemption Principal Amount, plus accrued and unpaid interest to (but not including) the Redemption Date.

36. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 20 August 2019.

H&H Group
inspiring wellness

Health and Happiness (H&H) International Holdings Limited
健合 (H&H) 國際控股有限公司