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)

Annual Report
年度報告
2019

Biostime dodie Swisse
Healthy Times GOOD GOÛT AURELIA PROBIOTIC SKINCARE

FROM 1999 - 2019

2019

Launched Cute Betty's infant goat milk formula

2018

Launched NewH² corporate venture fund and the H&H Foundation; Good Goût and Aurelia Probiotic Skincare joined the Group

2017

Renamed to H&H Group

2016

Dodie joined the Group

2015

Swisse and Healthy Times joined the Group

2013

Established strategic partnership with Isigny Sainte-Mère

2010

Biostime International Holdings Limited listed on the Hong Kong Stock Exchange with stock code 01112

2008

Launched Biostime super premium infant milk formula range

2007

Launched Mama 100 membership platform

2002

Launched Biostime children probiotic products into China

1999

Biostime established

Contents

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

COMPANY SECRETARY

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

* Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive Directors of the Company with effect from 24 March 2020.

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

FINANCIAL HIGHLIGHTS

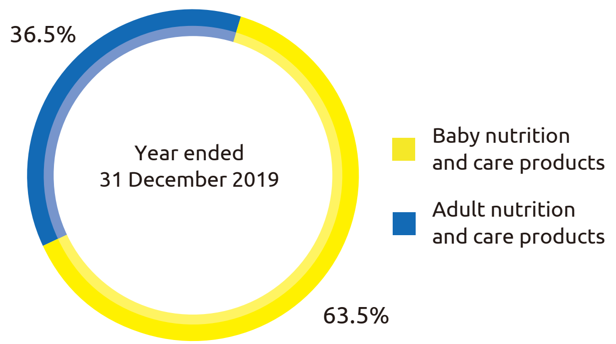
	Year ended 31 December		
	2019	2018	% of Change
	RMB'000	RMB'000	
Revenue	**10,925,217**	10,132,498	7.8%
Gross profit	**7,228,541**	6,739,720	7.3%
EBITDA*	**2,222,155**	2,158,566	2.9%
Adjusted EBITDA*	**2,235,400**	2,480,738	-9.9%
Net profit	**1,005,049**	843,148	19.2%
Cash flows from operating activities**	**2,175,452**	2,409,670	-9.7%
Basic earnings per share	**RMB1.57**	RMB1.32	18.9%

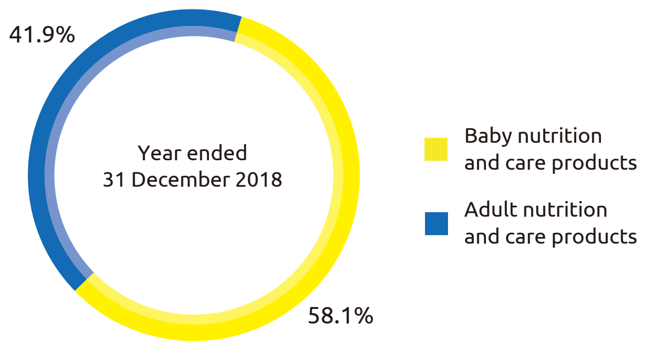
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB2.9 million for the year ended 31 December 2019 (2018: losses of RMB305.9 million) + Non-recurring losses of RMB16.1 million for the year ended 31 December 2019 (2018: losses of RMB16.2 million)

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

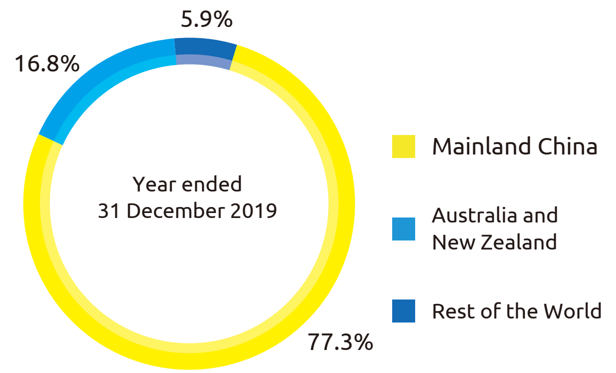
FINANCIAL HIGHLIGHTS

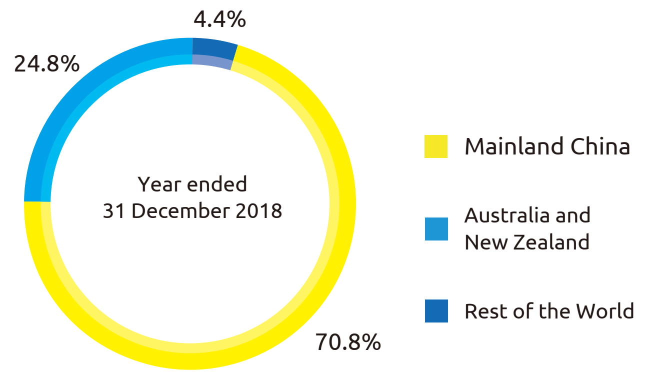
REVENUE BY BUSINESS SEGMENTS





REVENUE BY GEOGRAPHY





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am pleased to present our annual report for the year ended 31 December 2019.

BUSINESS REVIEW

In 2019, the Group confronted external regulatory changes, fierce market competition and slowing economic growth. Despite these challenges, the Group achieved moderate revenue growth, while maintaining a healthy EBITDA margin and strong operating cash flow. Besides, the Group continued to invest in new markets and products that will support its long-term growth and sustainable profitability.

During the year under review, the Group's revenue grew 7.8% to RMB10,925.2 million, compared with the previous year, with the Baby Nutrition and Care ("**BNC**") and Adult Nutrition and Care ("**ANC**") businesses accounting for approximately 63.5% and 36.5% of total revenue respectively. Adjusted EBITDA for the year under review decreased by 9.9% to RMB2,235.4 million, which was mainly attributed to a sales decline in the Australia and New Zealand ("**ANZ**") market, as well as the Group's continued investment in new markets and products. Reported EBITDA increased by 2.9% to RMB2,222.2 million due to a reduction of the special adjustment amount. The reported net profit increased 19.2% to RMB1,005.0 million year-over-year and reported earnings per share increased by 18.9% to RMB1.57. This strong growth was mostly attributed to improved operational efficiency, lower finance costs and the reduction of several one-off adjustment items.

The Group's largest market, China[1], accounted for 77.3% of its revenue and saw robust growth of 17.7% in 2019. In China, the Group realized profitable and strong double-digit growth in both its BNC and ANC business segments, supported by new product launches, ongoing online and offline consumer education, and a growing base of new customers. In the ANZ market, the Group's ANC business was negatively impacted by the implementation of the new E-commerce law in China, which saw daigou traders destock inventory and reduce trading. Sales in ANZ market fell by 24.7% on a currency-adjusted basis year-over-year. In response to this, the Group has proactively managed inventory and quickly deployed strategic measures to stabilize the business. Outside of the China and ANZ markets, the Group saw continued sales growth in both its existing and newly-entered international markets, with revenue growing by 43.6% compared with the previous year. This encouraging result was underpinned by the Group's entry into new markets and new product launches, demonstrating the viability and potential of its business strategy.

Baby Nutrition and Care

Globally, revenue derived from the BNC business reached RMB6,933.8 million, increasing 17.8% compared to the previous year, which was in line with the Group's expectation of reaching double-digit growth in both China and other international markets. This growth was supported by the consistent implementation of the Group's strategic initiatives, including reinforcing its digital branding, targeting premium and post 90's consumers; various initiatives that supported the continued robust performance of the Group's core infant milk formula ("**IMF**") series as well as new products launch, particularly in the super premium category; and strategic collaborations with key customers in both the Group's online and offline channels, leveraging synergies across its BNC product portfolios.

The IMF market in China remained intensely competitive due to the nation's declining birth rate, with market growth slowing markedly to 7.6% during the twelve months ended 31 December 2019. However, premium and super premium segments were still growing at double-digit levels. Thanks to the Group's strong market position in this area, revenue attributed to the IMF segment increased by 12.5% year-over-year.

Note 1: China mentioned in this annual report refers to Mainland China

In particular, the Group's Healthy Times IMF series outperformed the wider organic IMF market with sales growing 33.8%, accounting for 5.6% of overall IMF revenue. Meanwhile, despite only launching in the China normal trade market in the final quarter of 2019 (having already launched in Hong Kong SAR, the Group's Cross-border E-commerce ("**CBEC**") platforms and ANZ market earlier in the year), the Group's new goat milk IMF series posted revenue of RMB146.5 million and accounted for 2.9% of the Group's total IMF business. This new series – called "Cute Betty's" under the Biostime brand – has already received positive feedback from consumers keen to experience the health benefits of goat milk, demonstrating the category's potential as a future growth driver.

According to Nielsen, an independent market research company, the Group's share of the overall IMF cow milk market in China was resilient at 5.9% for the twelve months ended 31 December 2019.

Outside of China, the Group rapidly expanded its presence in other IMF and baby nutrition markets, especially Australia and France. At the beginning of 2019, it launched Biostime's organic IMF products and probiotics products in the ANZ market and appointed Miranda Kerr, a supermodel, an organic foods advocate and mother of two children, as a brand ambassador. The Group later introduced a goat milk IMF in the ANZ market, undertaking a multi-layered campaign to drive awareness and educate consumers about the product's nutritional benefits. In France, the largest organic baby food market in Europe, sales of Biostime's organic IMF series continued to grow robustly and has achieved a thriving following among local mothers. Consequently, the series was the highest-selling organic infant formula brand sold in French pharmacies in January 2020, according to GERS, an independent research data provider.

The Group's probiotics product segment also grew well with sales increasing 20.1% year-over-year to RMB1,255.0 million. This growth was driven by leveraging Biostime's position as the world's number one pediatric probiotic supplements brand, as well as the introduction of a new Biostime-branded probiotic liquid drop in several markets, including China, in the second half of 2019. This new product format greatly supported market penetration and is favored by young mothers for its convenience.

The Group's other pediatric product segment grew robustly, with sales increasing 81.2% compared to the previous year. Dodie (the Group's French babycare brand) achieved revenue growth of 70.4%, which was mostly driven by the brand's robust performance in China, following the launch of new diaper categories and strong sales revenue achieved in both online and offline markets. According to Nielsen, an independent market research company, Dodie ranked third in China's super premium-tier diaper market, with a market share of 10.2% for the twelve months ended 31 December 2019.

The growth of the Group's other pediatric product segment was also boosted by the consolidation of Good Goût's (the Group's French infants and kids healthy food brand) sales into the Group's overall sales in 2019, which rose 175.2% compared to the previous year. This in turn was supported by the appointment of French football celebrity, Kylian Mbappé as a brand ambassador and the launch of Good Goût products in the Chinese online and offline markets, where it is now well positioned to capture a share of China's fast-growing infants and kids healthy food market.

Adult Nutrition and Care

The overall performance of the Group's ANC business was weaker than expected in 2019. Revenue derived from the Group's ANC business reached AUD832.3 million, a decrease of 3.1% on a currency-adjusted basis compared to the previous year. The weaker performance was mainly attributed to the sales decline in the ANZ market, which resulted from the new E-commerce regulations in China that impacted daigou traders who destocked inventory and reduced trading.

As a result of this, the Group has been working closely with its distributors and retailing partners to drive further consumer demand in the ANZ market, while also engaging daigou channels with continuous product and brand education. The Group is also focusing heavily on introducing new products that will drive incremental demand growth in the ANZ market. Consequently, according to research statistics by IRI, an independent market research company, Swisse's share of the Australian vitamin, herbal and mineral supplements ("**VHMS**") market remained resilient at 15.6% for the twelve months ended 31 December 2019.

Due to the Group's earlier strategy of kicking off active sales and forging partnerships with major CBEC platforms, the Group's ANC business in China continued to maintain its double-digit growth momentum, with revenue growing 29.7% year-over-year and active sales revenue gradually increasing throughout the year. In 2019, China overtook the ANZ market to become the largest contributor of ANC revenue, accounting for 47.7% of total ANC revenue during the year under review.

This strong result in China was driven by a number of factors, including continued consumer engagement; successful brand and product campaigns on major e-commerce platforms, especially during the Double 11 Campaign and "618" E-commerce shopping festivals; and the appointment of Chinese brand ambassadors Dilraba and Chun Wu. Sales through physical stores also expanded significantly with the normal trade business growing 52.3% during the year under review, accounting for approximately 10.7% of total Swisse sales in China. Swisse products were available for sale in 22,369 offline retail stores across China by the end of 2019, as the Group widened its penetration of the normal trade market through the launch of global best sellers such as Calcium + Vitamin D and beauty range such as collagen drinks and hyaluronic tablets.

Through these initiatives, Swisse continued to maintain its No. 1 position in the Chinese online VHMS market, with a market share of 5.7% for the twelve months ended 31 December 2019, according to research statistics by Earlydata, an independent market research data provider.

Outside of China and Australia, the ANC business continued to grow, particularly in Italy, Singapore, Netherlands and United States. The oversea markets except China and ANZ accounted for 7.4% of total ANC revenue during the year under review.

To further expand its global rollout and development, the Group leveraged the milestone of Swisse’s 50th anniversary and utilized “The Quest Continues” campaign with celebrity endorsements in different markets, including the recognized Hollywood actor Chris Hemsworth, as well as actress and model Elsa Pataky.

The Group also launched Aurelia (its new UK-based ANC brand) on the RED (Xiaohongshu) CBEC platform in China and invited KOLs to France and London to further experience the luxuriousness of Aurelia products, including premium and natural probiotics and sustainably-sourced botanicals. Aurelia is currently sold globally through its own dynamic DTC (Direct-to-Consumer) platform, as well as through beauty e-commerce platforms, prestigious retail channels, hotels and spas.

To better drive innovation and access to disruptive technologies in the health and wellness industries, the Group sought new partnership opportunities with promising start-ups and entrepreneurs that align with its corporate vision through its NewH^2 fund. Already, the NewH^2 fund has strategically invested in personalized health and skincare, as well as in innovative technologies that prevent allergies. On top of these programs, the NewH^2 fund recently invested in Else Nutrition, a TSXV-listed company that is focusing on developing innovative, clean and plant-based food and nutrition products for infants, toddlers, children and adults.

The Group also completed the refinancing of its entire syndicated loan and senior notes in the second half of 2019, attaining a more stable capital structure that provides sufficient liquidity and finance cost savings for the coming five years. The Group’s stronger liquidity position and healthy cash flow will ensure that it can carry out its business strategy while still being able to capture promising growth and investment opportunities, as well as provide continuous returns to shareholders.

PROSPECTS

Starting from 2020, the Group anticipates that it will be able to sustain positive revenue growth with healthy profitability, despite the headwinds ahead. It will also continue to implement its ‘Premium, Proven, Aspirational and Engaging’ (“**PPAE**”) model to positively convey the images of its brands globally. It will also continue to drive consumer demand for its nutrition and wellness products by further sharing and leveraging its distribution network and brand assets to accelerate the exposure of its brands in different markets.

CHAIRMAN'S STATEMENT

Following the severe novel coronavirus ("**COVID-19**") outbreak in January, the Group took immediate action to protect the safety and health of its employees and ensure business continuity. The Group's supply chain for its BNC and ANC segments are so far on track and our key partner manufacturers are operating with limited disruption. However, the Group has identified potential risks in the supply of some raw materials and logistics, and will closely monitor how the situation evolves in the coming weeks. Furthermore, thanks to the Group's high cash flow generation business model, it is well-positioned to maintain a healthy liquidity position with sufficient debt covenants headroom throughout this challenging period.

With COVID-19 disrupting retail and logistics businesses across China, the Group has proactively adjusted its marketing plans and the way it communicates and engages with customers to respond to the changed retail landscape. It is leveraging its propriety MAMA100 CRM platform to support its business and target customers through live webcast during this challenging period. Following the outbreak, the Group has also witnessed a strong increase in demand for probiotic supplements and immune-related products, such as Swisse Vitamin C effervescent, across different markets. The Group is confident that COVID-19 will be favorable to its business in the long run, resulting from rising consciousness around proactive health management and diseases prevention.

Despite the ongoing headwinds and challenges in 2020, the Group remains confident about the growth potential of its core ANC and BNC segments and its ability to establish a leading position globally in premium nutrition and wellness. The Group will also streamline its management capabilities and increase operational efficiency, thus improving the Group's profitability as a whole and maintaining sustainable returns to its shareholders.

Baby Nutrition and Care

The Group expects the Chinese IMF market to remain intensively competitive while still anticipating strong growth in emerging sectors, particularly the goat milk IMF market. The Group believes its IMF products, which are clinically proven to be effective, will continue to stand out in the market with premium and quality ingredients that effectively enhance and improve immunity. To strengthen market share, the Group will continue to implement its multi-brand category strategy to tap fast-growing segments of the market, invest further in branding and consumer education, acquire new customers and increase retention rate, as well as enter into more strategic partnerships with key customers both online and offline. To further expand its current IMF categories, the Group successfully obtained approval from China's State Administration for Market Regulation ("**SAMR**") in March of this year for its new French-made Terroir series under the Biostime brand.

Moreover, the Group will also continue to leverage the strong positioning of Biostime's world leading claim of pediatric probiotic supplements brand, taking full advantage of the robust and growing demand it continues to see in this category.

Adult Nutrition and Care

The Group will continue to seek positive growth despite the ongoing headwinds. In China, the Group will carry on with 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, while also further developing its omni channels on top of its CBEC platforms. The Group remains convinced that Swisse will continue to grow in a healthy and sustained manner in China as consumers become more aware of the brand through major CBEC channels, which will translate into further opportunities to grow the normal trade channel. For these reasons, the Group anticipates that China will remain the ANC business' largest market.

The Group will support further expansion of Swisse's normal sales channel by filing more "blue hat" licenses in 2020 with SAMR, and the launch of more comprehensive products in the Chinese offline market. The Group remains confident about the healthy and sustainable growth of the overall VHMS market in China in light of its still-low-but-growing penetration level. This will be further supported by the government's 'Healthy China 2030' Initiative, as well as heightened health consciousness due to the COVID-19 outbreak.

In the ANZ market, the COVID-19 outbreak will further challenge demand from daigou in the short term. However, the Group anticipates that demand from domestic sources will continue to increase and it will seek to drive further domestic consumption through strong branding, product innovation and channel expansion. The Group will also launch Swisse in new international markets, including in India where Swisse was launched in February, as well as in Malaysia, Thailand and Taiwan later this year.

SOCIAL RESPONSIBILITY

Throughout 2019, the Group demonstrated its high level of commitment to sustainability and how it can create shared value. The Group has published its second annual Environmental, Social and Governance ("**ESG**") report, and also published the H&H Group Supplier Code of Conduct and has joined leading international associations such as the United Nations Global Compact, The Sustainability Consortium and the Shared Value Project. It is also one of the top 90 companies of the Hang Seng Corporate Sustainability Benchmark Index. Furthermore, the Group regularly undertakes a range of sustainability initiatives, including community days and through the H&H Foundation, which has a mission to make people around the world healthier and happier.

In line with its continued commitment to sustainable farming practices, the Group is committed to incentivizing the rearing of the Normande breed of cow, which produces exceptional quality milk and at the same time reduces cost to the environment. The Group is also supporting bushfire recovery efforts in Australia, as well as COVID-19 prevention and safety control measures, through donations to the Red Cross and hospitals via the H&H Foundation.

The Group will continue to work towards its goal of improving its ESG performance across all areas of its business, and has set a clear roadmap in order to fulfill its commitment to become a B Corp certified organization by 2025.

ACKNOWLEDGEMENTS

The great success and progress that the Group achieved in 2019 would not have been possible without the devoted effort and enormous support from its employees, consumers, business partners, creditors and investors across all markets. I would like to express my sincere gratitude to everyone who contributed to H&H's success in the past year and I look forward to building more long-term partnerships that make people around the world healthier and happier.

Luo Fei
Chairman
Hong Kong, 23 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2019, the Group's revenue increased by 7.8% to RMB10,925.2 million as compared with the same period in 2018. The Group confronted external regulatory changes, fierce market competition and slowing economic growth, while still managing to achieve moderate revenue growth throughout the year ended 31 December 2019.

	Year ended 31 December				
				% to revenue	
	2019	2018	Change	**2019**	2018
	RMB'000	RMB'000			
Baby nutrition and care products	**6,933,762**	5,888,292	17.8%	**63.5%**	58.1%
– Infant formulas	**5,071,511**	4,508,539	12.5%	**46.4%**	44.5%
– Probiotic supplements	**1,255,011**	1,044,614	20.1%	**11.5%**	10.3%
– Other pediatric products	**607,240**	335,139	81.2%	**5.6%**	3.3%
Adult nutrition and care products	**3,991,455**	4,244,206	-6.0%	**36.5%**	41.9%
Total	**10,925,217**	10,132,498	7.8%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB5,071.5 million for the year ended 31 December 2019. The IMF market in China remained intensely competitive due to the nation's declining birth rate, with market growth slowing markedly. Thanks to the Group's strong position in the premium and super premium segments, it still managed to achieve a sales growth of 12.5% compared with the year ended 31 December 2018. The strong growth was boosted by several initiatives aimed at further maximizing the average purchase amount per consumer, including recruiting new consumers, providing more differentiated premium product categories and enhancing brand awareness through continued investment in digital and social media marketing and professional endorsements. The Group's revenue from Healthy Times branded organic IMF outperformed the wider organic IMF market with sales growth of 33.8% in year ended 31 December 2019 compared with last year, and accounted for 5.6% of its total IMF revenue. Meanwhile, despite only launching in the China normal trade market in the fourth quarter in 2019 (having already launched in the Hong Kong SAR, the Group's CBEC platforms and ANZ market earlier in the year), the Group's new goats milk IMF series posted revenue of RMB146.5 million and accounted for 2.9% of the Group's total IMF revenue, demonstrating its potential as a future growth driver within China's under-developed but fast-growing goats milk market. The growth was also attributable to the successful launch of Biostime organic IMF products at the beginning of 2019 and goat milk IMF products in September 2019 in Australia, and the robust growth of Biostime organic IMF products in France.

Probiotic Supplements

For the year ended 31 December 2019, the Group recorded revenue from probiotic supplements of RMB1,255.0 million, a growth of 20.1% compared with the year ended 31 December 2018. This strong growth was mostly driven by leveraging Biostime's world leading claim of pediatric probiotic supplements brand, as well as the introduction of a new Biostime-branded probiotic liquid drop in several markets, including China, in the second half of 2019.

RESULTS OF OPERATION (CONTINUED)

Revenue (continued)

Other pediatric products

Revenue from other pediatric products segment increased by 81.2% to RMB607.2 million for the year ended 31 December 2019 compared with the year ended 31 December 2018. Sales of Dodie branded products achieved a growth of 70.4% to RMB434.3 million in 2019 compared with last year. The rapid growth was mainly attributed to the robust performance of Dodie branded products across China, following the launch of new diaper categories and the strong sales revenue achieved from both online and offline markets. Sales of Dodie branded diaper increased by 136.0% to RMB311.3 million for the year ended 31 December 2019 as compared with last year, supported by investment in brand awareness and consumer education activities as well as synergies of sales team and distribution channels 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 year ended 31 December 2019, revenue from Good Goût products amounted to RMB163.8 million, which increased by 175.2% from last year thanks to strong growth in both original French market and newly launched Chinese market.

Adult nutrition and care products

On currency-adjusted basis[Note], revenue from the adult nutrition and care products segment amounted to AUD832.3 million for the year ended 31 December 2019, representing a decrease of 3.1% compared with the year ended 31 December 2018. The decrease was mainly attributed to 'daigou' traders destocking inventory and reducing trading post implementation of China's new E-commerce law, which negatively impacted the Australian business. ANZ sales thus decreased by 26.3% for the year ended 31 December 2019 compared with last year.

However, China active sales continued to maintain its double-digit growth momentum of 29.7% and accounted for 47.7% of total ANC revenue for the year ended 31 December 2019. China active sales thus became the largest revenue contributor in the entire ANC business for the first time in history. The growth of China active sales was supported by strong brand and product marketing campaigns on major CBEC platforms especially during the Double 11 Campaign and "618" E-commerce shopping festivals, 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 demonstrated strong revenue growth, particularly in Singapore, Italy, Netherlands and United States. Revenue from oversea markets other than China and ANZ grew by 35.8% to AUD61.2 million for the year ended 31 December 2019 as compared with last year, accounting for 7.4% of total ANC revenue during this period.

Gross profit and gross profit margin

In 2019, the Group recorded gross profit of RMB7,228.5 million, an increase of 7.3% compared with last year. The Group's gross profit margin remained relatively stable in 2019 at 66.2% in comparison with 66.5% in 2018.

The gross profit of baby nutrition and care segment increased by 15.3% to RMB4,614.1 million in 2019 compared with that of last year. The gross profit margin of baby nutrition and care segment decreased to 66.5% in 2019 from 68.0% in 2018 mainly due to (i) the product mix towards higher revenue proportion from the lower-margin goat milk and organic IMF products as well as the Dodie branded diaper and Good Goût products, and (ii) the slight decrease in gross profit margin of probiotic supplements due to formula upgrade and depreciation of RMB against USD.

Note: The exchange rates of AUD1 = RMB4.7956 and AUD1 = RMB4.9407 were used for the year ended 31 December 2019 and 2018, respectively.

RESULTS OF OPERATION (CONTINUED)

Gross profit and gross profit margin (continued)

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment decreased by 1.6% to AUD545.2 million in 2019, compared with last year. The gross profit margin of the adult nutrition and care segment increased from 64.5% in 2018 to 65.5% in 2019, resulting from the more favorable product and market mix as well as the increase of sales prices of certain stock keeping units.

Other income and gains

Other income and gains amounted to RMB131.9 million for the year ended 31 December 2019. Other income and gains primarily consisted of net foreign exchange gain of RMB48.0 million, government subsidies of RMB42.2 million, interest income of RMB20.2 million and others.

The net foreign exchange gain of RMB48.0 million mainly represented non-cash gain from the revaluation on intragroup loans between the Company and its subsidiaries resulting from historical intra-group transaction.

Selling and distribution costs

Excluding depreciation of property, plant and equipment and right-of-use assets, and amortization of intangible assets ("**D&A**"), selling and distribution costs increased by 21.0% to RMB4,362.2 million in 2019, as compared with 2018. Selling and distribution costs excluding D&A as a percentage of the Group's revenue was 40.0% in 2019, increased by 4.4 percentage points as compared with 35.6% in 2018, mainly driven by the strategic investments in new markets and new product categories.

Selling and distribution costs of BNC business amounted to RMB2,871.6 million in 2019, representing an increase of 22.5% as compared with last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased by 1.6 percentage points from 39.8% in 2018 to 41.4% in 2019. Advertising and marketing expense of BNC business as a percentage of its revenue increased from 10.6% in 2018 to 12.3% in 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, as well as the launch of Good Goût's product categories in the Chinese market since May 2019. Owing to effective measures taken in all key markets especially in China to improve spending efficiency, selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of BNC revenue remained stable at 29.1% in 2019 despite strategic channel investments made in new markets and new categories.

RESULTS OF OPERATION (CONTINUED)

Selling and distribution costs (continued)

Selling and distribution costs of ANC business amounted to RMB1,490.6 million in 2019, representing an increase of 18.0% as compared with last year. Selling and distribution costs of ANC business as a percentage of the Group's revenue from ANC business increased by 7.6 percentage points from 29.7% in 2018 to 37.3% in 2019. Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 20.3% in 2018 to 27.5% during the period under review. The increase was mainly due to the market mix towards higher proportion of sales from the Chinese market following the decrease of sales from ANZ market. The higher investment in marketing campaigns was required in Chinese market to further enhance brand awareness and build up scale both online and offline. The investment was considered necessary given the relatively low penetration of Swisse brand and products among Chinese consumers nationwide. The increase was also 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 ("**PGT**"), 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 increased from 9.4% in 2018 to 9.8% in 2019 resulting from the strategic investments in new markets, and the increasing revenue proportion from Chinese normal trade markets which required higher selling and distribution costs. Thanks to operation efficiency improvement, selling and distribution costs other than advertising and marketing expense as a percentage of the revenue in Swisse's home market, ANZ remained relatively stable despite the lower revenue base there.

Administrative expenses

Administrative expenses increased by 3.0% from RMB619.6 million in 2018 to RMB638.0 million for the year ended 31 December 2019. Administrative expenses as a percentage of the Group's revenue improved slightly by 0.3 percentage point to 5.8% in 2019, as compared with 6.1% in 2018. The Group enhanced its operational capability to support global expansion while still managed to improve the spending efficiency.

Other expenses

Other expenses for the year ended 31 December 2019 amounted to RMB249.5 million. Other expenses mainly included R&D expenditure of RMB163.7 million and net fair value losses on derivative financial instruments including derecognition of early redemption option embedded in the senior note of RMB47.4 million.

During the year under review, R&D expenditure increased by 8.3% as compared with 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.

The non-cash net fair value losses on derivative financial instruments of RMB47.4 million was mainly caused by the derecognition of the early redemption option embedded in the Group's USD600 million 7.25% senior notes after the refinancing of senior notes was successfully completed in the fourth quarter of 2019.

RESULTS OF OPERATION (CONTINUED)

EBITDA and EBITDA margin

EBITDA for the year ended 31 December 2019 amounted to RMB2,222.2 million, increased by 2.9% from RMB2,158.6 million in 2018. EBITDA margin was 20.3% in 2019.

Adjusted EBITDA decreased by 9.9% from RMB2,480.7 million in 2018 to RMB2,235.4 million in 2019. Adjusted EBITDA margin for 2019 was 20.5%, decreased by 4.0 percentage points as compared with last year. The lower Adjusted EBITDA and Adjusted EBITDA margin were mainly due to the Group's strategic stepped-up investments in new markets and products that will support its long-term prospects, and the revenue decline of the high-margin Australian business which has been impacted by the implementation of China's new E-commerce law leading daigou traders to destock inventory and reduce trading.

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

	Year ended 31 December	
	2019	2018
	RMB million	RMB million
EBITDA	**2,222.2**	2,158.6
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange (gains)/losses	**(48.0)**	275.9
(2) Net fair value losses on financial instruments including derecognition of early redemption option embedded in the senior notes	**45.1**	30.0
Non-recurring items*:		
(3) One-time restructuring costs in certain markets	**16.1**	
(4) Non-recurring transaction costs in relation to attempted refinancing of senior notes and mergers and acquisitions	**–**	16.2
Adjusted EBITDA	**2,235.4**	2,480.7

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

Finance costs

During the year ended 31 December 2019, the Group incurred finance costs of RMB420.8 million, including interests for the term loan and senior notes of RMB354.3 million and premium of RMB56.2 million paid for early redemption of part of the senior notes. Thanks to the improved capital structure, finance costs for the year ended 31 December 2019 decreased by 12.2% compared with 2018.

Income tax expense

Income tax expense decreased from RMB684.8 million in 2018 to RMB560.2 million in 2019. Thanks for the tax initiatives launched by the Group, as well as the reduction of several adjustment items, the effective tax rate decreased from 44.8% in 2018 to 35.8% in 2019.

RESULTS OF OPERATION (CONTINUED)

Net profit and adjusted net profit

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

	Year ended 31 December	
	2019	2018
	RMB million	RMB million
Net profit	**1,005.0**	843.1
Reconciled by:		
EBITDA adjusted items as listed above	**13.2**	322.1
Non-cash items*:		
Write-off of transaction costs upon refinancing for the term loan	**–**	34.0
Non-recurring items*:		
(1) One-time net capital gain tax in relation to the intellectual property transferred within the Group's subsidiaries and accelerated amortization of intangible assets of PGT royalty agreement	**–**	93.8
(2) Premium paid for early redemption of part of the senior notes and loss on redemption of the convertible bonds	**56.2**	30.0
Adjusted net profit	**1,074.4**	1,323.0

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2019, the Group recorded net cash generated from operating activities of RMB1,439.3 million, resulting from pre-tax cash from operations of RMB2,175.5 million, minus income tax paid of RMB736.2 million.

Investing activities

For the year ended 31 December 2019, net cash flows used in investing activities amounted to RMB277.2 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB132.7 million, subscription of bond issued by one of the Group's IMF suppliers of RMB78.5 million, strategic investments made by the Group's solely-owned NewH^2 fund of RMB78.5 million and others.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Financing activities

For the year ended 31 December 2019, net cash flows used in financing activities amounted to RMB869.1 million. The cash outflows were primarily related to the repayment of term loans of RMB77.3 million, early redemption of remaining part of the Group's USD600 million 7.25% senior notes of RMB3,405.0 million and interest paid for term loans and senior notes of RMB328.3 million. The cash outflows were partially offset by the net proceed from the successful refinancing of new term loan of RMB1,056.2 million and senior notes of RMB2,098.2 million.

Cash and bank balances

As of 31 December 2019, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB2,217.3 million.

Term loan and senior notes

As of 31 December 2019, the Group's outstanding term loans amounted to RMB3,751.6 million, all are payable after one year. The total carrying amount of the senior notes was RMB2,124.8 million, including current portion of RMB21.5 million.

As of 31 December 2019, the net leverage ratio remained stable at 1.64 as compared with that of 31 December 2018, calculated by dividing the net debts[Note] by adjusted EBITDA. Gearing ratio decreased to 37.0% from 40.2% as of 31 December 2018, 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 China, except for limited circumstances. The Group usually allows credit sales in oversea markets outside 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 4 day from 28 days for the year ended 31 December 2018 to 32 days for the year ended 31 December 2019 mainly due to temporary credit term extensions granted to certain customers in Australia. The average turnover days of trade payables were 81 days for the year ended 31 December 2019, representing an increase of 3 days from 78 days for the year ended 31 December 2018 mainly due to the different cut-off days.

The inventory turnover days were 152 days for the year ended 31 December 2019, representing an increase of 15 days from 137 days for the year ended 31 December 2018. The average turnover days of BNC products decreased 15 days from 133 days for the year ended 31 December 2018 to 118 days for the year ended 31 December 2019. The average turnover days of ANC products increased 67 days from 141 days for the year ended 31 December 2018 to 208 days for the year ended 31 December 2019. The increase was mainly caused by the lower-than-expected growth of revenue from ANC segment even though the average turnover days of ANC products have come down gradually from the peak of 254 days at end of the first half of 2019 thanks to the implementation of a series of improvement measures.

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

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HKD0.85 per ordinary share for the year ended 31 December 2019, accounting for approximately 50.0% of net profit for the year ended 31 December 2019.

Subject to approval at the forthcoming annual general meeting on Friday, 8 May 2020, the said final dividend will be payable on or about 8 July 2020 to shareholders whose names appear on the register of members of the Company on Monday, 18 May 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

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

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

The Group's NewH^2 fund entered into an investment agreement with Else Nutrition Holdings Inc. (TSXV: BABY), an Israel-based food and nutrition company focused on developing innovative, clean and plant-based food and nutrition products for infants, toddlers, children, and adults, for a minority stake of 11.15% with an amount of C$5.75 million in February 2020. The Group also signed a Memorandum of Understanding with Else Nutrition Holdings Inc. for the future distribution of non-dairy non-soy baby formula and children nutrition drinks in the following markets: France, Hong Kong SAR, Cross-Border China, Australia, Italy and China.

To the best of the knowledge of the Directors having made all reasonable enquiries, Else Nutrition Holdings Inc. 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 investment 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.

MANAGEMENT DISCUSSION AND ANALYSIS

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2019 and up to the date of this annual report, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

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

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

Relationship with Employees

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

As at 31 December 2019, the Group had over 3,000 employees. The total employee benefit expense (including directors' and chief executive's remuneration) for the year ended 31 December 2019 please refer to note 7 to the financial statements. Remuneration policy please refer to "Emolument Policy" in this annual report.

Relationship with Customers

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

Relationship with Suppliers

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 56, is the chairman and an executive Director of the Company. Mr. Luo was formerly the Chief Executive Officer of the Company until 18 March 2019. Mr. Luo was appointed as an executive Director on 30 April 2010, and is also a director of a variety of subsidiaries of the Company. The major subsidiaries are Health and Happiness (H&H) China Limited ("**Health and Happiness China**", formerly known as BiosTime, Inc. (Guangzhou)), Biostime (Guangzhou) Health Products Limited ("**Biostime Health**"), Health and Happiness (H&H) Hong Kong Limited ("**Health and Happiness Hong Kong**", formerly known as Biostime Hong Kong Limited) and Swisse Wellness Group Pty Ltd ("**Swisse**"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("**Biostime Pharmaceuticals**") with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "**SFO**"). For further details, please refer to page 71 of this Annual Report. Mr. Luo leads the Board and supervises the Group's strategy, risk management and corporate governance. Mr. Luo has approximately 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("**Guangzhou Biohope**"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established Health and Happiness China and has served as its general manager until November 2018. Mr. Luo is the chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER (安玉婷), aged 40, is an executive Director and Chief Executive Officer of the Company. She was appointed as an executive Director on 26 March 2018 and the Chief Executive Officer of the Company on 19 March 2019. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER is primarily responsible for the Company's overall strategies, planning and business development. She joined the Group in July 2010. She was the General Manager of Group strategy and international business department of the Group. Since October 2016, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER also assumes the role of Managing Director of Swisse China. She is also a director of a variety of subsidiaries of the Company. The major subsidiaries are Biostime Healthy Australia Pty Ltd., Swisse and Swisse China Limited. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and support to French companies partnering, exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January to June 2001, the Banque Populaire Group in Paris from July to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Wang Yidong (王亦東), aged 46, is an executive Director of the Company. Mr. Wang was appointed as an executive Director on 26 March 2018. He joined the Group in May 2016. Mr. Wang is the Chief Financial Officer of the Group and is in charge of the overall financial management, accounting and investor relations affairs of the Group. He has near 20 years of experience in financial management, accounting and corporate finance. Prior to joining the Group, Mr. Wang was the Corporate Vice President and Asia Pacific Chief Financial Officer of Henkel AG & Co. KGaA, a German consumer goods giant ("**Henkel**"), responsible for Henkel's financial management, business and operation controlling as well as M&A-related tasks in 14 countries of Asia Pacific. Before that, he worked at Henkel's headquarters in Germany as Global Director of Business Development and M&A for Adhesive business unit, and also worked as Henkel's Greater China Chief Financial Officer and Asia Pacific Treasurer in preceding years. Mr. Wang had also taken various management and banking roles with LG.Philips, JPMorgan Investment Bank and China's Ministry of Commerce in Hong Kong, New York and Beijing. Mr. Wang holds a Master of Business Administration degree from New York University Stern School of Business and a Bachelor of Arts degree from China Foreign Affairs University. He is a member of the American Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants (the "**ACCA**"). He is also a member of ACCA China Expert Forum.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Zhang Wenhui (張文會), aged 55, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 71 of this Annual Report. Dr. Zhang has almost 19 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Health and Happiness China and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Health and Happiness China, Biostime Health and Dodie Baby Products Inc. (Guangzhou) ("**Dodie Guangzhou**", formerly known as BMcare Baby Products Inc. (Guangzhou)) until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. In September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University (大阪大學). Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000. He also received a master's degree in Business Administration from University of Chicago in March 2017.

Mr. Luo Yun (羅雲), aged 59, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010. Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 71 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Health and Happiness China including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 58, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. Dr. Ngai is the group chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited, a specialty company secretarial, corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 30 years of professional practice and senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and risk management, regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. He had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. Dr. Ngai was an independent non-executive director of China Coal Energy Company Limited from December 2010 to June 2017, an independent non-executive director of China Railway Group Limited from June 2014 to June 2017, an independent non-executive director of HKBridge Financial Holdings Limited (formerly known as China HKBridge Holdings Limited) from March 2016 to April 2018 and an independent non-executive director of Yangtze Optical Fibre and Cable Joint Stock Limited Company from September 2014 to January 2020. In addition, Dr. Ngai is currently an independent non-executive director or independent director of the below companies:

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際(集團)控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
Beijing Capital Grand Limited	首創鉅大有限公司	Main Board	1329	December 2013
China Communications Construction Company Limited	中國交通建設股份有限公司	Main Board	1800	November 2017
LDK Solar Co., Ltd.	不適用	Listed on OTC Pink Limited Information	LDKYQ	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010
BBMG Corporation	北京金隅集團股份有限公司	Main Board	2009	November 2015
TravelSky Technology Limited	中國民航信息網絡股份有限公司	Main Board	696	January 2016
SPI Energy Co., Ltd	不適用	List on Nasdaq	SPI	May 2016

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Dr. Ngai is a member of the General Committee of the Chamber of Hong Kong Listed Companies and has been appointed as a Finance Expert Consultant by the Ministry of Finance of the PRC in 2016. Dr. Ngai was the President of the Hong Kong Institute of Chartered Secretaries (2014-2015), was appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Working Group on Professional Services under the Economic Development Commission (2013-2018), and a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants (2013-2018).

Dr. Ngai is a fellow of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators), a fellow of the Hong Kong Institute of Chartered Secretaries, a fellow of Hong Kong Institute of Directors, a member of Hong Kong Securities and Investment Institute and a member of the Chartered Institute of Arbitrators. Dr. Ngai received a doctoral degree in Finance from Shanghai University of Finance and Economics, a master's degree in Corporate Finance from Hong Kong Polytechnic University, a bachelor honor degree in laws from University of Wolverhampton in the United Kingdom and a master's degree in business administration from Andrews University of Michigan in the United States.

Dr. Ngai has extensive experience in accounting and financing as well as in corporate governance, which is relevant to the Company in matters relating to corporate governance practices such as internal control and internal audit.

Mr. Tan Wee Seng (陳偉成), aged 65, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is chairman of the Company's Remuneration Committee. Mr. Tan is also an independent non-executive director and chairman of the audit committee of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited (Stock Code: 178), an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), an independent non-executive director and chairman of the audit committee of Sinopharm Group Company Limited (Stock Code: 1099), an independent non-executive director, the chairman of the audit committee and remuneration committee and a member of the nomination committee of Shineroad International Holdings Limited (Stock Code: 1587), the shares of all of which shares are listed on the Main Board of the Stock Exchange. In addition, Mr. Tan is an independent director and chairman of the audit committee of ReneSola Ltd (Stock Code: SOL), the shares of which are listed on the New York Stock Exchange ("**NYSE**"). Mr. Tan is also a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been appointed as an independent director and chairman of the audit committee of 7 Days Group Holdings Limited, listed on the NYSE, between November 2009 and July 2013, until it was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; a director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for the China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in the United Kingdom, and a fellow member of the Hong Kong Institute of Directors.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Professor Xiao Baichun (蕭柏春), aged 72, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. He has a strong academic background and extensive experience in business management, which is relevant to the business operations of the Company in matters relating to corporate governance practices. Professor Xiao was employed by Seton Hall University as an assistant professor in September 1990 and was subsequently promoted as an associate professor in April 1994, and to professor in March 1999. He was also chairman of the computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, Professor Xiao has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 2003. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of the Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of the Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010 and a distinguished professor of the EMBA program at Fudan University (復旦大學) since 2005. As a testament to his achievement, Professor Xiao received various awards in his research area. He received “University Fellowship” from Wharton School, the University of Pennsylvania in 1986 and 1987 and “Outstanding Scholarship Award” from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University “Outstanding Scholarship Award” in 2006, and “Teaching Excellence Award” from Peking University (北京大學) in 2012. Professor Xiao was named Fulbright Senior Scholar by US Fulbright Foundation in 2012. Professor Xiao served as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor’s degree in mathematics from Nanjing University (南京大學) in July 1982, an MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, the University of Pennsylvania in December 1990.

Mrs. Lok Lau Yin Ching (駱劉燕清), aged 65, was appointed as an independent non-executive Director of the Company on 24 March 2020. Mrs. Lok is a strategic Human Resources leader with over 30 years of experience in driving people and business transformation. Mrs. Lok worked for MetLife Asia Limited as the SVP, Head of Human Resource from 2012 to 2019. She partnered with global human resources leaders of MetLife in formulating the global human resources strategies and built a world-class Asia human resources function with a composite of both international and local talents for developing and driving the implementation of business strategies. From 2005 to 2012, she worked for HSBC Insurance (Asia) Limited as the Asia Regional Head of Human Resource. She built and drove human resources strategies to grow the insurance business in Asia within the HSBC Group. Prior to joining HSBC Insurance (Asia) Limited, Mrs. Lok was the Regional Head of Human Resource of AXA Asia from 2000 to 2005. In addition, Mrs. Lok has been active in voluntary services including being the Treasurer with the 10th Tai Po Scout Group for over 20 years and has been a director of the board and chairman of human resources committee of Heep Hong Society (協康會) in Hong Kong. Mrs. Lok holds a Bachelor of Arts degree (Economics & Sociology) from the University of Leeds in the United Kingdom. She is certified in the Woman Directorship program of the University of Hong Kong. She is also a certified Master Neuro-Linguistic Programming Practitioner.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Wang Can (王燦), aged 40, was appointed as an independent non-executive Director of the Company on 24 March 2020. Mr. Wang worked in the group of companies comprising Fosun International Limited (listed on the Stock Exchange with stock code 0656) ("**Fosun International**") and its subsidiaries from time to time (the "**Fosun Group**") from November 2012 to January 2020. He was an executive director and senior vice president of Fosun International from March 2017 to January 2020, a non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd.* (上海復星醫藥（集團）股份有限公司) (listed on the Stock Exchange with stock code 02196 and the Shanghai Stock Exchange with stock code 600196) from June 2016 to January 2020, a non-executive director of Fosun Tourism Group (listed on the Stock Exchange with stock code 01992) from November 2018 to January 2020, and a director of Shanghai Ganglian E-commerce Holdings Co., Ltd. (listed on the Shenzhen Stock Exchange with stock code 300226) from May 2017 to October 2019. Mr. Wang once worked as the Chief Growth Officer (CGO), the Chief Financial Officer (CFO), the general manager of Investment Management Center, the co-head of Fosun Technology Innovation Center, the general manager of Investment Management Department, the deputy CFO and the general manager of Financial Planning & Analysis Department of the Fosun Group. Prior to joining the Fosun Group, Mr. Wang worked in Kingdee Software (China) Co., Ltd.* (金蝶軟件（中國）有限公司), PricewaterhouseCoopers Zhong Tian LLP, Standard Chartered Bank (China) Limited and Huazhu Group Limited (listed on NASDAQ with stock code HTHT, formerly known as China Lodging Group Limited). Mr. Wang was named as Asia's Best CFO (Industrials) –1st for two consecutive years (2017 and 2018) in All-Asia Executive Team ranking organized by the authoritative financial magazine, Institutional Investor. Mr. Wang is a non-practicing member of Chinese Institute of Certified Public Accountants (CICPA) and a member of the Association of International Accountants (AIA) and the Association of Chartered Certified Accountants (ACCA). Mr. Wang graduated from Anhui University in 1997 and received an EMBA degree from China Europe International Business School in 2014.

SENIOR MANAGEMENT

Dr. Matthew Roberts, aged 52, joined the Group as our Chief Technology Officer in February 2020. He is responsible for research and development, product quality control and regulatory compliance. Dr. Roberts has over 25 years' success experience in driving corporate growth through science, technology, and innovation as well as advising or organizations around the industry. Prior to joining the Group, he has worked with industry leaders at Pharmavite, The Nature's Bounty Company, Abbott Nutrition, and Nestle as well as serving on the board or as a scientific advisor to a number of emerging food and nutrition companies. Dr. Roberts has a broad array of experience and subject matter expertise across food, nutrition, digital health, as well as clinical trial, regulatory, and quality operations. Matthew has a strong ability to leverage both internal R&D resources as well as external partnerships to expand the market and to deliver profitable growth. Matthew is the successful author of over 30 publications and patents. He has a track record of results, excellent science communication skills, and inspires other leader with purpose, productivity and perseverance. Dr. Roberts graduated from Olin School of Business, Washington University with an MBA degree in 2005. He obtained his Ph.D. in Environmental and Comparative Toxicology from Cornell University in 1996.

Mr. Howell Wong, aged 42, joined the Group as our Chief Consumer Officer in October 2019. He is responsible for all consumer marketing, corporate communication, digital transformation and data analytics. He is also taking care of our in-house creative agency 'noisy beast'. Graduated as an electronic engineer and later certified as a chartered Engineer in 2004. He started his career as an engineer in the telecommunication industry particularly in Ericsson, Vertu and Nokia in United Kingdom. During 2010-2012 he has successfully transitioned his technical role to commercial role of consumer analytics and digital marketing within Nokia. During 2012–2015, he moved to the creative agency industry and leading digital in both Cheil Worldwide (Singapore) and JWT (Hong Kong) for both their regional and local accounts. From late 2015 till 2019, Howell was the regional head of digital marketing in charge of all digital development within the APAC region including Greater China and also leading the digital transformation program in the regional leadership team. He obtained his Bachelor degree in Electronic Engineering from The University of Nottingham (UK) in 1999 and his Executive MBA from the Imperial College London (UK) in 2010.

* For identification purpose only

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (CONTINUED)

Mr. Akash Bedi, aged 36, joined the Group in 2018 as Senior Director of Strategy and Corporate Affairs. He has also promoted as the Chief Strategy and Operations Officer of the Company since December 2019. As part of his role at H&H Group, Akash is primarily responsible for developing and tracking H&H Group's strategy and business development roadmap, strengthening the Group's industry and market insight capabilities as well as identifying potential organic and external growth opportunities for H&H. Also, Akash leads M&A for the Group and strategic investments for NewH^2 Fund (the corporate venture subsidiary of H&H Group). Akash is also focusing on investing in global startups and high growth companies with technologies and businesses of strategic "importance to its parent, H&H Group,to help accelerate new innovation ideas for a healthier future. Prior to joining H&H Group, Akash held the position of Director, Global Consumer & Retail at HSBC for over 10 years where he worked on highly complex M&A transactions from its global offices in New York, London and Hong Kong. Akash holds a Bachelor of Engineering (Mechanical) from Manipal Institute of Technology, India and an MBA from the Cardiff Business School in the UK.

Ms. Sheng Qin (盛芹), aged 40, joined H&H in October 2019 in the capacity of Senior Director, Group People & Culture. She is in charge of full human resources spectrum, including but not limited to organization design, talent acquisition, rewards and benefits, talent management and company culture. Ms. Sheng came to us with over 15 years of experience in HR field across different markets. Prior to H&H, she has been Regional HRD for LVMH Fashion Group APAC since 2014, based in HK; Before moving to HK, she was part of LVMH Group HR in Paris, working on global strategic projects for 4 years; and prior to that, she was in the pioneer team of Sephora China in Shanghai since 2005, leading the HR function for 5 years. Ms. Sheng also had a 1-year experience with Air Liquide in Paris before moving back to Shanghai. She is holding a Bachelor degree from Beijing Foreign Languages University and a Master degree from Institut Politique de Paris.

Mr. Zhu Dingping (朱定平), aged 43, joined the Group in February 2007 and has been the China Managing Director of BNC of the Group since August 2017. Before that, Mr. Zhu was the general manager of project department of BNC and our senior sales director, he was mainly responsible for the overall sales affairs. Prior to joining the Group, he had over 10 years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈庵總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南（大學）學院) and received the certificate of completion in February 2003. He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles ReformWork Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003. He has completed the China Europe International Business School (中歐國際工商學院) CMO training course and received the certificate of completion in July 2014. He had completed the EMBA courses of Management School, Jinan University (暨南大學管理學院) and obtained a master's degree in December 2015. He is currently serve for the enterprise institute of Jinan University, act as a part time researcher.

Ms. Li Fengting (李鳳婷), aged 35, joined the Group as ANC China sales and marketing general manager in May 2018 and was appointed as ANC China Managing Director in August 2019. She is responsible for ANC China business (including CBEC and China normal trade). Ms. Li has more than 10 years FMCG sales, marketing and omni channel management. She worked for Procter & Gamble prior to H&H in China and Singapore, where led the global brand Downy Unstoppable launch into global multi regions and Tampax launch into China. Ms. Li graduated from Zhejiang University (浙江大學) in 2008 and obtained the bachelor's degree in Industrial Design.

SENIOR MANAGEMENT (CONTINUED)

Mr. Nicholas Russell Lamande Mann, aged 46, joined the Group in September 2017 as the Sales Director for Australia and New Zealand and promoted as Managing Director from August 2019 to oversee all operations in these markets. Nick was responsible for total revenue generation for the Group's business in Australia and New Zealand plus the following functions; Commercial Strategy and Planning, Product Education, Customer Service, Shopper/Trade Marketing. Over a 22 year span prior to joining the H&H Group, Nick worked in a variety of Senior Sales, Marketing and General Management roles across FMCG, Technology and Beverage Alcohol. Nick commenced his career in 1995, working for Gillette (prior to the P&G acquisition of Gillette). After seven years, Nick moved into the Technology industry and held various sales and marketing roles across Asia Pacific for Motorola Mobile Phones, culminating as the Director of Marketing for South East Asia in 2008. Bracketing a 2 year stint in Commercial and Auto Glass, Nick spent the majority of the next ten years in the alcohol industry as General Manager of Marketing for Fosters/CUB, General Manager of Sales at Treasury Wine Estates and as Managing Director at ASM Liquor – a semi start-up alcohol company that was disbanded when the brands in Australia were sold to Asahi Premium Beverages in September 2017. Nick graduated from Melbourne Grammar School in 1991 after which he completed a Bachelor of Science degree at Melbourne University.

Mr. Charles Ravel, aged 43, joined the Group in June 2017. He is currently the Managing Director of BNC International division of the Group. Mr. Charles Ravel is running the Group subsidiaries across Europe and Asia outside China. He is also in charge of Global Marketing for the brands housed under the BNC division. Mr. Charles Ravel spent most of his career in FMCG sector in the US (close to 10 years) and in Asia. His career started in the consumer division of Total S.A. from 2000 occupying different Marketing and Sales positions mainly in the US. During that time, he also led a post-acquisition brand switch in Eastern Europe and subsequently managed operations for Total Oil consumer division in the UK. Post JARDEN Corp. buyout, he led Category Management & Business Development for the Baby Care Division in the US for several years. He was then appointed in 2012 to develop Baby Care out of Asia being based subsequently in Hong Kong and in Shanghai. He led Sourcing Operations, Business Development and ultimately the business units across Asia Pacific in NEWELL BRANDS from 2015 to 2017. While having a sales and marketing background, he has held positions on an international scale in a wide array of functions including Operations. Mr. Charles Ravel studied International Marketing at FHW Berlin in Germany after getting a Bachelor of Arts degree in Economics from Rennes Business School in France. He also holds an MBA from University of San Francisco obtained with BGS honours in 2005.

Mr. Benoît Le Gavrian, aged 43, joined the Group as our Europe General Manager in April 2019. He is responsible for developing the H&H Group business in Europe expanding our brands footprint in this strategic region. Benoît has ca. 20 years of experience in the FMCG industry in Sales & Marketing and General Management. From end 1998 to end 2003, he worked for Danone in Spain in several Sales roles and was headquartered in Barcelona. In January 2004, Benoît joined the Gillette Group in Paris to handle the French negotiation with #1 customer Carrefour. In 2006, Gillette was acquired by Procter & Gamble, where Benoît spent 10 years in Sales & Marketing roles. In his last position in P&G from 2014 to 2015, he was the Sales Director for Duracell EIMEA based from Geneva. When Duracell was divested to Berkshire Hathaway, he took over in 2015 the newly created position of France & Benelux General Manager based in Paris and set-up the teams, offices & legal entities on the ground. He obtained his Master Degree at ESSCA Business School in 1997.

Mrs. Pascale Laborde, aged 40, joined the Group as our Global Chief Executive Officer at Good Goût (a new brand of the Company) in March 2019. She is responsible for developing the brand sold in France, Belgium, Switzerland, the United Kingdom, the Netherlands, Estonia, Germany and more recently in China. She has plans to increase the size of the company and laying important foundations for future success. Prior to joining the Group, she worked at KFC France part of Group Yum. From 2014 to 2019, first as Head of Sales, Media and Advertising, then Marketing Innovation Director and Chief Marketing Officer. From 2004 to 2014, she also worked at Unilever France, in a number of Marketing and Sales roles managing strategic accounts. She graduated from Hautes Etudes Commerciales (HEC) and obtained a master's degree in marketing in 2003.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (CONTINUED)

Mr. Zhang Qizhang (張琦章), aged 35, joined the Group in June 2014. He has been appointed the General Manager of the New Business Development Department of the Group in May 2017. He is also the acting Chief People Officer of the Group since June 2017. He was the director of Integrated Marketing Center of the Group from April 2015 to May 2017. Before that, he was the Director in charge of the marketing, Biostime Business Unit and assumed additional responsibility as Director of Corporate Innovation Marketing Center. Mr. Zhang obtained his bachelor's degree in public management in Renmin University of China (中國人民大學) in June 2007. After graduation, he was employed by Procter & Gamble (China) Co., Ltd. (寶潔(中國)有限公司) as a brand manager at the marketing department until May 2014.

Ms. Yang Wenyun (楊文筠), aged 36, joined the Group in August 2005 and acted as one of the joint company secretaries of the Company from 12 July 2010 to 24 June 2019. From 25 June 2019, Ms. Yang has acted as the sole company secretary of the Company. Ms. Yang promoted as the Senior Director of the Listing Affairs and Risk Management Deportment in March 2019. She is mainly in charge of overall listed corporation affairs, risk management and internal audit of the Group. She is also the Supervisor of the Company's subsidiary Swisse Wellness (Guangzhou) Limited. Ms. Yang started her professional career with the Group and has obtained substantial experience through corporate governance, risk management, administration, legal affairs, information security management, internal audit, public relations and human resources management over the past twelve years with the Group. From August 2005 to December 2008, she worked as an assistant of public affairs and was mainly responsible for the legal affairs and public relations of the Group. Concurrently, being an assistant to the general manager since November 2006, responsible for part of administrative affairs of the Group. From December 2008 to February 2010, she was promoted to be the legal manager of the Group and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. In January 2014, she was promoted from a senior manager to become the director of the department. From October 2015 to February 2017, Ms. Yang was concurrently responsible for human resources management as the director of Corporate Affairs and Human Resources Department. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

COMPANY SECRETARY

Ms. Yang Wenyun (楊文筠). Her biography is set out in the Senior Management section of Biography of Directors and Senior Management of this Annual Report.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2019 Interim Report of the Company are set out below:

Name of Director	Details of changes
Dr. Ngai Wai Fung	Dr. Ngai has retired from his position as an independent non-executive Director of Yangtze Optical Fibre and Cabe Joint Stock Limited Company (Stock code: 6869) on 17 January 2020.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. Throughout the year ended 31 December 2019, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

THE BOARD

Responsibilities

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

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

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

Board Composition

For the year ended 31 December 2019, the Board comprised eight members, consisting of three executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "**Nomination Committee**"), the audit committee (the "**Audit Committee**") and the remuneration committee (the "**Remuneration Committee**"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 21 to 29 of this Annual Report. The Board currently comprises the following members:

Executive Directors:
Mr. Luo Fei *(Chairman, Chairman of the Nomination Committee and Member of the Remuneration Committee)*
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER *(Chief Executive Officer)*
Mr. Wang Yidong

Non-executive Directors:
Dr. Zhang Wenhui
Mr. Luo Yun *(Member of the Audit Committee)*

Independent non-executive Directors*:
Dr. Ngai Wai Fung *(Chairman of the Audit Committee and Member of the Remuneration Committee and the Nomination Committee)*
Mr. Tan Wee Seng *(Chairman of the Remuneration Committee and Member of the Audit Committee and the Nomination Committee)*
Professor Xiao Baichun

* Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive Directors of the Company with effect from 24 March 2020.

CORPORATE GOVERNANCE REPORT

THE BOARD (CONTINUED)

Board Composition (continued)

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

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

Delegation by the Board

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

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

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

THE BOARD (CONTINUED)

Chairman and Chief Executive Officer

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

Mr. Luo Fei, the Chairman of the Company, was also 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.

Company Secretary

Due to retirement, Ms. Wong Tak Yee (“**Ms. Wong**”) of Tricor Services Limited, an external service provider, has resigned as one of the joint company secretaries of the Company with effect from 25 June 2019.

Following the resignation of Ms. Wong, Ms. Yang Wenyun (“**Ms. Yang**”), the other joint company secretary of the Company who meets the requirements of a company secretary under Rule 3.28 of the Listing Rules, remains in office and acts as the sole company secretary of the Company. During Ms. Wong’s tenure of service, Ms. Yang was the primary contact person of the Company. Details of the biography of the company secretary are set out in the section headed “Biography of Directors and Senior Management” on pages 21 to 29 of the Annual Report.

Ms. Yang has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2019.

THE BOARD (CONTINUED)

Board Practices of Meetings

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

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

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

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

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

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

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

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

During the year ended 31 December 2019, the Board held 8 meetings. During the meetings of the Board held in 2019, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2018 and the interim results for the six months ended 30 June 2019.

Apart from the 8 Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of other Directors during the year.

THE BOARD (CONTINUED)

Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2019

Name of Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	Annual General Meeting
Executive Directors					
Mr. Luo Fei (Note 1)	8/8	N/A	1/1	4/4	1/1
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	8/8	N/A	N/A	N/A	1/1
Mr. Wang Yidong	8/8	N/A	N/A	N/A	1/1
Non-executive Directors					
Dr. Zhang Wenhui	8/8	N/A	N/A	N/A	1/1
Mr. Luo Yun	8/8	2/2	N/A	N/A	1/1
Independent non-executive Directors					
Dr. Ngai Wai Fung (Note 2)	8/8	2/2	1/1	4/4	1/1
Mr. Tan Wee Seng (Note 3)	8/8	2/2	1/1	4/4	1/1
Professor Xiao Baichun	8/8	N/A	N/A	N/A	1/1
Date of Meeting *(DD/MM/YYYY)*	19/03/2019 29/03/2019 09/05/2019 25/06/2019 09/07/2019 20/08/2019 13/11/2019 15/11/2019	18/03/2019 19/08/2019	19/03/2019	18/03/2019 29/03/2019 09/07/2019 15/11/2019	10/05/2019

Notes:

1: Chairman of the Board and the Nomination Committee
2: Chairman of the Audit Committee
3: Chairman of the Remuneration Committee

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

Independence of Independent Non-executive Directors

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

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun was granted share options by the Company under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 60 of this Annual Report.

THE BOARD (CONTINUED)

Term of Appointment of Non-executive Directors

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

Appointment, Re-election and Removal of Directors

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

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

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

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

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

Remuneration of Directors and Senior Management

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

The remuneration of each member of the senior management of the Group by band for the year ended 31 December 2019 is set out below:

Remuneration Bands	Number of Persons
Nil to HKD2,000,000	4
HKD2,000,001 to HKD4,000,000	2
HKD4,000,001 to HKD6,000,000	2
HKD6,000,001 to HKD8,000,000	2
HKD10,000,001 to HKD12,000,000	1

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

THE BOARD (CONTINUED)

Continuous Professional Development

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

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

During the year ended 31 December 2019, the Directors participated in the following trainings:

Directors	Type of Training *Note*
Executive Directors	
Mr. Luo Fei	A, B
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	A, B
Mr. Wang Yidong	A, B
Non-executive Directors	
Dr. Zhang Wenhui	A, B
Mr. Luo Yun	A, B
Independent non-executive Directors	
Dr. Ngai Wai Fung	A, B
Mr. Tan Wee Seng	A, B
Professor Xiao Baichun	A, B

Note:

Types of Training

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

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

THE BOARD (CONTINUED)

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 20 March 2012 in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosures in the Corporate Governance Report of the Annual Report of the Company.

During the year ended 31 December 2019, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosures in this Corporate Governance Report.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019 are set out in the Directors' Report on page 82 of the Annual Report.

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

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was renewed on 18 August 2019.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely, Mr. Luo Fei (Chairman of the Nomination Committee), Dr. Ngai Wai Fung and Mr. Tan Wee Seng, and the majority of them are independent non-executive Directors.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee considers the candidate's character, qualifications, experience, independence and other relevant criteria as set out in the Director Nomination Policy to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

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

The Nomination Committee held a meeting during the year ended 31 December 2019 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election of Directors and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2019" on page 35 of this Annual Report.

BOARD DIVERSITY POLICY

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

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

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

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee has reviewed the Board composition and recommended the Board to further diversify the gender, age and industry background of the Board to support the Company's long-term development strategy. After a few months of hunt, the Company engaged two splendid independent non-executive Directors successfully in March 2020, namely Mrs. Lok Lau Yin Ching and Mr. Wang Can. At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

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

DIRECTOR NOMINATION POLICY

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

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

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

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.

DIRECTOR NOMINATION POLICY (CONTINUED)

- Requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.

- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the year ended 31 December 2019, there was no change in the composition of the Board.

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

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Luo Yun, the non-executive Director, Dr. Ngai Wai Fung and Professor Xiao Baichun, the independent non-executive Directors, shall retire from office by rotation at the forthcoming AGM to be held on 8 May 2020 (the "**2020 AGM**"). In addition, Mrs. Lok Lau Yin Ching and Mr. Wang Can, being independent non-executive Directors, appointed by the Board with effect from 24 March 2020, shall hold office until the 2020 AGM and be subject to re-election at such meeting pursuant to Article 83(3) of the Company's Articles of Association. Dr. Ngai Wai Fung and Professor Xiao Baichun have informed the Board that they would not offer themselves for re-election due to personal endeavors and accordingly will retire as independent non-executive Directors upon conclusion of the 2020 AGM. Mr. Luo Yun, Mrs. Lok Lau Yin Ching and Mr. Wang Can, being eligible, will offer themselves for re-election at the 2020 AGM.

The Company's circular dated 3 April 2020 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

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

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

AUDIT COMMITTEE (CONTINUED)

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

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

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

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

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

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2019 and the annual results for the year ended 31 December 2019, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and the Annual Report for the year ended 31 December 2019, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2019 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2019" on page 35 of this Annual Report.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2019.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditor's Report on pages 83 to 88 of the Annual Report.

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

AUDIT COMMITTEE (CONTINUED)

External Auditors and Auditors' Remuneration (continued)

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2019 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the 2020 AGM.

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

Type of Services	RMB'000
Annual audit services(Note)	7,423
Non-audit services	
– Assurance services related to bond offering	1,500
– Tax advisory & global compliance services	3,401
– Other advisory services	409
Total	12,733

Note: Annual audit services include group annual audit service and oversea subsidiaries statutory audit services.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Tan Wee Seng (Chairman of the Remuneration Committee), Mr. Luo Fei and Dr. Ngai Wai Fung, and the majority of them are independent non-executive Directors.

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

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

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

The Remuneration Committee held four meetings during the year ended 31 December 2019 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2019" on the page 35 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

Duties of the Board

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

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

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

Risk Management and Internal Control Achievement in 2019

In 2019, the Company continued to improve the risk management system to keep being able to identify, monitor and timely respond to the significant risks encountered in the process of operation in a comprehensive, precise, quick and thorough manner.

1. **Continuously improved the risk management framework**

   The Company has designed and implemented a risk management and control management framework according to the principles of COSO framework and ISO 31000, and it consists of the roles and responsibilities, the working process, and the framework evaluation and improvement.

2. **Clearly defined the roles and responsibilities in the risk management process as follows:**

   The Board

   Besides what is highlighted in the section "Duties of the Board", the Board should oversee the risk management and internal control system on an ongoing basis, and ensure the adequacy of resources, team qualification, experience, training program, and budget for the risk management and internal audit functions.

   Group Internal Audit & Risk Management Department

   Group Internal Audit & Risk Management Department organizes, coordinates and directs on the risk management and internal control system construction and maintenance of the Group and its subsidiaries from all regions over the world, through:

   - Developing risk management and internal control methodology and periodically upgrading it by constant learning;
   - Formulating the overall strategies and plans of the risk and control management at Group level;
   - Providing guidance, assistance and consultation to business units in daily risk management and control improvement;
   - Independently following up with and monitoring the progress and effectiveness of the risk mitigation implementation;

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Risk Management and Internal Control Achievement in 2019 (continued)

2. Clearly defined the roles and responsibilities in the risk management process as follows: (continued)

Group Internal Audit & Risk Management Department (continued)

- Training of risk and control concepts, risk management methodology, anti-fraud management, and spreading alerts, warnings and tips to all team members to enhance the risk awareness;
- Conducting risk-based audit, and defining the rectification subject, supervision subject and rectification plan of audit findings;
- Reporting to Audit Committee on any major audit findings and the rectification progress;
- Investigating any potential misconduct cases;
- Monthly reporting to the Board, and bi-annually reporting to Audit Committee on the progress of risk and control management including major risks identification and assessment, implementation of the risk mitigation plans, major audit findings and the rectification progress, major fraud investigation, plan of follow up and monitoring;
- Maintaining and updating risk and control database; and
- Writing and updating of policies and procedures related to risk management.

Risk owners

In order to ensure the effective combination of risk management and business and rapid response, the Board and the risk management function will discuss and cooperate with each team in the business units to assign the risk owner within each team. Usually and if not specifically assigned, the team leader concurrently acts as the risk owner.

Risk owners shall be responsible for the risk management work, which includes:

- Monitoring the implementation of the risk mitigation action according to the plan to ensure it is completed within the timeline;
- Updating the risk database on a quarterly basis any changes to the existing risks information, including risk level change, progress of risk mitigation action, any other change that triggers re-assessment on the risks; and
- Updating the risk database timely on any new major risks identified or major events occurred so that Group Risk Management function can perform risk assessment and report to the stakeholders timely.

All team members (other than the risk owners)

As risk management is a one-big-team work, the Group encourages all other team members under the guidance and with the assistance from the risk management function to perform risk observation and collect risk information, the daily work, and report to the risk management function on any major risks identified.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Risk Management and Internal Control Achievement in 2019 (continued)

3. Designed an on-going program of risk assessment and reporting as follows:

No.	Tasks	Time
1	Perform risk assessment discussion with the key team members in the Group to collect information (including the Board, Senior Management and Mid-level Management)	October – January
2	Discuss with each Senior Management on the major risks and decide the risk mitigation plan	February – March
3	Report the risk assessment results with the mitigation plan to Audit Committee	March
4	1. Continuously collect risk information and update the risk database 2. Continuously follow up with the implementation progress of the major risks mitigation	Continuously through the year
5	Re-assess the major risks in the middle of the year to view the change of risk level	June – July
6	Report the mid-year risk assessment results to Audit Committee	August
7	1. Continuously collect risk information and update the risk database 2. Continuously follow up with the implementation progress of the major risks mitigation	Continuously through the year

4. Performed 2019 annual risk assessment and reported to the Senior Management, Audit Committee and the Board;

5. Improved the structure of the risk database, audit and investigation register to record all the risk information collected and assessed;

6. Established a series of Group information security management policies, guidelines and procedures, according to the requirements of privacy or data protection laws around the Globe;

7. Integrated information security and privacy compliance risk assessment into IT project management procedures, by participating in IT projects across the Group and adding the information security and privacy compliance requirements from the beginning of a project;

8. Periodically announced to all teams and key business partners about the whistleblowing system (HH SPEAKUP);

9. Provided training on risk management, internal control and anti-fraud to the new team members.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Review of Risk and Control Management Framework

Every half year the Audit Committee conducts comprehensive review on the risk and control management framework by reviewing:

1. The risk assessment results as well as the implementation of risk mitigation plans;
2. The effectiveness of the follow up on major risks or incidents occurred during the period;
3. The internal audit result and the implementation of the rectification plans;
4. The fraud investigation result and the utilization level of the whistle blowing system.

The Audit Committee as well reviews the resource, qualification and experience of Group Internal Audit & Risk Management team, and the budget allocated to performing risk management and internal audit, and confirms the adequacy and capability.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

FRAMEWORK FOR DISCLOSURE OF INSIDE INFORMATION

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

During the twelve months ended 31 December 2019, the Company attended 28 investors' conferences and roadshows and approximately 700 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the twelve months ended 31 December 2019 are summarized as follows:

Date	Event	Organizer	Location
Jan 2019	UBS China Conference	UBS	Shanghai
Jan 2019	Daiwa Healthcare Corporate Day	Daiwa	Hong Kong
Jan 2019	Citi Consumer Corporate Day	Citi	Hong Kong
Jan 2019	dbAccess China Conference	Deutsche Bank	Shenzhen
Jan 2019	Goldman Sachs Hong Kong/China China Corporate Day	Goldman Sachs	Hong Kong
Jan 2019	dbAccess China Industrial Day (fixed income)	Deutsche Bank	Hong Kong
Mar 2019	Hong Kong Roadshow	Citi	Hong Kong
Mar 2019	Hong Kong Roadshow	CLSA	Hong Kong
Apr 2019	Europe Roadshow	CLSA	London
Apr 2019	Singapore Roadshow	Daiwa	Singapore
Apr 2019	US Roadshow	Citi	New York/Boston/San Francisco
Apr 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
Aug 2019	Hong Kong Roadshow	Citi	Hong Kong
Aug 2019	Hong Kong Roadshow	CLSA	Hong Kong
Aug 2019	Europe Roadshow	CLSA	London
Sep 2019	Singapore Roadshow	Citi	Singapore
Sep 2019	Citi's GEM Conference	Citi	New York
Sep 2019	CLSA Investors' Forum	CLSA	Hong Kong
Oct 2019	CLSA China Consumer Assess Week	CLSA	London
Nov 2019	Goldman Sachs China Conference	Goldman Sachs	Shenzhen
Nov 2019	Credit Suisse China Investment Conference	Credit Suisse	Shenzhen
Nov 2019	Citi Greater China Conference	Citi	Macau
Nov 2019	Daiwa Investment Conference	Daiwa	Hong Kong

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

The last shareholders' meeting was the AGM 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 other items, the general mandates to issue and repurchase shares of the Company and the re-election of retiring Directors. Particulars of the major items considered at the AGM are set out in the circular dated 29 March 2019. All the proposed ordinary resolutions were passed by way of poll at the AGM.

The 2020 AGM will be held on 8 May 2020. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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

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

DIVIDEND POLICY

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company do not have any pre-determined dividend payout ratio. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

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

SHAREHOLDER RIGHTS

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

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

Procedures by Which Enquiries may be Put to the Board

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

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2019 are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2019 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 11 and pages 12 to 20, respectively, of this Annual Report.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements on pages 89 to 95 of the Annual Report. No interim dividend in respect of the six months ended 30 June 2019 was declared. The Directors recommended the payment of a final dividend of HK$0.85 per ordinary share for the year ended 31 December 2019 to be paid on or about Wednesday, 8 July 2020 to the shareholders whose names appear on the register of members of the Company on Monday, 18 May 2020. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the equity section of the statement of financial position.

The final dividend of HK$0.85 per ordinary share is subject to approval by the shareholders in the 2020 AGM. Such dividends will be distributed from the retained profits of the Company. Details of the dividends for the year ended 31 December 2019 are set out in note 10 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2020 AGM

The register of members of the Company will be closed from Tuesday, 5 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2020 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 May 2020.

CLOSURE OF REGISTER OF MEMBERS (CONTINUED)

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Thursday, 14 May 2020 to Monday, 18 May 2020, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 May 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2019 are set out in note 33 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves, including the share premium account and contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB8,079.3 million, of which approximately RMB502.5 million have been proposed as a final dividend for the year. Details of the reserves of the Company as at 31 December 2019 are set out in note 48 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the years ended 31 December 2017, 2018 and 2019, the Group's donations to charity were RMB3.4 million, RMB3.8 million and RMB3.9 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 200 of this Annual Report. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

For the year ended 31 December 2019, the largest supplier of the Group is Cooperative Isigny Sainte-Mère ("**ISM**"). ISM is a renowned French dairy company with advanced production technology and world presence, established in Normandy, a region with abundant natural resources (recognized milk source used in Isigny AOP products), in 1932.

Purchases by the Group from ISM accounted for 31.9% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers accounted for 55.0% of the total purchases of the Group for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. Luo Fei
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER
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

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Luo Yun, Dr. Ngai Wai Fung and Professor Xiao Baichun shall retire from office by rotation. In addition, Mrs. Lok Lau Yin Ching and Mr. Wang Can, being independent non-executive Directors, appointed by the Board with effect from 24 March 2020, shall hold office until the 2020 AGM and be subject to re-election at such meeting pursuant to Article 83(3) of the Company's Articles of Association. Dr. Ngai Wai Fung and Professor Xiao Baichun have informed the Board that they would not offer themselves for re-election due to personal endeavors and accordingly will retire as independent non-executive Directors upon conclusion of the 2020 AGM. Mr. Luo Yun, Mrs. Lok Lau Yin Ching and Mr. Wang Can will offer themselves for re-election at the 2020 AGM.

* Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive Directors of the Company with effect from 24 March 2020.

DIRECTORS' SERVICE CONTRACTS

Mr. Luo Fei, an executive Director, has entered into a service contract with the Company for a term of three years commencing on 17 December 2010, automatically renewable upon expiration, until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the service contracts. Each of Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. Wang Yidong, executive Directors, entered into a service contract with the Company for a term of three years commencing on 26 March 2018, automatically renewable upon expiration, until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the provisions set out in the service contract. Each of the executive Directors is entitled to a director's fee pursuant to their respective letters of appointment with the Company. Each of the executive Directors may not vote on any resolution of the Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him/her.

Mr. Luo Yun, a non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing on 17 December 2013, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by either party on the other. Dr. Zhang Wenhui has entered into a letter of appointment with the Company as a non-executive Director for a term of three years commencing on 25 June 2012, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by either party on the other. Each of the non-executive Directors is entitled to a director's fee pursuant to their respective letters of appointment and/or supplementary agreements with the Company dated 29 November 2012.

Each of Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun, independent non-executive Directors, has entered into a letter of appointment for a term of three years commencing on 17 December 2012, automatically renewable upon expiration, until terminated by not less than one month's notice in writing served by the independent non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. Each of the independent non-executive Directors is entitled to a director's fee.

All the Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Company's Articles of Association.

None of the Directors who are proposed for re-election at the 2020 AGM has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISIONS

The Articles of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the year ended 31 December 2019 and remained in force as of the date of this Annual Report. The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2019 are set out in note 8 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 29 of the Annual Report.

EMOLUMENT POLICY

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in the regions in which the Group operates, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme, the 2011 Share Award Scheme (terminated with effect from 31 October 2019) and the 2013 Share Award Scheme (each as defined below) for its employees.

None of the Directors waived any emoluments during the year ended 31 December 2019.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 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 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 4)*
Luo Fei	Beneficial owner	Long position	1,185,196 *(Note 1)*	0.184%
	Beneficial owner	Long position	616,253 *(Note 2)*	0.096%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 3)*	67.151%
Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	Beneficial owner	Long position	349,959 *(Note 1)*	0.054%
	Beneficial owner	Long position	2,892,631 *(Note 2)*	0.450%
Wang Yidong	Beneficial owner	Long position	164,164 *(Note 1)*	0.026%
	Beneficial owner	Long position	1,282,600 *(Note 2)*	0.199%
Luo Yun	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 3)*	67.151%
Ngai Wai Fung	Beneficial owner	Long position	160,000 *(Note 1)*	0.025%
	Beneficial owner	Long position	200,000 *(Note 2)*	0.031%
Tan Wee Seng	Beneficial owner	Long position	60,000 *(Note 1)*	0.009%
	Beneficial owner	Long position	300,000 *(Note 2)*	0.047%
Xiao Baichun	Beneficial owner	Long position	60,000 *(Note 1)*	0.009%
	Beneficial owner	Long position	300,000 *(Note 2)*	0.047%

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

Note 1: These are directly held ordinary shares of the Company.

Note 2: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 3: As at 31 December 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 4: As at 31 December 2019, the total number of the issued shares of the Company was 643,325,824.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2019.

PRE-EMPTIVE RIGHTS

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

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

On 15 August 2019, 23 November 2019 and 28 November 2019, the Company redeemed USD50 million, USD300 million and USD125 million in principle amount of its USD600 million 7.25% senior notes due 2021. Please refer to the announcements of the Company dated 15 July 2019, 24 October 2019 and 29 October 2019 for further details.

On 17 October 2019, the Company entered into a purchase agreement with Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Coöperatieve Rabobank U.A., Hong Kong Branch, CMB International Capital Limited and Shanghai Pudong Development Bank Co., Ltd. Singapore Branch (the "**Initial Purchasers**"), pursuant to which the Company agreed to issue and sell, and the Initial Purchasers agreed to purchase from the Company, 5.625% senior notes of the Company due 2024 in the principal amount of USD300 million. Please refer to the announcements of the Company dated 18 October 2019 and 24 October 2019 for further details.

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

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's Directors (including independent non-executive Directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholders in the Company's subsidiaries. The Share Option Scheme became effective on 25 November 2010 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. As at 31 December 2019, the remaining life of the Share Option Scheme was approximately 11 months.

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

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

Share Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a consideration of HK$1 by the grantee. The exercise period of the Share Options granted will be determined by the Board in its absolute discretion, save no Share Option may be exercised more than ten years after it has been granted on the date of acceptance of such Share Option. Subject to such terms and conditions as the Board may determine, there is no minimum period for which a Share Option must be held before it can be exercised.

The exercise price of Share Options is determined by the Board, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the Share Options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

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

During the year ended 31 December 2019, a total of 10,179,232 Share Options to subscribe for 10,179,232 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, of which, 3,085,008 Share Options were granted on 29 March 2019 ("**Date of Grant 1**") at an exercise price of HK$49.15 per share, 251,718 Share Options were granted on 9 July 2019 ("**Date of Grant 2**") at an exercise price of HK$45.79 per share, and 6,842,506 Share Options were granted on 15 November 2019 ("**Date of Grant 3**") at an exercise price of HK$32.65 per share. The closing prices of the shares of the company immediately before Date of Grant 1, Date of Grant 2, and Date of Grant 3 were HK$48.95, HK$45 and HK$31, respectively. The above grants of Share Options to Directors had been approved by the independent non-executive Directors pursuant to Rule 17.04(1) of the Listing Rules.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 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 year ended 31 December 2019	Exercised during the year ended 31 December 2019	Lapsed during the year ended 31 December 2019	Cancelled during the year ended 31 December 2019	Outstanding as at 31 December 2019
Directors								
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	60,000	–	(60,000)[3]	–	–	–
	19/04/2017	HK$25.75	150,000	–	(100,000)[10]	–	–	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)[3]	–	–	–
	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)[6]	–	–	–
	24/08/2017	HK$29.25	616,253	–	–	–	–	616,253
	16/11/2018	HK$50.05	600,000	–	–	–	(600,000)	–
Mrs. Laetitia Marie Edmee	29/12/2015	HK$15.58	308,982	–	–	–	–	308,982
Jehanne ALBERTINI ep.	24/08/2017	HK$29.25	472,907	–	–	–	–	472,907
GARNIER	16/11/2018	HK$50.05	628,536	–	–	–	(628,536)	–
	29/03/2019	HK$49.15	–	2,110,742	–	–	(2,110,742)	–
	15/11/2019	HK$32.65	–	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)	–
	15/11/2019	HK$32.65	–	628,536	–	–	–	628,536
Sub-total			4,893,371	5,300,020	(634,093)	–	(3,967,814)	5,591,484
Other employees	09/06/2011	HK$15.312	7,903	–	(5,618)[1]	–	–	2,285
	29/11/2011	HK$11.52	21,558	–	(11,650)[2]	–	–	9,908
	01/06/2012	HK$19.64	20,041	–	(6,398)[4]	(400)	–	13,243
	07/12/2012	HK$24.70	50,574	–	(13,484)[5]	(5,534)	–	31,556
	29/12/2015	HK$15.58	3,662,084	–	(1,304,680)[6]	(63,145)	–	2,294,259
	03/05/2016	HK$21.05	18,542	–	(18,542)[7]	–	–	–
	30/09/2016	HK$20.92	293,280	–	(33,298)[8]	(18,111)	–	241,871
	23/12/2016	HK$23.30	164,204	–	(29,175)[9]	(14,045)	–	120,984
	19/04/2017	HK$25.75	694,712	–	(463,211)[10]	(134)	–	231,367
	07/07/2017	HK$22.15	180,557	–	(89,220)[11]	(4,215)	–	87,122
	24/08/2017	HK$29.25	9,843,377	–	–	(2,783,977)	–	7,059,400
	05/12/2017	HK$47.10	622,932	–	–	(286,758)	–	336,174
	20/04/2018	HK$60.02	631,972	–	–	(38,899)	–	593,073
	26/07/2018	HK$59.05	496,300	–	–	(108,850)	–	387,450
	28/09/2018	HK$47.27	87,382	–	–	(31,080)	–	56,302
	16/11/2018	HK$50.05	3,736,277	–	–	(1,238,765)	(2,497,512)	–
	29/03/2019	HK$49.15	–	524,266	–	(41,867)	–	482,399
	09/07/2019	HK$45.79	–	251,718	–	–	–	251,718
	15/11/2019	HK$32.65	–	4,103,228	–	–	–	4,103,228
Total			25,425,066	10,179,232	(2,609,369)	(4,635,780)	(6,465,326)	21,893,823

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$33.91.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$38.60.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$43.20.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$45.57.

Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$41.17.

Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$41.07.

Note 7: 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 8: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$36.90.

Note 9: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$47.36.

Note 10: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$38.20.

Note 11: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$47.72.

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

DIRECTORS' REPORT

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

All 5,593,349 Shares Options granted on 16 November 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 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

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

All 251,718 Shares Options granted on 9 July 2019 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 6,842,506 Shares Options granted on 15 November 2019, 306,712 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 6,842,506 Shares Options granted on 15 November 2019, 3,796,516 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 2022	100% of the total number of Share Options granted

Among the 6,842,506 Shares Options granted on 15 November 2019, 2,739,278 Share Options granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and 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
1 April 2022	100% of the total number of Share Options granted

DIRECTORS' REPORT

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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).

Save as disclosed above, no Share Options granted under the Share Option Scheme were cancelled during the year ended 31 December 2019.

As at 31 December 2019, the total number of shares available for issue under the Share Option Scheme was 22,078,496, representing approximately 3.43% of the Company's issued share capital as at the date of this Annual Report.

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 those 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 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 year ended 31 December 2019, 1 employee was no longer eligible for the Pre-IPO Share Options due to their failure to meet performance target or retirement, and as a result, a total of 400 Pre-IPO Share Options lapsed. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the year ended 31 December 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 year ended 31 December 2019**	**Lapsed during the year ended 31 December 2019**	**Outstanding as at 31 December 2019**
Directors				
Mr. Luo Fei	372,744	(372,744)	–	–
Sub-total	372,744	(372,744)	–	–
Others				
Senior management members	187,194	(5,260)	–	181,934
Other employees	88,659	(27,632)	(400)	60,627
Business partners	60,000	–	–	60,000
Sub-total	335,853	(32,892)	(400)	302,561
Total	708,597	(405,636)	(400)	302,561

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme was cancelled during the year ended 31 December 2019.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 302,561, representing approximately 0.047% of the Company's issued share capital as at the date of this Annual Report.

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 would result in the number of shares awarded by the Board under the 2011 Share Award Scheme representing 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.

The 2011 Share Award Scheme was terminated by the Board with effect from 31 October 2019.

Details of the 2011 Share Award Scheme are set out in the Company's announcements dated 28 November 2011, 30 March 2012 and 31 October 2019.

During the year ended 31 December 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 year ended 31 December 2019.

Below is a summary of the particulars of the shares awarded under the 2011 Share Award Scheme which were outstanding during the year ended 31 December 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 31 December 2019	Forfeited/ lapsed as at 31 December 2019	Outstanding (held by the trustee for the grantees) as at 31 December 2019
22-Sep-17	329,646 *(Note 1)*	0.055%	1-Apr-19	(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.

Further details in relation to the 2011 Share Award Scheme are set out in note 35 to the financial statements of this Annual 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 would 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 announcements dated 29 November 2013 and dated 14 May 2015.

During the year ended 31 December 2019, the Board did not grant any awarded shares to Selected Participants under the 2013 Share Award Scheme.

Below is a summary of the particulars of the shares awarded under the 2013 Share Award Scheme which were outstanding during the year ended 31 December 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 of the 2013 Share Award Scheme**	**Vesting date**	**Vested as at 31 December 2019**	**Forfeited as at 31 December 2019**	**Outstanding (held by the trustee for the Selected Employees) as at 31 December 2019**
25-Aug-17	1,198,604	0.199%	1-Apr-19	(825,058)	(12,210)	–
5-Dec-17	26,949	0.004%	1-Apr-19	(8,296)	(18,653)	–
Total	1,225,553	0.203%		(833,354)	(30,863)	–

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 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	67.15%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.15%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.15%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.15%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	432,000,000	67.15%
Templeton Asset Management Ltd.	Investment manager	Long position	32,291,300	5.02%

Note 1: As at 31 December 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 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. 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. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at 31 December 2019, the total number of the issued shares of the Company was 643,325,824.

Save as mentioned above, as at 31 December 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

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

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "**Prospectus**")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019 and up to the date of the Annual Report, none of the Directors had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, below transactions of the Group constituted connected transactions (including continuing connected transactions) under Chapter 14A of the Listing Rules.

Structure Contracts and Platform Service Agreement

Background

The Group generally sells its products to regional distributors and such distributors further distribute the products through different types of retail sales channels, including but not limited to specialty stores owned and operated by third parties.

In contemplation of developing a uniform e-commerce platform to be utilized by the specialty stores for the sale of the Group's products, on 8 November 2013, Guangzhou Mama100 E-commerce Co., Limited* (廣州市媽媽一百電子商務有限公司, "**Mama100 E-commerce**") was established in the PRC with limited liability with a registered capital of RMB10,000,000, and is currently owned as to 100% by Ms. Kong Qingjuan.

Prior to 10 April 2015, under the relevant rules and regulations in the PRC, foreign investors were not allowed to hold more than 50% of the equity interest of a company providing value-added telecommunications services including e-commerce. Mama100 E-commerce was established for the purpose of enabling the Group to operate its e-commerce platform. Mama100 E-commerce has obtained the Internet Content Provider License (增值電信業務許可證) as an "Internet Content Provider" ("**ICP**") and is allowed to conduct e-commerce businesses. Therefore, on 27 June 2014, the Group entered into legal arrangement with Mama100 E-commerce through a series of contracts (collectively, the "**2014 Structure Contracts**") in order to conduct the e-commerce business as contemplated under the 2014 Structure Contracts through Mama100 E-commerce.

* For identification purpose only

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

Background (continued)

Since 19 June 2015, new rules and regulations have been promulgated by the PRC government under which foreign invested enterprise established under the laws of the PRC where foreign investors hold more than 50% of the equity interests could apply the Electronic Data Interchange Permit (增值電信業務經營許可證(在線數據處理與交易業務)) from the relevant PRC authority and is allowed to engage in e-commerce business. However, as the relevant policy is not yet clear and there is no specific implementation guidance as to the regulation of foreign investors in the value-added telecommunication business in the PRC, the e-commerce business still could not be transferred to the Group for operation.

Accordingly, on 30 December 2016, the Group entered into legal arrangement with Mama100 E-commerce through a series of contracts (the "**2016 Structure Contracts**"), as a renewal of the relevant transactions under the 2014 Structure Contracts, in order to continue to conduct the e-commerce business through Mama100 E-commerce.

As the then registered shareholders of Mama100 E-commerce intended to restructure their shareholding in Mama100 E-commerce for administrative efficiency, on 31 October 2019, the Group entered into agreements to terminate the 2016 Structure Contracts and entered into an exclusive management and consultancy service agreement (the "**Exclusive Management and Consultancy Service Agreement**"), an equity interests pledge agreement (the "**Equity Interests Pledge Agreement**"), an exclusive call option agreement (the "**Exclusive Call Option Agreement**"), a business management agreement (the "**Business Management Agreement**") (including the power of attorney and undertaking (the "**Power of Attorney and Undertaking**")) and a trademark license agreement (the "**Trademark License Agreement**") (collectively, the "**Structure Contracts**") to continue its control of Mama100 E-Commerce after the termination of the 2016 Structure Contracts.

Pursuant to the Structure Contracts:

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

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

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

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

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

(vi) none of the shareholders of Mama100 E-commerce obtains or receives any financial or commercial benefits from his/her respective interest in Mama100 E-commerce under the Structure Contracts despite holding direct or indirect equity interests in Mama100 E-commerce.

In association with the Structure Contracts, the Group also entered into a platform service agreement (the "**Platform Service Agreement**") on 31 October 2019 for a term of three years commencing from the date on which the point in time at which the Guangzhou Huangpu Administration for Market Regulation* (廣州市黃埔區市場監督管理局) approves and issues the notice of approval in relation of the change of the sole shareholder and legal representative of Mama100 E-commerce to Ms. Kong Qingjuan, i.e. 13 November 2019.

* For identification purpose only

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts

The Company entered into each of the Structure Contracts on 31 October 2019 for a term of three years commencing from the date on which the point in time at which the Guangzhou Huangpu Administration for Market Regulation* (廣州市黃埔區市場監督管理局) approves and issues the notice of approval in relation of the change of the sole shareholder and legal representative of Mama100 E-commerce to Ms. Kong Qingjuan, i.e. 13 November 2019. Under the applicable Structure Contracts, the Company has the right to renew such Structure Contracts before the expiration of the relevant Structure Contracts unilaterally under the existing terms or at terms to be further agreed between the relevant parties.

Major provisions of the key Structure Contracts

(1) Exclusive Management and Consultancy Service Agreement

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

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

(2) Equity Interests Pledge Agreement

Pursuant to the Equity Interests Pledge Agreement entered into by and between Guangzhou Hapai and Ms. Kong Qingjuan, Ms. Kong Qingjuan agreed to pledge all of her equity interest in Mama100 E-commerce to Guangzhou Hapai as security for the performance of the obligations under the relevant Structure Contracts until all such obligations are discharged to the satisfaction of Guangzhou Hapai.

(3) Exclusive Call Option Agreement

Pursuant to the Exclusive Call Option Agreement entered into by and among Guangzhou Hapai, Mama100 E-commerce and Ms. Kong Qingjuan, Guangzhou Hapai is irrevocably entitled to, as and when permitted by applicable PRC laws and regulations, acquire the entire equity interest in Mama100 E-commerce held by Ms. Kong Qingjuan for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by the then applicable PRC laws and regulations.

* For identification purpose only

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Major provisions of the key Structure Contracts (continued)

(4) Business Management Agreement

Pursuant to the Business Management Agreement entered into by and among Guangzhou Hapai, Mama100 E-commerce and Ms. Kong Qingjuan, among other things:

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

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

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

(5) Power of Attorney and Undertaking

Pursuant to the Business Management Agreement, Ms. Kong Qingjuan executed a Power of Attorney dated 31 October 2019 pursuant to which she irrevocably authorized Guangzhou Hapai to, among other things:

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

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

The executive directors of Guangzhou Hapai is entitled to authorize any person to exercise the rights which Guangzhou Hapai is authorized to exercise under the Power of Attorney. In addition, Ms. Kong Qingjuan executed an Undertaking dated 31 October 2019 pursuant to which she irrevocably undertook, among other things, that:

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

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

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

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Major provisions of the key Structure Contracts (continued)

(5) Power of Attorney and Undertaking (continued)

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

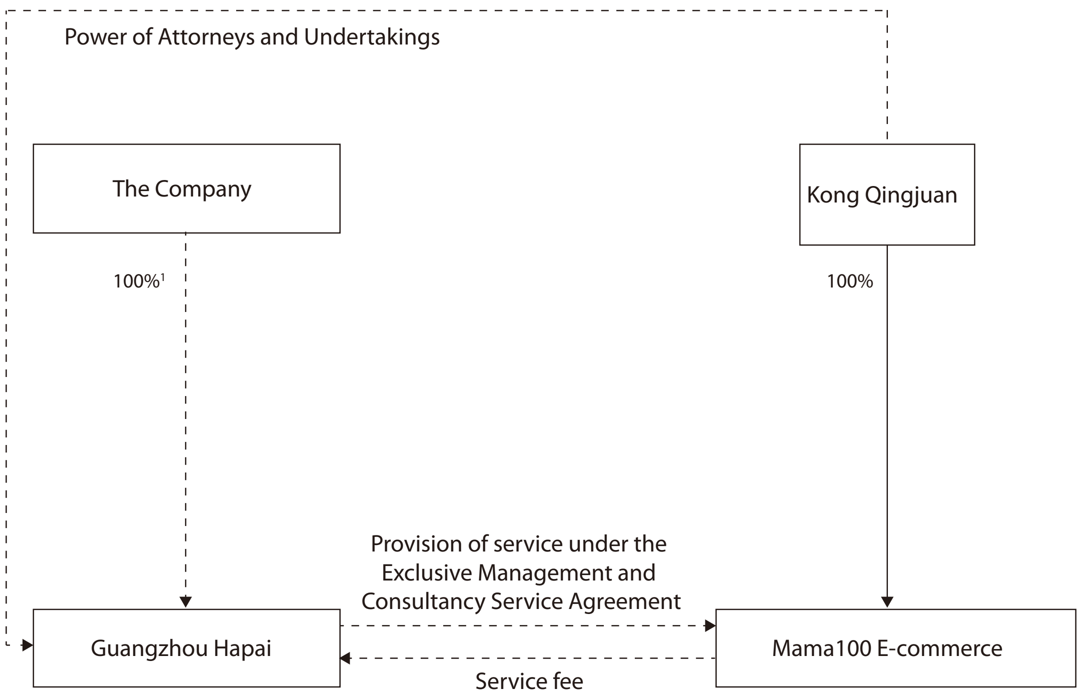
(v) in the event that she receives any amount from Guangzhou Hapai or any third party in relation to the exercise of the call option under the Exclusive Call Option Agreement, he/she agrees to unconditionally return all such amount to Guangzhou Hapai or any third party designated by Guangzhou Hapai.

(6) Trademark License Agreement

Pursuant to the Trademark License Agreement entered into between Mama100 Hong Kong and Mama100 E-commerce, Mama100 Hong Kong Limited licenses a registered trademark to Mama100 E-commerce at nil consideration.

Corporate Structure

The following chart illustrates the relationship between the Company, Guangzhou Hapai, Mama100 E-commerce and its shareholders in relation to the Structure Contracts.



Note:

1. Guangzhou Hapai is indirect wholly-owned by the Company.

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Dispute resolution

Pursuant to the Structure Contracts, any dispute arising from the validity, interpretation and performance of the Structure Contracts between the parties thereto should first be resolved through negotiation, failing which any party may submit the said dispute to the Guangzhou Arbitration Commission with a view to resolving the dispute through arbitration in accordance with the arbitration rules thereof. The arbitral tribunal may award remedies over the shares or land assets of Mama100 E-Commerce, injunctive relief (such as stipulating certain conducts of business or compelling transfer of assets) or order the winding up of Mama100 E-Commerce (the "**Arbitral Award Provisions**").

The Structure Contracts also provide that pending formation of the arbitral tribunal or in appropriate cases, the courts of Hong Kong, the Company's place of incorporation (the Cayman Islands), Mama100 E-commerce's place of establishment (the PRC), the jurisdiction where the principal assets of the Company and Mama100 E-commerce are located (the PRC) have the power to grant interim remedies in support of the arbitration (the "**Interim Remedies Provisions**").

However, as advised by the legal advisor of the Company as to the laws of the PRC, Beijing Kangda (Guangzhou) Law Firm, according to the PRC laws and regulations, the arbitral tribunal normally would not grant such kind of remedies or injunctive relief or winding up order of such PRC operational entities as Mama100 E-commerce under the PRC laws and regulations. For instance, the arbitral tribunal has no authority to grant such injunctive relief, nor will it be able to order the winding up of the PRC operational entities pursuant to existing PRC laws and regulations. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

Risks involved in the Structure Contracts

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

The exercise of the Exclusive Call Option Agreement is subject to applicable laws and regulations of the PRC. There is no assurance that the acquisition of the entire equity interests in Mama100 E-commerce held by Ms. Kong Qingjuan under the Exclusive Call Option Agreement will be permitted in the future, or whether such acquisition will incur any costs and expenses to the Group in addition to the consideration stipulated under the Exclusive Call Option Agreement. Due to these limitations, the transfer of ownership in Mama100 E-commerce pursuant to the exercise of the call option under the Exclusive Call Option Agreement may still be subject to substantial costs.

The Group's PRC legal advisor, Beijing Kangda (Guangzhou) Law Firm, is of the opinion that as at the date of this Annual Report, the execution, delivery and performance of the Structure Contracts by each of the parties thereto, is in compliance with (i) the provisions under the articles of association of such party and (ii) any applicable PRC laws and regulations. However, as advised by the Company's PRC legal advisor, Beijing Kangda (Guangzhou) Law Firm, the interpretation and implementation of the laws and regulations concerning the foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of contracts, are subject to the discretion of competent PRC legislative, administrative and judicial authorities. In particular, there is no assurance that PRC legislative, administrative or judicial authorities will not adopt a different or contrary interpretation or view against view of the Company and its legal advisor in respect of the legality, binding effect and enforceability of the Structure Contracts, and may determine that the contracts do not comply with applicable regulations.

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Risks involved in the Structure Contracts (continued)

Further, the Structure Contracts may not provide control over Mama100 E-commerce as effective as direct ownership; the registered shareholders of Mama100 E-commerce may have potential conflicts of interest with the Company; and the Structure Contracts may be subject to scrutiny of the tax authorities and additional tax may be imposed on the Group.

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

Internal control

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

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

Platform Service Agreement

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

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

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

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

(iv) provision of internet platform for interaction among consumers.

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

Platform Service Agreement (continued)

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

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

(ii) 1% settlement charge on sales of goods, representing the amount charged by the payment services utilized by Mama100 E-commerce;

(iii) service fees as a percentage of the products sold on the internet platform(s) provided by Mama100 E-commerce, which is expected to be approximately 1.3% on average.

Annual caps

The annual caps (the "**Annual Caps**") for the transactions (the "**Transactions**") under the Structure Contracts and the Platform Service Agreement for each of the years ended/ending 31 December 2019, 2020, 2021 and 2022 were as follows:

	2019 (in RMB)	**2020 (in RMB)**	**2021 (in RMB)**	**2022[3] (in RMB)**
Exclusive Management and Consultancy Service Agreement	4,400,000[1]	3,540,000	3,900,000	3,600,000
Platform Service Agreement	11,100,000[2]	9,260,000	10,200,000	9,200,000
Total (on an aggregated basis)	15,500,000	12,800,000	14,100,000	12,800,000

(1) The annual cap for the year ended 31 December 2019 was the aggregated annual caps for the transactions contemplated under the exclusive management and consultancy service agreement which forms part of the 2016 Structure Contracts and the Exclusive Management and Consultancy Service Agreement.

(2) The annual cap for the year ended 31 December 2019 was the aggregated annual caps for the transactions contemplated under the Platform Service Agreement and the platform service agreement entered into between the same parties dated 30 December 2016.

(3) Up to 12 November 2022.

Reasons and benefits for the Transactions

The execution of the Structure Contracts and the Platform Service Agreement allows the Group to enhance the sales efficiency of the Group's products by baby specialty stores via the Internet at a low cost and accordingly substantially increase the sales volume of the Group's products to its distributors. Through co-operation with Mama100 E-commerce pursuant to the terms of the Structure Contracts, the Group is able to explore the e-commerce markets in China and make its distribution network more effective, thus strengthening the Group's market position in the adult and baby nutrition and care products markets.

In particular, the Group will continue to maintain financial and operational control of Mama100 E-commerce pursuant to the Structure Contracts, and the Platform Service Agreement will enable the Group to continue to enhance the sales efficiency of the Group's products and promotion via the internet.

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

Listing Rules implications

Mama100 E-commerce is 100% owned by Ms. Kong Qingjuan. Mr. Luo Fei is an executive Director of the Company. Ms. Kong Qingjuan is a director of Health and Happiness China, a subsidiary of the Company and certain other subsidiaries of the Company in the PRC, and therefore a connected person at the subsidiary level. Accordingly, Mama100 E-commerce is a connected person of the Company by virtue of it being an associate of Ms. Kong Qingjuan. Accordingly, the Structure Contracts, the Platform Service Contract and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Having considered that each of the Structure Contracts, the Platform Service Contract and the transactions contemplated thereunder has been entered into by the Group with the same party, namely, Mama100 E-commerce and/or Ms. Kong Qingjuan, and are for the same purpose of enabling the Group to conduct e-commerce activities for the Group's products, the Directors consider that each of the Structure Contracts, the Platform Service Contract and the transactions contemplated thereunder shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in relation to the largest Annual Caps for the Structure Contracts, the Platform Service Contract and the transactions contemplated thereunder in aggregate is more than 0.1% but less than 5%, each of the Structure Contracts, the Platform Service Contract and the transactions contemplated thereunder fall within either Rule 14A.76(2) of the Listing Rules and is subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended 31 December 2019, these transactions have been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

CONNECTED TRANSACTIONS (CONTINUED)

Structure Contracts and Platform Service Agreement (continued)

Annual review of the continuing connected transactions (continued)

Details of the consideration paid in respect of all the continuing connected transactions during the year ended 31 December 2019 are set out as follows:

	Annual Caps for the year (in RMB)	Consideration paid during the year (in RMB)
Exclusive Management and Consultancy Service Agreement	4,400,000(1)	4,350,971
Platform Service Agreement	11,100,000(2)	11,051,030

(1) The annual cap for the year ended 31 December 2019 was the aggregated annual caps for the transactions contemplated under the exclusive management and consultancy service agreement which forms part of the 2016 Structure Contracts and the Exclusive Management and Consultancy Service Agreement.

(2) The annual cap for the year ended 31 December 2019 was the aggregated annual caps for the transactions contemplated under the Platform Service Agreement and the platform service agreement entered into between the same parties dated 30 December 2016.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2019 and the annual results for the year ended 31 December 2019, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 and the annual report for the year ended 31 December 2019, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2019.

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2019.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The details of event after the end of the reporting period of the Group are set out in note 47 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 30 to 50 of this Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019.

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by Ernst & Young who shall retire at the 2020 AGM. A resolution will be proposed at the 2020 AGM to re-appoint Ernst & Young as external auditor of the Company.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 23 March 2020

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 89 to 199, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets with indefinite lives	
As at 31 December 2019, the Group recorded goodwill and intangible assets with indefinite lives of RMB5,467,488,000 and RMB2,570,740,000 respectively, which represented 34% and 16% of the total assets of the Group, respectively. The Group is required to perform annual impairment testing for goodwill and intangible assets with indefinite lives. Management performed impairment tests on these assets by using discounted cash flow models as at 31 December 2019. This area was important to our audit due to significant judgement and estimates involved in the assessment of the recoverable amounts of these assets. This assessment required management to make assumptions to be used in the discounted cash flow models. The most critical assumptions were growth rates and discount rates. The disclosures about impairment testing of goodwill and intangible assets with indefinite lives are included in note 16 to the financial statements.	The audit procedures we have performed, among others, included the following: • involved our valuation specialists to assist us in evaluating the methodologies, discount rates and long-term growth rates used by management, as appropriate, to estimate the recoverable amounts of goodwill and intangible assets; • reviewed the assumptions used by management and assessed the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective cash-generating units to which the goodwill or the intangible assets with indefinite lives are assigned to and their business development plans; • assessed the growth rates in sales by comparing them to the industry trend; • considered the sensitivity in the available headroom for the cash-generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount; and • considered the adequacy of the relevant disclosures in the Group's financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

Hedge accounting

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

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

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

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

The disclosures about hedge accounting are included in note 29 to the financial statements.

How our audit addressed the key audit matter

The audit procedures we have performed included the following:

- involved our valuation specialists to assist us in assessing the fair value of the aforesaid swaps;
- reviewed the Group's hedging policies in respect of its interest rate and foreign currency risk exposures;
- evaluated the hedge documentation prepared by management and assessed the hedge effectiveness test prepared by management with the help of our valuation specialists in reviewing the inputs and methodology used by management in the test; and
- considered the adequacy of the disclosures relating to these swaps in the financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories	
As at 31 December 2019, the carrying amount of inventories was RMB1,550,350,000, after netting of the provision for impairment of RMB142,358,000, which represented 10% of total assets of the Group. The provision for impairment mainly related to certain obsolete and slow-moving inventories. Significant management judgement is required in assessing whether there would be obsolete and slow-moving inventories at the year end. The specific factors considered by management in the estimation of the provision included types of inventories, conditions of the inventories, expiration dates of inventories, and the forecasted inventory usage and sales. The disclosures about the provision for impairment of inventories are included in notes 2.4, 3 and 22 to the financial statements.	The audit procedures we have performed, among others, included the following: • obtained an understanding of management's process about how to identify the obsolete and slow-moving inventories and calculate the provision; • evaluated management's assumptions used to calculate the provision amount for obsolete and slow-moving inventories by checking the ageing of inventories and the subsequent usage and sales of inventories on a sampling basis; • tested samples of inventory items held by the Group to assess their cost and net realisable values; and • attended and observed management's inventory counts at major locations to ascertain the conditions of inventories.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**10,925,217**	10,132,498
Cost of sales		**(3,696,676)**	(3,392,778)
Gross profit		**7,228,541**	6,739,720
Other income and gains	5	**131,873**	75,375
Selling and distribution expenses		**(4,493,378)**	(3,703,414)
Administrative expenses		**(638,018)**	(619,577)
Other expenses		**(249,541)**	(486,103)
Finance costs	6	**(420,757)**	(479,377)
Share of profit of an associate	20	**6,480**	1,300
PROFIT BEFORE TAX	7	**1,565,200**	1,527,924
Income tax expense	9	**(560,151)**	(684,776)
PROFIT FOR THE YEAR		**1,005,049**	843,148
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 year		**(46,514)**	118,609
Reclassification adjustments for gains/(losses) included in profit or loss		**16,574**	(142,993)
Income tax effect		**(10,221)**	4,649
Exchange realignment		**(743)**	(932)
		(40,904)	(20,667)
Hedges of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**36,159**	(3,182)
Exchange differences on translation of foreign operations		**(81,891)**	21,526
Exchange differences on net investments in foreign operations		**(1,704)**	(309,655)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(88,340)**	(311,978)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of an equity investment designated at fair value through other comprehensive income		**(12,183)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(100,523)**	(311,978)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**904,526**	531,170
Profit attributable to owners of the parent		**1,005,049**	843,148
Total comprehensive income attributable to owners of the parent		**904,526**	531,170
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**1.57**	1.32
Diluted		**1.55**	1.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**472,981**	480,288
Prepaid land lease payments	13(a)	**–**	57,331
Right-of-use assets	13(b)	**205,937**	–
Goodwill	14	**5,467,488**	5,295,242
Intangible assets	15	**3,611,088**	3,588,823
Bonds receivable	17	**214,747**	137,148
Deposits	19	**45,414**	191,232
Investment in an associate	20	**58,362**	51,882
Deferred tax assets	32	**407,081**	362,559
Derivative financial instruments	29	**51,105**	95,388
Pledged deposits	25	**–**	3,924
Other non-current financial assets	21	**129,569**	58,205
Total non-current assets		**10,663,772**	10,322,022
CURRENT ASSETS			
Inventories	22	**1,550,350**	1,565,152
Trade and bills receivables	23	**1,106,815**	861,862
Prepayments, other receivables and other assets	24	**307,859**	159,230
Loans receivable	18	**5,306**	13,678
Derivative financial instruments	29	**1,058**	4,301
Pledged deposits	25	**8,878**	15,948
Cash and cash equivalents	25	**2,217,335**	1,912,394
Total current assets		**5,197,601**	4,532,565
CURRENT LIABILITIES			
Trade and bills payables	26	**837,752**	829,607
Other payables and accruals	27	**1,958,610**	1,736,521
Contract liabilities	28	**134,614**	100,880
Lease liabilities	13(c)	**47,426**	–
Senior notes	31	**21,533**	236,351
Tax payable		**203,115**	298,333
Total current liabilities		**3,203,050**	3,201,692
NET CURRENT ASSETS		**1,994,551**	1,330,873

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		**1,994,551**	1,330,873
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,658,323**	11,652,895
NON-CURRENT LIABILITIES			
Senior notes	31	**2,103,246**	3,038,335
Interest-bearing bank loans	30	**3,751,563**	2,692,250
Lease liabilities	13(c)	**114,928**	–
Other payables and accruals	27	**7,217**	7,423
Derivative financial instruments	29	**121,329**	77,042
Deferred tax liabilities	32	**966,234**	988,298
Total non-current liabilities		**7,064,517**	6,803,348
Net assets		**5,593,806**	4,849,547
EQUITY			
Issued capital	33	**5,500**	5,473
Other reserves	36	**5,085,781**	4,579,488
Proposed dividend	10	**502,525**	264,586
Total equity		**5,593,806**	4,849,547

Luo Fei
Director

Wang Yidong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 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	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total equity RMB'000
At 1 January 2019		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 year		-	-	-	-	-	-	-	-	-	-	-	-	1,005,049	-	1,005,049
Other comprehensive income/(loss) for the year:																
Changes in fair value of an equity investment designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	(12,183)	-	-	(12,183)
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	(40,904)	-	-	-	(40,904)
Hedges of net investments		-	-	-	-	-	-	-	-	36,159	-	-	-	-	-	36,159
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(81,891)	-	-	-	-	-	(81,891)
Exchange differences on net investments in foreign operations		-	-	-	-	-	-	-	-	(1,704)	-	-	-	-	-	(1,704)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	-	(47,436)	-	(40,904)	(12,183)	1,005,049	-	904,526
Equity-settled share option arrangements	34	27	63,377	-	-	-	-	38,498	-	-	-	-	-	-	-	101,902
Equity-settled share award schemes	35	-	-	9,684	-	-	-	-	(25,688)	-	-	-	-	19,933	-	3,929
Final 2018 dividend declared		-	-	-	-	-	-	-	-	-	-	-	-	(1,512)	(264,586)	(266,098)
Proposed final 2019 dividend		-	-	-	-	-	-	-	-	-	-	-	-	(502,525)	502,525	-
At 31 December 2019		5,500	653,039*	(3,397)*	26,992*	95*	382,651*	125,093*	-*	(214,731)*	(1,217,025)*	(53,307)*	(12,183)*	5,398,554*	502,525	5,593,806

* These reserve accounts comprise the consolidated other reserves of RMB5,085,781,000 (2018: RMB4,579,488,000) in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 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 2017		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
Effect of adoption of IFRS 9		-	-	-	-	-	-	-	-	-	-	-	(5,928)	-	(5,928)
At 1 January 2018 (restated)		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 year		-	-	-	-	-	-	-	-	-	-	-	843,148	-	843,148
Other comprehensive income/(loss) for the year:															
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	(20,667)	-	-	(20,667)
Hedges of net investments		-	-	-	-	-	-	-	-	(3,182)	-	-	-	-	(3,182)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	21,526	-	-	-	-	21,526
Exchange differences on net investments in foreign operations		-	-	-	-	-	-	-	-	(309,655)	-	-	-	-	(309,655)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	-	(291,311)	-	(20,667)	843,148	-	531,170
Equity-settled share option arrangements		24	49,054	-	-	-	-	39,057	-	-	-	-	-	-	88,135
Shares issued for 2013 Share Award Scheme (as defined in note 35)	35	2	-	(2)	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share award schemes	35	-	-	13,329	-	-	-	-	(3,434)	-	-	-	13,183	-	23,078
Proposed final 2018 dividend		-	-	-	-	-	-	-	-	-	-	-	(264,586)	264,586	-
At 31 December 2018		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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,565,200**	1,527,924
Adjustments for:			
Bank interest income	5	**(10,457)**	(15,787)
Interest income from loans and bonds receivables	5	**(9,772)**	(8,329)
Finance costs	6	**420,757**	479,377
Share of profit of an associate	20	**(6,480)**	(1,300)
Gain on deemed disposal of partial interest in an associate	5	**–**	(9,487)
Depreciation	7	**80,450**	74,302
Depreciation of right-of-use assets/recognition of prepaid land lease payments	7	**51,099**	1,478
Amortisation of intangible assets	7	**124,878**	99,601
Loss on disposal of items of property, plant and equipment	7	**472**	4,408
Equity-settled share option expense	7	**53,596**	48,776
Equity-settled share award expense	7	**3,929**	23,078
Derecognition of early redemption option	7	**33,555**	9,498
Fair value losses on derivative financial instruments, net	7	**13,829**	21,580
Fair value gains on financial assets	5	**(2,329)**	(1,103)
Impairment of trade receivables	7	**2,076**	230
Write-down of inventories to net realisable value	7	**79,453**	80,535
Exchange difference, net	7	**(48,024)**	275,854
		2,352,232	2,610,635
Increase in inventories		**(19,594)**	(640,226)
Increase in trade and bills receivables		**(230,233)**	(184,339)
Increase in prepayments, other receivables and other assets		**(140,744)**	(34,188)
Increase in rental deposits		**(3,404)**	(3,467)
Increase in trade and bills payables		**2,385**	182,748
Increase in other payables and accruals		**180,687**	377,627
Increase in contract liabilities		**34,123**	100,880
Cash generated from operations		**2,175,452**	2,409,670
Corporate income tax paid		**(736,209)**	(712,458)
Net cash flows from operating activities		**1,439,243**	1,697,212

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities		**1,439,243**	1,697,212
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(104,968)**	(63,194)
Proceeds from disposal of items of property, plant and equipment		**871**	4,623
Additions to intangible assets		**(27,719)**	(18,920)
Residual payment for the acquisition of intangible assets in the prior year		**–**	(180,219)
Addition to other non-current financial assets		**(80,704)**	(385)
Acquisition of subsidiaries	37	**(12,574)**	(389,332)
Deposit paid for acquisition of a subsidiary		**–**	(169,824)
Repayment of loans receivable		**8,158**	12,893
Repayment of a loan from an associate	42	**–**	40,000
Interest received		**18,222**	15,759
Subscription of bonds receivable		**(78,473)**	–
Net cash flows used in investing activities		**(277,187)**	(748,599)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	33	**48,306**	39,359
New bank loans		**1,056,239**	2,657,738
Repayment of bank loans		**(77,253)**	(2,483,745)
Payment of lease liabilities	13(c)	**(56,529)**	–
Payment for the acquisition of non-controlling interests		**(2,678)**	(5,503)
Redemption of the Original Notes (as defined in note 31)	31	**(3,404,959)**	(896,823)
Issuance of the New Notes (as defined in note 31), net of transaction costs	31	**2,098,201**	–
Decrease/(increase) in restricted deposits	25	**10,994**	(8,790)
Interest paid		**(328,303)**	(372,518)
Proceeds from the termination of certain CCIRSs (as defined in note 29)		**67,425**	13,297
Proceeds from the termination of certain CCSs (as defined in note 29)		**19,351**	–
Payment for certain CCSs (as defined in note 29)		**(28,397)**	(61,874)
Dividends paid		**(271,518)**	–
Net cash flows used in financing activities		**(869,121)**	(1,118,859)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**292,935**	(170,246)
Cash and cash equivalents at beginning of year		**1,912,394**	2,090,280
Effect of foreign exchange rate changes, net		**12,006**	(7,640)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,217,335**	1,912,394
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**2,217,335**	1,912,394

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 Company and its subsidiaries (the "**Group**") are principally engaged in the manufacture and sale of premium pediatric nutrition, 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.

Information about subsidiaries

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

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

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Mama100 E-commerce Co., Limited ("**Mama100 E-commence**")**	PRC/Mainland China	RMB10,000,000	–	100%	Online sales, software and information technology services
Health and Happiness (H&H) Hong Kong Limited ("**H&H HK**")	PRC/Hong Kong Special Administrative Region ("**Hong Kong**")	HKD3,240,571,943	–	100%	Investment holding, international investment, trading and sales
Biostime France	France	EUR100,000	–	100%	Overseas investments, financing and other business cooperation
AB Pharma SAS	France	EUR17,395,719	–	100%	Marketing and distribution of baby products
Laboratoires Polivé SAS	France	EUR3,817,660	–	100%	Research of baby products
Farmland Dairy Pty Ltd	Australia	AUD100	–	100%	Manufacture and distribution of infant formulas
Healthy Times. Inc.	America	USD1,000	–	100%	Manufacture of organic baby foods and baby care products
MA&CO	France	EUR40,000	–	100%	Investment holding, financing and other business cooperation
BBB SAS	France	EUR125,000	–	100%	Marketing and distribution of organic baby food
Swisse Wellness Pty Ltd.	Australia	AUD100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
S W International Pty Ltd.	Australia	AUD100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness Pty Ltd. (NZ)	New Zealand	NZD10,100	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
S W Productions Holdings Pty Ltd.	Australia	AUD1	–	100%	Packaging service
S W Translink Packaging Pty Ltd.	Australia	AUD1	–	100%	Packaging service
Health and Happiness (H&H) Singapore PTE. Limited	Singapore	SGD100	–	100%	Retail sale of health supplements
Health and Happiness (H&H) UK Limited	United Kingdom	GBP1	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse China Limited	PRC/Hong Kong	HKD1	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness (Guangzhou) Limited*	PRC/Mainland China	RMB1,500,000	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Health and Happiness (H&H) Italy S.R.L	Italy	EUR10,000	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Inc.	America	USD20,000	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Netherlands B.V.	Netherlands	EUR100	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Aurelia Skincare Limited	United Kingdom	GBP1,270	–	100%	Research, development and sale of probiotic skin care products
Aurelia Skincare (International) Limited	United Kingdom	GBP1,270	–	100%	Research, development and sale of probiotic skin care products

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

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

※ The currency abbreviations shown above stand for the relevant currencies listed below:

USD stands for United States dollars;
HKD stands for Hong Kong dollars;
EUR stands for Euros;
NZD stands for New Zealand dollars;
SGD stands for Singapore dollars; and
GBP stands for Great British pounds.

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained; and (iii) any resulting surplus or deficit in the profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Except for the amendments to IFRS 9 and IAS 19, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 16

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

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

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 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 16 (continued)

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, office buildings, vehicles and office equipment. 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 leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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. 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:

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 16 (continued)

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

Financial impact at 1 January 2019

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

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	219,807
Decrease in prepaid land lease payments	(57,331)
Decrease in prepayments, other receivables and other assets	(1,478)
Increase in total assets	160,998
Liabilities	
Increase in lease liabilities	171,071
Decrease in other payables 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
Operating lease commitments as at 31 December 2018	170,710
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(1,608)
	169,102
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	160,998
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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Amendments to IAS 28

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

IFRIC 23

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 impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRIC 23 (continued)

Amendments under Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.

- IFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The Group has had no joint operation and therefore, the amendments are not applicable to the Group's financial statements.

- IFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The Group has not participated in any joint operation and therefore, the amendments are not applicable to the Group's financial statements.

- IAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends. The amendments did not have any impact on the Group's financial statements.

- IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments did not have any impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendment to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

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 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period. The amendments also specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. Furthermore, the amendments introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The amendments are to be applied retrospectively.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

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

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

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

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

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

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

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

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

	Years
Leasehold land	38.5-43.1
Office buildings	1.5-7.8
Vehicles and office equipment	1.1-10

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

(b) Lease liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of offices (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

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

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

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

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

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

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

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

Cash flow hedges

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

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

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

Hedges of net investments

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

Current versus non-current classification

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

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

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

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

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

Provisions

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

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

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions, based on relative stand-alone selling prices. The amount allocated to the points earned by the customer loyalty program members is recognised as contract liability until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

Except for loyalty points granted under the customer loyalty program which are accounted for in the policy for “Customer loyalty program” above, there are no other performance obligations in the contract with customers.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(i) *Rights of return*

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

(ii) *Sales rebates*

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

Other income

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

Contract liabilities

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

Right-of-return assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refund liabilities

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

Share-based payments

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

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 34 and 35 to these financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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

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

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of the entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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

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

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

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

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

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

If the inter-company loans are considered to be repaid in the foreseeable future and are not designated as the Company's net investments in foreign operations, the foreign exchange difference included in other expenses for the year would have been increased by RMB1,704,000 while the exchange differences on net investments in foreign operations recognised in other comprehensive income would be reduced by the same amount.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Tax provisions

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

Deferred tax assets

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

Estimation uncertainties

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

Variable consideration for returns and sales rebates

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Variable consideration for returns and sales rebates (continued)

The Group updates its assessment of expected returns and sales rebates monthly and the refund liabilities are adjusted accordingly. Estimates of expected returns and sales rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of the customers' actual returns and rebate entitlements in the future. As at 31 December 2019, the amount recognised as refund liabilities was RMB701,282,000 (2018: RMB645,835,000) for the expected returns and sales rebates.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements.

Impairment of intangible assets with indefinite useful lives

The Group determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the intangible assets with indefinite useful lives. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the trademarks, brand names and distribution rights and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements.

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Leases – Estimating the incremental borrowing rate

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

Provision for obsolete and slow-moving inventories

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

As at 31 December 2019, the carrying amount of inventories was approximately RMB1,550,350,000 (2018: RMB1,565,152,000) after netting off the allowance for inventories of approximately RMB142,358,000 (2018: RMB98,045,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was RMB65,338,000 (2018: RMB32,605,000). The amount of unrecognised tax losses at 31 December 2019 was RMB50,438,000 (2018: RMB55,018,000). Further details are contained in note 32 to the financial statements.

Customer loyalty program

The amount of revenue allocated to the points earned by the members of the Group's customer loyalty program is based on the estimated standalone selling prices of the products and the respective loyalty points earned through the sales transactions. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

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

Where fair value of other non-current financial assets and derivative financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement including considerations of inputs such as liquidity risk, credit spread and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. The fair values of the Group's other non-current financial assets and derivative financial instruments are disclosed in note 21 and note 29 to the financial statements, respectively.

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

Operating segment information for the year ended 31 December 2019:

	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue (note 5):						
Sales to external customers	5,071,511	1,255,011	3,991,455	607,240	–	10,925,217
Segment results	3,335,167	963,750	2,614,397	315,227	–	7,228,541
Reconciliations:						
Interest income						20,229
Other income and unallocated gains						111,644
Share of profit of an associate						6,480
Corporate and other unallocated expenses						(5,380,937)
Finance costs						(420,757)
Profit before tax						1,565,200
Other segment information:						
Depreciation and amortisation	22,484	6,665	99,314	14,674	113,290	256,427
Impairment/(write-back of impairment) of trade receivables	(144)	–	1,082	1,138	–	2,076
Write-down of inventories to net realisable value	17,696	306	51,472	9,979	–	79,453
Capital expenditure*	21,271	8,275	130,921	16,882	8,619	185,968

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the year ended 31 December 2018:

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

* 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

	2019	2018
	RMB'000	RMB'000
Mainland China	**8,449,504**	7,176,707
Australia and New Zealand	**1,833,662**	2,508,751
Other locations*	**642,051**	447,040
	10,925,217	10,132,498

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

(b) Non-current assets

	2019	2018
	RMB'000	RMB'000
Mainland China	**570,218**	543,504
Australia and New Zealand	**2,721,681**	2,695,995
Other locations*	**1,101,883**	1,130,057
	4,393,782	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 PRC.

Information about a major customer

During the year ended 31 December 2019, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sale of goods	**10,925,217**	10,132,498

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Total RMB'000
Geographical markets					
Mainland China	**4,990,479**	**1,232,415**	**1,904,317**	**322,293**	**8,449,504**
Australia and New Zealand	**35,083**	**5,046**	**1,793,533**	**–**	**1,833,662**
Other locations*	**45,949**	**17,550**	**293,605**	**284,947**	**642,051**
Total	**5,071,511**	**1,255,011**	**3,991,455**	**607,240**	**10,925,217**
Timing of revenue recognition					
Goods transferred at a point in time	**5,071,511**	**1,255,011**	**3,991,455**	**607,240**	**10,925,217**

For the year ended 31 December 2018

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

* Including the special administrative regions of the PRC.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	100,880	98,735

(ii) Performance obligations

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

Other income and gains

	2019 RMB'000	2018 RMB'000
Bank interest income	10,457	15,787
Interest income from loans and bonds receivables	9,772	8,329
Foreign exchange gains	48,024	–
Fair value gains on derivative financial instruments	–	5,968
Fair value gains on financial assets	2,329	1,103
Government subsidies*	42,152	26,615
Gain on deemed disposal of partial interest in an associate	–	9,487
Others	19,139	8,086
	131,873	75,375

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

6. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank loans and senior notes	354,277	415,399
Interest on lease liabilities	10,268	–
Write-off of unamortised transaction costs upon refinancing of interest-bearing bank loans	–	33,992
Premium paid for early redemption of senior notes (note 31)	56,212	29,986
	420,757	479,377

7. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		3,617,223	3,312,243
Depreciation of property, plant and equipment	12	80,450	74,302
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	13(a), 13(b)	51,099	1,478
Amortisation of intangible assets	15	124,878	99,601
Auditor's remuneration		7,007	6,894
Research and development costs**		163,700	151,179
Minimum lease payments under operating leases		–	68,725
Lease payments not included in the measurement of lease liabilities	13(d)	2,863	–
Loss on disposal of items of property, plant and equipment**		472	4,408
Employee benefit expenses (including directors' and chief executive's remuneration) (note 8(a)):			
Wages and salaries		1,068,993	1,039,010
Pension scheme contributions (defined contribution schemes)		158,243	124,185
Staff welfare and other expenses		78,085	75,949
Equity-settled share option expense	34	53,596	48,776
Equity-settled share award expense	35	3,929	23,078
		1,362,846	1,310,998
Foreign exchange (gains)/losses, net		(48,024)*	275,854**
Fair value losses on derivative financial instruments, net**	29	13,829	21,580
Derecognition of early redemption option**	31	33,555	9,498
Fair value gains on financial assets*		(2,329)	(1,103)
Impairment of trade receivables**	23	2,076	230
Write-down of inventories to net realisable value#		79,453	80,535
Premium paid for early redemption of senior notes	31	56,212	29,986

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

(a) Directors' and chief executive's remuneration

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

	2019 RMB'000	2018 RMB'000
Fees	2,140	1,740
Other emoluments:		
Salaries, allowances and benefits in kind	16,640	14,305
Performance-related bonuses	7,151	6,882
Equity-settled share option expense	21,055	7,158
Equity-settled share award expense	584	3,028
Pension scheme contributions	260	356
	45,690	31,729
	47,830	33,469

During the year and in prior years, share options and share awards were granted to certain directors and chief executive in respect of their services to the Group, further details of which are set out in notes 34 and 35 to these financial statements, respectively. The fair values of these options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2019 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019							
Executive directors:							
Mr. Luo Fei#	300	3,419	947	1,828	–	40	6,534
Mrs. Laetitia Marie Edmee Jehanne *(Chief executive)*#	200	8,561	3,918	11,924	292	24	24,919
Mr. Wang Yidong	200	4,660	2,286	4,345	292	196	11,979
	700	16,640	7,151	18,097	584	260	43,432
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	240	–	–	–	–	–	240
Independent non-executive directors:							
Mr. Ngai Wai Fung	400	–	–	986	–	–	1,386
Mr. Tan Wee Seng	400	–	–	986	–	–	1,386
Professor Xiao Baichun	400	–	–	986	–	–	1,386
	1,200	–	–	2,958	–	–	4,158
	2,140	16,640	7,151	21,055	584	260	47,830

Pursuant to a board resolution on 19 March 2019, Mr. Luo Fei has resigned as the chief executive officer of the Company with effect from 19 March 2019, and Mrs Laetitia Marie Edmee Jehanne succeeded Mr. Luo Fei and was appointed as the chief executive officer of the Company. Mr. Luo Fei continued to serve as an executive director and the chairman of the Company.

Mrs. Lok Lau Yin Ching and Mr. Wang Can have been appointed as independent non-executive directors of the Company with effective from 24 March 2020.

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2018 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018							
Executive directors:							
Mr. Luo Fei *(Chief executive)*	–	8,713	2,986	2,171	300	80	14,250
Mrs. Laetitia Marie Edmee Jehanne*	150	3,029	1,948	1,757	1,364	21	8,269
Mr. Wang Yidong*	150	2,563	1,948	1,760	1,364	255	8,040
	300	14,305	6,882	5,688	3,028	356	30,559
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	240	–	–	–	–	–	240
Independent non-executive directors:							
Mr. Ngai Wai Fung	400	–	–	490	–	–	890
Mr. Tan Wee Seng	400	–	–	490	–	–	890
Professor Xiao Baichun	400	–	–	490	–	–	890
	1,200	–	–	1,470	–	–	2,670
	1,740	14,305	6,882	7,158	3,028	356	33,469

* Pursuant to a board resolution on 25 March 2018, Mrs. Laetitia Marie Edmee Jehanne and Mr. Wang Yidong have been appointed as executive directors of the Company with effect from 26 March 2018.

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

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

(b) Five highest paid employees

The five highest paid employees during the year included two (2018: three) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining three (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	9,129	9,018
Performance-related bonuses	5,005	6,136
Equity-settled share option expense	5,951	4,097
Equity-settled share award expense	914	3,674
Pension scheme contributions	238	180
Termination benefits	2,425	–
	23,662	23,105

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

	Number of employees 2019	 2018
HKD7,500,001 to HKD8,000,000	1	–
HKD8,000,001 to HKD8,500,000	–	–
HKD8,500,001 to HKD9,000,000	1	–
HKD9,000,001 to HKD10,000,000	–	–
HKD10,000,001 to HKD11,000,000	1	–
HKD11,000,001 to HKD12,000,000	–	–
HKD12,000,001 to HKD13,000,000	–	1
HKD13,000,001 to HKD14,000,000	–	–
HKD14,000,001 to HKD15,000,000	–	1
	3	2

During the year and in prior years, share options and share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in notes 34 and 35 to these financial statements, respectively. The fair values of these share options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amount included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

	2019 RMB'000	2018 RMB'000
Current		
– Charge for the year		
Mainland China	**460,032**	506,341
Hong Kong	**69,420**	17,371
Australia	**90,851**	228,822
Elsewhere	**2,117**	4,601
– Underprovision/(overprovision) in the prior year	**17,691**	(41,207)
Deferred (note 32)	**(79,960)**	(31,152)
Total tax charge for the year	**560,151**	684,776

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% (2018: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof. Biostime Health and Guangzhou Hapai, the Company's wholly-owned subsidiaries operating in Mainland China, were recognised as high-technology enterprises in December 2017 and 2019, respectively, and are subject to EIT at a rate of 15% for three years from 2017 to 2019 and from 2019 to 2021, respectively. Therefore, Biostime Health and Guangzhou Hapai were subject to EIT at a rate of 15% for the year ended 31 December 2019.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HKD2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Australia corporate income tax

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

Tax consolidation legislation

Biostime Healthy Australia Pty Ltd, its wholly-owned Australian subsidiaries and eligible Tier 1 fellow subsidiaries have elected to form an income tax multiple entry consolidated ("MEC") group, for Australian income tax purposes.

In an income tax MEC group, Biostime Healthy Australia Pty Ltd, its wholly-owned subsidiaries and eligible Tier 1 fellow subsidiaries within the income tax MEC group account for their own current and deferred tax amounts. These income tax amounts are measured as if each entity in the income tax MEC group continues to be a standalone taxpayer in its own right.

9. INCOME TAX (CONTINUED)

Australia corporate income tax (continued)

Tax consolidation legislation (continued)

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

The entities have also entered into a tax funding arrangement under which the wholly-owned entities fully compensate Biostime Healthy Australia Pty Ltd for any current tax payable assumed and are compensated by Biostime Healthy Australia Pty Ltd 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 Pty Ltd under the income tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

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

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

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

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

	2019 RMB'000	2018 RMB'000
Profit before tax	1,565,200	1,527,924
Tax at the applicable PRC enterprise income tax rate	391,300	381,981
Overseas tax differences	(911)	41,816
Tax effects on preferential tax rates	(22,992)	(33,144)
Expenses not deductible for tax	94,695	129,096
Effect of lower enacted tax rate used for the recognition of deferred tax	2,371	(57)
Tax losses utilised from previous periods	(2,594)	(24,300)
Income not subject to tax	(14,912)	(26,268)
Tax losses not recognised	50,438	55,018
Adjustment in respect of current tax of previous periods	17,691	(41,207)
Tax on internal transfer of assets	–	113,446
Effect of withholding tax at 5% (2018: 5% or 10%) on the distributable profits of the Group's subsidiaries in Mainland China	45,065	88,395
Tax charge at the Group's effective rate	560,151	684,776

10. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposal final – HKD0.85 (2018: HKD0.48) per ordinary share	502,525	264,586

No interim dividend was proposed during the year ended 31 December 2019 (2018: Nil).

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 641,104,643 (2018: 637,645,122) in issue during the year.

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

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

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,005,049	843,148

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	641,651,744	639,181,952
Weighted average number of shares held for the share award schemes	(547,101)	(1,536,830)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	641,104,643	637,645,122
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	6,964,416	12,573,245
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	648,069,059	650,218,367

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2019	275,568	265,564	124,251	16,737	94,962	12,810	789,892
Additions	–	13,725	11,726	3,676	8,380	36,416	73,923
Acquisition of a subsidiary (note 37)	–	–	299	–	238	–	537
Disposals	–	(1,224)	(5,498)	(3,289)	(41)	–	(10,052)
Transfers	–	21,466	6,439	–	4,754	(32,659)	–
Exchange realignment	–	223	729	4	601	20	1,577
At 31 December 2019	275,568	299,754	137,946	17,128	108,894	16,587	855,877
Accumulated depreciation:							
At 1 January 2019	50,804	115,222	87,909	13,083	42,586	–	309,604
Depreciation provided during the year	13,342	32,420	14,719	1,897	18,072	–	80,450
Acquisition of a subsidiary (note 37)	–	–	231	–	72	–	303
Disposals	–	(789)	(4,960)	(2,960)	–	–	(8,709)
Exchange realignment	–	391	432	5	420	–	1,248
At 31 December 2019	64,146	147,244	98,331	12,025	61,150	–	382,896
Net carrying amount:							
At 31 December 2019	211,422	152,510	39,615	5,103	47,744	16,587	472,981

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2018	275,568	253,969	126,745	21,346	76,757	19,227	773,612
Additions	–	1,209	22,065	–	18,619	12,629	54,522
Acquisition of subsidiaries (note 37)	–	2,557	13,659	8	–	–	16,224
Disposals	–	(3,950)	(37,845)	(4,596)	–	(3,594)	(49,985)
Transfers	–	13,970	457	–	1,030	(15,457)	–
Exchange realignment	–	(2,191)	(830)	(21)	(1,444)	5	(4,481)
At 31 December 2018	275,568	265,564	124,251	16,737	94,962	12,810	789,892
Accumulated depreciation:							
At 1 January 2018	37,462	86,765	103,746	15,185	26,867	–	270,025
Depreciation provided during the year	13,342	31,608	11,082	1,907	16,363	–	74,302
Acquisition of subsidiaries (note 37)	–	1,154	7,226	–	–	–	8,380
Disposals	–	(3,534)	(33,423)	(3,997)	–	–	(40,954)
Exchange realignment	–	(771)	(722)	(12)	(644)	–	(2,149)
At 31 December 2018	50,804	115,222	87,909	13,083	42,586	–	309,604
Net carrying amount:							
At 31 December 2018	224,764	150,342	36,342	3,654	52,376	12,810	480,288

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, office buildings, vehicles and office equipment. 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.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	60,287
Recognised in profit or loss during the year (note 7)	(1,478)
Carrying amount at 31 December 2018	58,809
Current portion included in prepayments, other receivables and other assets (note 24)	(1,478)
Non-current portion	57,331

(b) Right-of-use assets

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

	Prepaid land lease payments RMB'000	Office buildings RMB'000	Vehicles and office equipment RMB'000	Total RMB'000
As at 1 January 2019	58,809	155,066	5,932	219,807
Additions	–	30,088	4,844	34,932
Acquisition of a subsidiary (note 37)	–	1,471	–	1,471
Depreciation charge	(1,478)	(46,317)	(3,304)	(51,099)
Exchange realignment	–	778	48	826
As at 31 December 2019	57,331	141,086	7,520	205,937

13. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) Lease liabilities

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

	2019 RMB'000
Carrying amount at 1 January	171,071
New leases	34,932
Additions as a result of acquisition of a subsidiary (note 37)	1,471
Accretion of interest recognised during the year	10,268
Payments	(56,529)
Exchange realignment	1,141
Carrying amount at 31 December	162,354
Analysed into:	
Current portion	47,426
Non-current portion	114,928

The maturity analysis of lease liabilities is disclosed in note 45 to these financial statements.

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

	2019 RMB'000
Interest on lease liabilities	10,268
Depreciation charge of right-of-use assets	51,099
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	2,863
Total amount recognised in profit or loss	64,230

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 38(c) and 41(c), respectively, to these financial statements.

14. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost and carrying amount:		
At 1 January	5,295,242	5,376,818
Acquisition of subsidiaries (note 37)	105,270	190,326
Exchange realignment	66,976	(271,902)
At 31 December	5,467,488	5,295,242

Impairment testing of goodwill

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

15. INTANGIBLE ASSETS

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	D2C E-commerce Platform RMB'000	Unpatented product formula RMB'000	Distribution rights* RMB'000	Product registrations RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2019	1,941,706	231,751	1,056,856	–	53,526	556,512	3,101	42,716	3,886,168
Additions	1,271	–	–	–	–	–	–	23,240	24,511
Acquisition of a subsidiary (note 37)	46,808	–	8,055	31,224	–	–	1,213	–	87,300
Disposal	(399)	–	–	–	–	–	–	(70)	(469)
Exchange realignment	24,842	1,572	10,911	1,762	658	–	68	116	39,929
At 31 December 2019	2,014,228	233,323	1,075,822	32,986	54,184	556,512	4,382	66,002	4,037,439
Accumulated amortisation:									
At 1 January 2019	–	29,863	231,967	–	13,339	–	111	22,065	297,345
Amortisation provided during the year	–	14,789	94,552	3,176	4,464	–	435	7,462	124,878
Disposal	–	–	–	–	(399)	–	–	(70)	(469)
Exchange realignment	–	180	3,858	122	247	–	8	182	4,597
At 31 December 2019	–	44,832	330,377	3,298	17,651	–	554	29,639	426,351
Net carrying amount:									
At 31 December 2019	2,014,228	188,491	745,445	29,688	36,533	556,512	3,828	36,363	3,611,088

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Distribution rights* RMB'000	Product registrations RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2018	1,953,658	105,815	1,048,133	91,146	56,497	578,953	3,226	23,951	3,861,379
Additions	1,072	–	–	–	–	–	–	14,895	15,967
Acquisition of subsidiaries (note 37)	85,456	129,523	59,244	–	–	–	–	4,448	278,671
Disposal	–	–	–	(86,353)	–	–	–	–	(86,353)
Exchange realignment	(98,480)	(3,587)	(50,521)	(4,793)	(2,971)	(22,441)	(125)	(578)	(183,496)
At 31 December 2018	1,941,706	231,751	1,056,856	–	53,526	556,512	3,101	42,716	3,886,168
Accumulated amortisation:									
At 1 January 2018	–	23,747	156,269	91,146	9,489	–	–	15,764	296,415
Amortisation provided during the year	–	6,161	84,366	–	4,453	–	111	4,510	99,601
Acquisition of subsidiaries (note 37)	–	–	–	–	–	–	–	2,329	2,329
Disposal	–	–	–	(86,353)	–	–	–	–	(86,353)
Exchange realignment	–	(45)	(8,668)	(4,793)	(603)	–	–	(538)	(14,647)
At 31 December 2018	–	29,863	231,967	–	13,339	–	111	22,065	297,345
Net carrying amount:									
At 31 December 2018	1,941,706	201,888	824,889	–	40,187	556,512	2,990	20,651	3,588,823

* Trademark, brand name and distribution rights are regarded as having indefinite useful lives as they are expected to generate net cash inflows to the Group indefinitely. As at 31 December 2019 and 2018, these intangible assets with indefinite useful lives were tested for impairment (note 16).

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

Goodwill and intangible assets with indefinite useful lives acquired through business combinations have been allocated to the following cash-generating units ("CGUs") for impairment testing:

– Infant formulas;

– Adult nutrition and care products;

– Dried baby food and nutrition supplements; and

– Baby care products.

The respective carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to each of the above CGUs are set out below:

	2019		2018	
	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000
Infant formulas	194,694	29,958	151,394	6,336
Adult nutrition and care products	5,096,577	2,438,552	4,924,826	2,367,170
Dried baby food and nutrition supplements	113,530	85,971	156,080	108,386
Baby care products	62,687	16,259	62,942	16,326
	5,467,488	2,570,740	5,295,242	2,498,218

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

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

	Discount rate		Growth rate	
	2019	2018	2019	2018
Infant formulas	18.6%/19.8%/18.8%	18.1%/19.2%	3.0%	3.0%
Adult nutrition and care products	16.5%/12.6%/11.0%	16.4%/12.6%	2.5%/4.8%/3.0%	2.5%/4.1%
Dried baby food and nutrition supplements	12.0%	13.5%/15.2%	2.0%	3.0%
Baby care products	16.2%	14.4%	3.0%	3.0%

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

Assumptions were used in the value in use calculation of each CGU as at 31 December 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets with indefinite useful lives:

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

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

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

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

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

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

17. BONDS RECEIVABLE

	2019 RMB'000	2018 RMB'000
Bonds receivable	**214,747**	137,148

The Group entered into a bond subscription agreement with Isigny Sainte Mère ("**ISM**") (the "**Bond Subscription Agreement**") on 30 July 2013, pursuant to which ISM issued, and the Group subscribed for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at a subscription price equivalent to the face value of the bond. The bonds bear interest at a rate of 5% per annum. The bonds will mature on 30 July 2023, ten years from the date of the Bond Subscription Agreement. On 2 January 2019, the Group subscribed for another 10,000,000 bonds ("**New Bonds**") with a nominal value of EUR1 per bond at a subscription price which equals to the nominal value of the bonds. The New Bonds bear interest at a rate of 2% per annum on the outstanding principal amount of the bonds. The maturity date of the New Bonds is 2 January 2024, 5 years from the date of the new bond subscription agreement. The carrying amount of bonds receivable approximates to their fair value. As at 31 December 2019, the Group continued to hold the bonds it had subscribed for.

The above bonds receivable balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

18. LOANS RECEIVABLE

	2019 RMB'000	2018 RMB'000
Loans receivable	**5,306**	13,678

	Effective interest rate	Maturity	2019 RMB'000	2018 RMB'000
Denominated in Danish Krones (the "**DKK**")	DKK Cibor +1%	By instalments before January 2020	**5,306**	13,678

Cibor stands for the Copenhagen Interbank Offer Rate.

Loans receivable represent loans provided to certain suppliers for the purposes of financing their production capacity expansion to fulfil the purchase requirements of the Group and are repayable by instalments.

The carrying amounts of the current portion of the loans receivable approximate to their fair values.

The above loans receivable balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

19. DEPOSITS

	2019 RMB'000	2018 RMB'000
Deposits paid for purchase of items of property, plant and equipment	**22,502**	5,108
Deposits paid for purchase of intangible assets	**11,699**	8,491
Rental deposits	**11,213**	7,809
Deposit paid for acquisition of a subsidiary	**–**	169,824
	45,414	191,232

20. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	58,362	51,882

The trade payable balance with the associate is disclosed in note 26 to these financial statements.

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Hangzhou Coamie Personal Care Products Co., Ltd.	RMB200,000,000	PRC/Mainland China	20%	Manufacture, retail and import and export of baby diapers

The Group's shareholding in the associate represents equity shares held through a wholly-owned subsidiary of the Company.

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

	2019 RMB'000	2018 RMB'000
Share of the associate's profit for the year	6,480	1,300
Share of the associate's total comprehensive income	6,480	1,300
Gain on deemed disposal of partial interest in an associate	–	9,487
Carrying amount of the Group's investment in the associate	58,362	51,882

21. OTHER NON-CURRENT FINANCIAL ASSETS

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss		
– Unlisted equity investments	44,591	–
– Other unlisted investments	63,223	58,205
Equity investment designated at fair value through other comprehensive income		
– Listed equity investment in BOD Australia Limited	21,755	–
	129,569	58,205

The above unlisted equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The above unlisted investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The above listed equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

22. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	437,922	585,998
Raw materials in transit	282,902	190,681
Work in progress	1,981	2,190
Finished goods	827,545	786,283
	1,550,350	1,565,152

23. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	1,013,533	756,876
Less: Impairment provision	(7,424)	(5,393)
	1,006,109	751,483
Bills receivable	100,706	110,379
	1,106,815	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.

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

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

	2019 RMB'000	2018 RMB'000
Within 1 month	613,965	532,291
1 to 3 months	362,644	307,943
Over 3 months	130,206	21,628
	1,106,815	861,862

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

	2019 RMB'000	2018 RMB'000
At beginning of year	5,393	4,744
Acquisition of subsidiaries	–	1,109
Impairment losses recognised (note 7)	7,910	2,241
Amount written off as uncollectible	(52)	(739)
Impairment losses reversed (note 7)	(5,834)	(2,011)
Exchange realignment	7	49
At end of year	7,424	5,393

23. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

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

As at 31 December 2019

		Past due			
	Current RMB'000	**Less than 1 month RMB'000**	**1 to 3 months RMB'000**	**Over 3 months RMB'000**	**Total RMB'000**
Expected credit loss rate	**0.23%**	**0.89%**	**3.00%**	**12.16%**	**0.73%**
Gross carrying amount (RMB'000)	**751,921**	**184,236**	**58,442**	**18,934**	**1,013,533**
Expected credit losses (RMB'000)	**1,729**	**1,640**	**1,753**	**2,302**	**7,424**

As at 31 December 2018

		Past due			
	Current RMB'000	Less than 1 month RMB'000	1 to 3 months RMB'000	Over 3 months RMB'000	Total RMB'000
Expected credit loss rate	0.23%	1.51%	3.48%	10.81%	0.71%
Gross carrying amount (RMB'000)	641,355	65,413	33,957	16,151	756,876
Expected credit losses (RMB'000)	1,476	988	1,183	1,746	5,393

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

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**106,268**	70,120
Deposits	**2,010**	3,524
Other receivables	**153,162**	80,604
Prepaid expenses	**45,056**	1,458
Right-of-return assets	**1,363**	2,046
Current portion of prepaid land lease payments (note 13(a))	**–**	1,478
	307,859	159,230

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

25. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**2,216,540**	1,861,100
Time deposits	**795**	51,294
Pledged deposits	**8,878**	19,872
	2,226,213	1,932,266
Less:		
Restricted deposits for an operating lease	**(4,012)**	(3,924)
Restricted deposits for bills issue	**(4,866)**	(15,948)
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows	**2,217,335**	1,912,394
Denominated in RMB(note)	**1,279,611**	1,210,844
Denominated in other currencies	**946,602**	721,422
	2,226,213	1,932,266

Note:

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

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

26. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**826,505**	813,659
Bills payable	**11,247**	15,948
	837,752	829,607

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**610,362**	499,252
1 to 3 months	**200,553**	287,672
Over 3 months	**26,837**	42,683
	837,752	829,607

As at 31 December 2019, included in the trade payables was an amount due to the Group's associate of RMB20,687,000 (2018: RMB1,925,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

The trade payables are non-interest-bearing and are normally settled on 30-90 day terms.

27. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Salaries and welfare payables		**266,905**	278,391
Accruals	(a)	**731,147**	609,572
Other tax payables		**170,014**	97,485
Other payables	(b)	**96,479**	112,661
Refund liabilities	(c)	**701,282**	645,835
		1,965,827	1,743,944
Less: Current portion		**(1,958,610)**	(1,736,521)
Non-current portion		**7,217**	7,423

Notes:

(a) As a result of the initial application of IFRS 16, accrued lease payments of RMB10,073,000 previously included in "Other payables and accruals" were adjusted to the right-of-use assets recognised at 1 January 2019 (refer to note 2.2 to these financial statements for further details).

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

(c) Details of refund liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Sales rebate	**604,172**	622,982
Sales return	**97,110**	22,853
	701,282	645,835

28. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Advances from customers	**39,474**	22,991	21,665
Customer loyalty points	**95,140**	77,889	77,070
	134,614	100,880	98,735

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 year.

The increase of contract liabilities in 2019 and 2018 was mainly due to the increase of the advances from customers and the customer loyalty points.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2019 Assets RMB'000	2019 Liabilities RMB'000	2018 Assets RMB'000	2018 Liabilities RMB'000
Current					
Forward currency contracts	(a)	1,058	–	4,301	–
		1,058	–	4,301	–
Non-current					
Early redemption option embedded in the senior notes	(b)	51,105	–	36,792	–
The CCIRSs (as defined below)	(c)	–	62,296	58,596	–
The CCSs (as defined below)					
– designated as hedge	(d)	–	43,859	–	45,299
– not designated as hedge	(d)	–	15,174	–	31,743
		51,105	121,329	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 31 December 2019 was RMB1,058,000 (2018: RMB4,301,000). A fair value loss of RMB3,236,000 was charged to in profit or loss during the year (2018: a gain of RMB10,048,000).

(b) An early redemption option is embedded in the senior notes, details of which are set out in note 31 to these financial statements. The fair value of the early redemption option as at 31 December 2019 was RMB51,105,000 (2018: RMB36,792,000). A fair value gain of RMB16,866,000 (2018: a loss of RMB39,072,000) was recognised in profit or loss for the year.

(c) Cash flow hedges

As at 31 December 2019 and 2018, the Group had certain cross currency interest rate swap agreements (the "CCIRSs") to hedge its exposure arising from bank borrowings carried at floating rates and denominated in foreign currencies. Under the CCIRSs, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the CCIRSs match the interest payments and the principal payments of the USD loans. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the CCIRSs are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

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

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) Cash flow hedges (continued)

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

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
The CCIRSs	**471,709**	**(62,296)**	**Derivative financial instruments (liabilities)**	**(61,165)**
As at 31 December 2018				
The CCIRSs	333,670	58,596	Derivative financial instruments (assets)	60,001

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

	Carrying amount RMB'000	Change in fair value used for measuring ineffectiveness RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2019			
USD interest-bearing bank loans	**3,383,296**	**58,690**	**(53,307)**
As at 31 December 2018			
USD interest-bearing bank loans	2,252,890	54,110	(12,403)

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) Cash flow hedges (continued)

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

	Total hedging gain/(loss) recognised in other comprehensive income			Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss	Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	RMB'000		Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
Year ended 31 December 2019									
USD interest-bearing bank loans	(46,514)	13,954	(32,560)	(5,029)	Other expenses	16,574	(24,175)	(7,601)	Finance costs/ other expenses
Year ended 31 December 2018									
USD interest-bearing bank loans	118,609	(35,583)	83,026	5,517	Other expenses	(142,993)	40,232	(102,761)	Finance costs/ other expenses

(d) Hedges of net investments in foreign operations

As at 31 December 2019 and 2018, the Company had certain cross currency swap and cross currency interest rate swap agreements (the "CCSs") to hedge its exposure of foreign currency risks arising from its investment in Mainland China and Australia. Under the CCSs, the Company agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and fixed or floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

For the CCSs designated as hedging instruments, there is an economic relationship between the hedge item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the CCSs. The Company has established a hedge ration of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investments in the foreign subsidiaries becomes lower than the amount of the CCSs.

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

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

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

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
The CCSs designated for hedge	**250,000**	**(43,859)**	**Derivative financial instruments (liability)**	**(43,095)**
As at 31 December 2018				
The CCSs designated for hedge	225,000	(45,299)	Derivative financial instruments (liability)	(3,182)

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

	Change in fair value used for measuring ineffectiveness RMB'000	Exchange fluctuation reserve RMB'000
As at 31 December 2019		
Net investments in foreign subsidiaries	**(17,647)**	**(138,915)**
As at 31 December 2018		
Net investments in foreign subsidiaries	(11,586)	(175,074)

During the year, in respect of the CCSs designated as hedging instruments, a net gain of RMB36,159,000 (2018: a net loss of RMB3,182,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net loss of RMB25,489,000 (2018: Nil) was charged to profit or loss. For the CCSs not designated as hedging instruments, a net gain of RMB3,059,000 (2018: RMB1,927,000) was recognised in profit or loss during the year.

30. INTEREST-BEARING BANK LOANS

	31 December 2019 Effective interest rate (%)	31 December 2019 Maturity	31 December 2019 RMB'000	31 December 2018 Effective interest rate (%)	31 December 2018 Maturity	31 December 2018 RMB'000
Non-current						
Secured bank loan	–	–	–	BBSY+margin	Jun-2021	439,360
Secured bank loan	–	–	–	Libor+margin	Jun-2021	2,252,890
Secured bank loan	BBSY+margin	Nov-2022	55,240	–	–	–
Secured bank loan	Libor+margin	Nov-2022	507,495	–	–	–
Secured bank loan	BBSY+margin	May-2023	55,240	–	–	–
Secured bank loan	Libor+margin	May-2023	507,495	–	–	–
Secured bank loan	BBSY+margin	Nov-2023	257,787	–	–	–
Secured bank loan	Libor+margin	Nov-2023	2,368,306	–	–	–
			3,751,563			2,692,250

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable		
within one year or on demand	–	–
in the second year	–	–
in the third to fifth years, inclusive	3,751,563	2,692,250
	3,751,563	2,692,250

BBSY stands for the Australian Bank Bill Swap Bid Rate.

Libor stands for the London InterBank offered Rate.

Notes:

(a) As at 31 December 2019 and 2018, 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 (in respect of H&H Hong Kong, a floating charge only) over present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.

(b) At 31 December 2019, the Group's bank loans were denominated in USD and AUD at aggregate amounts of RMB3,383,296,000 (2018: RMB2,252,890,000) and RMB368,267,000 (2018: RMB439,360,000), respectively.

31. SENIOR NOTES

On 21 June 2016 and 23 January 2017, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of USD600,000,000 with a coupon interest rate of 7.25% per annum (collectively, the "Original Notes"). The Original Notes were listed on the Singapore Exchange Securities Trading Limited.

On 22 October 2018, the Company partially redeemed the Original Notes with a principal amount of USD125,000,000 at a total consideration of USD129,531,000 (approximately RMB896,823,000). On 15 August 2019, 23 November 2019 and 28 November 2019, the Company redeemed the remaining Original Notes in three batches with an aggregate principal amount of USD475,000,000 at a total consideration of USD483,500,000 (approximately RMB3,404,959,000). The corresponding portion of the early redemption option embedded in the Original Notes amounting to RMB33,555,000 (2018: RMB9,498,000) was derecognised upon the redemption in the year.

On 24 October 2019, the Company issued senior notes due 24 October 2024 with an aggregate principal amount of USD300,000,000 (the "New Notes"), which are listed on The Stock Exchange of Hong Kong Limited. The coupon interest rate of the New Notes is 5.625% per annum and interest is paid semi-annually. The Company used the net proceeds of the New Notes to redeem a portion of the Original Notes.

Pursuant to the terms of the New Notes, on or after 24 October 2021, the Company may on any one or more occasions redeem all or any part of the New Notes, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, on the notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on 24 October of the years indicated below (subject to the rights of holders of Notes on the relevant record rate to receive interest on the relevant interest payment date).

Period	Redemption price
2021	102.81250%
2022	101.40625%
2023 and thereafter	100.00000%

The Company may at its option redeem the New Notes, in whole but not in part, at any time prior to 24 October 2021, at a redemption price equal to 100% of the principal amount of the New Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

At any time and from time to time prior to 24 October 2021, the Company may redeem up to 40% of the aggregate principal amount of the New Notes with the net cash proceeds of one or more sales of common stock of the Company in one or more equity offerings at a redemption price of 105.625% of the principal amount of the New Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date; provided that at least 60% of the aggregate principal amount of the New Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

As at 31 December 2019, the fair value of the early redemption option embedded in the New Notes amounted to RMB51,105,000, details of which are set out in note 29(b) to these financial statements.

31. SENIOR NOTES (CONTINUED)

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

The New Notes and the Original Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

The movements of the senior notes during the years ended 31 December 2019 and 31 December 2018 are set out below:

	RMB'000
At 1 January 2018	3,930,663
Redemption of the Original Notes	(896,823)
Premium paid for early redemption of part of the Original Notes (note 6)	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	3,274,686
Redemption of the Original Notes	(3,404,959)
Premium paid for early redemption of the Original Notes (note 6)	56,212
Upon the completion of the issuance of the New Notes	
Proceeds received	2,121,810
Transaction cost incurred	(23,609)
Redemption option embedded in the New Notes	34,189
Interest charged during the year	222,472
Interest paid during the year	(213,571)
Exchange realignment	57,549
At 31 December 2019	2,124,779
Less: Current portion	(21,533)
Non-current portion	2,103,246

32. DEFERRED TAX

The movements in deferred tax assets and liabilities during the years ended 31 December 2019 and 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 loss recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	8,932	251,558	36,539	–	32,605	–	32,925	362,559
Credited/(charged) to profit or loss for the year (note 9)	(1,136)	24,908	(1,647)	–	32,386	–	(11,586)	42,925
Exchange realignment	–	1,061	(1)	–	347	–	190	1,597
At 31 December 2019	7,796	277,527	34,891	–	65,338	–	21,529	407,081
At 1 January 2018	15,951	217,094	14,556	8,804	9,274	31,228	–	296,907
Credited/(charged) to profit or loss for the year (note 9)	(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	8,932	251,558	36,539	–	32,605	–	32,925	362,559

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	242	107,669	859,282	17,579	3,526	988,298
(Credited)/charged to profit or loss for the year (note 9)	(17)	(27,981)#	(28,171)	11,952	7,182	(37,035)
Acquisition of a subsidiary (note 37)	–	–	14,841	–	–	14,841
Charged to equity for the year	–	–	–	(10,221)	–	(10,221)
Exchange realignment	3	(3)	9,969	248	134	10,351
At 31 December 2019	228	79,685	855,921	19,558	10,842	966,234
At 1 January 2018	288	65,277	839,487	–	5,380	910,432
(Credited)/charged to profit or loss for the year (note 9)	(31)	43,395#	(24,616)	18,000	(1,663)	35,085
Acquisition of subsidiaries (note 37)	–	–	87,112	–	–	87,112
Exchange realignment	(15)	(1,003)	(42,701)	(421)	(191)	(44,331)
At 31 December 2018	242	107,669	859,282	17,579	3,526	988,298

The amount represented a deferred tax provision of RMB45,065,000 (2018: RMB88,395,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB73,046,000 (2018: RMB45,000,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

32. DEFERRED TAX (CONTINUED)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**407,081**	362,559
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(966,234)**	(988,298)
	(559,153)	(625,739)

Deferred tax assets have not been recognised in respect

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 5%.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

Shares

	2019	2018
Authorised:		
10,000,000,000 (2018: 10,000,000,000) ordinary shares of HKD0.01 each	**HKD100,000,000**	HKD100,000,000
Issued and fully paid:		
643,325,824 (2018: 640,310,819) ordinary shares of HKD0.01 each	**HKD6,433,258**	HKD6,403,108
Equivalent to	**RMB5,500,000**	RMB5,473,000

33. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue	Share capital	Equivalent to
		HKD'000	RMB'000
At 1 January 2018	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 35)	262,027	3	2
At 31 December 2018 and 1 January 2019	**640,310,819**	**6,403**	**5,473**
Share options exercised (note (b))	**3,015,005**	**30**	**27**
At 31 December 2019	**643,325,824**	**6,433**	**5,500**

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 2019, the subscription rights attaching to 3,015,005 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 3,015,005 ordinary shares for a total cash consideration, before expenses, of HKD48,184,000 (equivalent to approximately RMB48,306,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 34 to these financial statements.

34. 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 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.

34. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options

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

31 December 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 year	2.53	–	37.98	10,179	10,179
Forfeited during the year	2.53	–	38.85	(5,436)	(5,436)
Cancelled during the year	2.53	–	49.71	(5,665)	(5,665)
Exercised during the year	2.53	(406)	18.07	(2,609)	(3,015)
At 31 December 2019	2.53	303	31.07	21,894	22,197

31 December 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 year	2.53	–	51.83	7,087	7,087
Forfeited during the year	2.53	–	31.32	(2,653)	(2,653)
Exercised during the year	2.53	(31)	16.63	(2,976)	(3,007)
At 31 December 2018	2.53	709	32.79	25,425	26,134

34. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

The weighted average share prices at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the year were HKD32.98 per share (2018: HKD57.67 per share) and HKD40.66 per share (2018: HKD58.62 per share), respectively.

A total of 3,015,000 share options were exercised during the year under the two share option schemes, resulting in the issue of 3,015,000 ordinary shares of the Company and new share capital of HKD30,000 (equivalent to approximately RMB27,000) and share premium of HKD48,154,000 (equivalent to approximately RMB48,279,000) (before issue expenses). An amount of RMB15,098,000 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 year (2018: Nil).

(ii) Outstanding share options

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme and the Share Option Scheme as at 31 December 2019 and 2018 are as follows:

Pre-IPO Share Option Scheme

31 December 2019 Number of options '000	31 December 2018 Number of options '000	Exercise price* HKD per share	Exercise period
303	709	2.53	17-12-14 to 17-12-20

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

34. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme

31 December 2019 Number of options '000	31 December 2018 Number of options '000	**Exercise price* HKD per share**	**Exercise period**
2	8	15.312	17-12-14 to 17-12-20
10	22	11.520	17-12-14 to 17-12-20
–	30	12.120	17-12-13 to 17-12-19
–	90	12.120	17-12-14 to 17-12-20
13	20	19.640	17-12-14 to 17-12-20
32	51	24.700	17-12-14 to 17-12-20
345	345	15.580	30-12-16 to 30-12-22
52	91	15.580	1-4–17 to 1-4–23
1,306	2,079	15.580	1-4–18 to 1-4–24
901	1,871	15.580	1-4–19 to 1-4–25
91	91	21.050	30-12-16 to 30-12-22
–	19	21.050	1-4–17 to 1-4–23
54	54	21.050	1-4–18 to 1-4–24
36	36	21.050	1-4–19 to 1-4–25
74	90	20.920	30-12-16 to 30-12-22
100	124	20.920	1-4–18 to 1-4–24
69	79	20.920	1-4–19 to 1-4–25
13	16	23.300	1-4–17 to 1-4–23
42	53	23.300	1-4–18 to 1-4–24
66	95	23.300	1-4–19 to 1-4–25
202	488	25.750	1-4–18 to 1-4–24
230	506	25.750	1-4–19 to 1-4–25
150	150	25.750	1-4–20 to 1-4–26
39	57	22.150	1-4–18 to 1-4–24
48	123	22.150	1-4–19 to 1-4–25
8,621	11,406	29.250	1-4–21 to 1-4–27
78	95	47.100	1-4–19 to 1-4–25
259	528	47.100	1-4–21 to 1-4–27
3	3	60.020	1-4–19 to 1-4–25
589	628	60.020	1-4–21 to 1-4–27
387	496	59.050	1-4–21 to 1-4–27
56	87	47.270	1-4–21 to 1-4–27
–	5,594	50.050	1-4–22 to 1-4–28
932	–	49.150	1-4–21 to 1-4–27
251	–	45.790	1-4–21 to 1-4–27
306	–	32.650	1-4–21 to 1-4–27
6,537	–	32.650	1-4–22 to 1-4–28
21,894	25,425		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

34. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme (continued)

At 31 December 2019, the share options outstanding under the Share Option Scheme were divided into two to three tranches at their respective grant dates. Generally, the first tranche vests one year after the grant date while the remaining tranches vest in the subsequent two to three years. There is a six-year exercise period for each share option granted under the Share Option Scheme.

The exercise in full of the outstanding share options under the two share option schemes would, under the present capital structure of the Company, result in the issue of 22,197,000 additional ordinary shares of the Company and additional share capital of HKD222,000 (equivalent to approximately RMB199,000) and share premium of HKD680,726,000 (equivalent to approximately RMB609,794,000) (before issue expenses).

Subsequent to the end of the reporting period, 463,000 and 266,000 share options were forfeited and exercised, respectively. At the date of approval of these financial statements, the Company had 21,468,000 share options outstanding under the two share option schemes, which represented approximately 3.3% of the Company's shares in issue as at that date.

(iii) Fair value of the share options

The directors of the Company used the Hull White model to determine the fair value of the share options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the year ended 31 December 2019 was HKD16.53 per share (equivalent to approximately RMB14.53 per share) (2018: HKD19.13 per share (equivalent to approximately RMB16.67 per share)).

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

	2019	2018
Dividend yield (%)	0.57-0.74	0.54
Expected volatility (%)	48.29-48.93	29.22-41.58
Risk-free interest rate (%)	1.42-1.58	2.02-2.37

During the year, the Group has recognised a share option expense related to the two share option schemes of RMB53,596,000 (2018: RMB48,776,000) in total.

35. 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 (the "**Adoption Date**") and amended by the board of directors on 30 March 2012.

Subject to the terms of the Share Award Scheme and 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 year ended 31 December 2019, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2018: Nil).

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

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

The Group recognised a share award expense of RMB1,472,000 during the year (2018: RMB6,999,000) 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 year (2018: RMB13,321,000). Share award reserve of RMB969,000 (negative) related to the vested Awarded Shares was transferred to retained profits during the year (2018: RMB5,968,000 (negative)).

Pursuant to a resolution of the board of directors of the Company held on 31 October 2019, the Share Award Scheme has been terminated with effect on 31 October 2019. Further details of the termination were disclosed in the Company's announcement dated 31 October 2019. As at 31 December 2019, there were still 114,705 shares held for the Share Award Scheme.

35. 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 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 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.

A summary of the particulars of the shares granted under the 2013 Share Award Scheme (the "**2013 Awarded Shares**") during the year 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 year	Fair value	Vesting date	Vested during the year	Forfeited during the year	Outstanding 2013 Awarded Shares at 31 December 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)	–

During the year ended 31 December 2019, no shares of HKD0.01 each were issued for the 2013 Share Award Scheme (2018: 262,027 shares), resulting in an increase in share capital of HKD3,000 (equivalent to RMB2,000).

The Group recognised a share award expense of RMB2,457,000 during the year (2018: RMB16,079,000) in relation to the 2013 Share Award Scheme.

833,354 shares for the 2013 Share Award Scheme amounted to RMB7,000 were awarded upon vesting during the year (2018: RMB8,000). Share award reserve of RMB20,902,000 related to the vested 2013 Awarded Shares was transferred to retained profits during the year (2018: RMB19,151,000).

36. 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 92 and 93 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.

37. BUSINESS COMBINATIONS

Acquisition in 2019

On 4 January 2019, the Group acquired 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 31 December 2019.

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

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	12	234
Intangible assets	15	87,300
Right-of-use assets	13(b)	1,471
Inventories		5,152
Trade receivables		1,724
Prepayments, other receivables and other assets		138
Cash and cash equivalents		764
Trade payables		(2,223)
Other payable and accruals		(356)
Deferred tax liabilities	32	(14,841)
Lease liabilities	13(c)	(1,471)
Total identified net assets at fair value		77,892
Goodwill on acquisition	14	105,270
Total consideration		183,162
Satisfied by:		
Cash		183,162

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 31 December 2019.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the leases relative to market terms.

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

37. BUSINESS COMBINATIONS (CONTINUED)

Acquisitions in 2018

During the year ended 31 December 2018, the Group entered into sale and purchase agreements to acquire equity interests in the following companies:

Acquisition date	Company name	Consideration	Acquired interests (%)	Principal activities
11 July 2018	MA&CO	EUR30,655,000 (Approximately RMB238,152,000)	100%	Marketing and distribution of baby food products
31 August 2018	Farmland	AUD35,891,000 (Approximately RMB177,956,000)	100%	Manufacture and distribution of infant formulas

The respective fair values of the identifiable assets and liabilities of the above companies acquired at the dates of acquisition by the Group are shown below:

	Notes	MA&CO RMB'000	Farmland RMB'000	Total RMB'000
Property, plant and equipment	12	1,963	5,881	7,844
Intangible assets	15	146,744	129,598	276,342
Inventories		11,848	5,563	17,411
Trade receivables		15,402	–	15,402
Prepayments, other receivables and other assets		6,017	6,455	12,472
Cash and cash equivalents		12,059	2,321	14,380
Tax payable		(105)	–	(105)
Trade payables		(19,196)	(1,368)	(20,564)
Other payables and accruals		(1,198)	(9,090)	(10,288)
Deferred tax liabilities	32	(48,233)	(38,879)	(87,112)
Total identifiable net assets at fair value		125,301	100,481	225,782
Goodwill on acquisition	14	112,851	77,475	190,326
Total consideration		238,152	177,956	416,108
Satisfied by:				
Cash		238,152	118,124	356,276
Settlement of a loan		–	47,436	47,436
Other payables		–	12,396	12,396
		238,152	177,956	416,108

37. BUSINESS COMBINATIONS (CONTINUED)

Acquisition in 2018 (continued)

The Group incurred transaction costs of RMB3,423,000 for these acquisitions. 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 2018.

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

	RMB'000
Cash consideration	403,712
Cash and bank balances acquired	(14,380)
Net outflow of cash and cash equivalents included in cash flows from investing activities	389,332
Transaction costs of the acquisitions included in cash flows from operating activities	3,423
	392,755

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB34,932,000 and RMB34,932,000, respectively, in respect of lease arrangements for office buildings, vehicles and office equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Derivative financial instruments RMB'000	Bank loans RMB'000	Senior notes RMB'000	Lease liabilities RMB'000
At 31 December 2018	77,042	2,692,250	3,274,686	–
Effect of adoption of IFRS 16	–	–	–	171,071
At 1 January 2019 (restated)	77,042	2,692,250	3,274,686	171,071
Changes from financing cash flows	(9,046)	864,254	(1,520,329)	(56,529)
New leases	–	–	–	34,932
Additions as a result of acquisition of a subsidiary	–	–	–	1,471
Premium paid for early redemption of the Original Notes	–	–	56,212	–
Redemption option embedded in the New Notes	–	–	34,189	–
Total loss recognised in profit or loss	24,905	–	–	–
Total loss recognised in other comprehensive income	22,531	–	–	–
Interest expense	–	131,805	222,472	10,268
Exchange realignment	5,897	63,254	57,549	1,141
At 31 December 2019	121,329	3,751,563	2,124,779	162,354

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (continued)

2018

	Derivative financial instruments RMB'000	Bank loans RMB'000	Senior notes RMB'000
At 1 January 2018	186,195	2,352,744	3,930,663
Changes from financing cash flows	(48,577)	81,297	(1,176,645)
Total gain recognised in profit or loss	(1,553)	–	–
Total gain recognised in other comprehensive income	(61,317)	–	–
Interest expense	–	133,829	281,570
Write-off of unamortised transaction costs upon refinancing of interest-bearing bank loans	–	33,992	–
Premium paid for early redemption of part of the senior notes	–	–	29,986
Foreign exchange movement	2,294	90,388	209,112
At 31 December 2018	77,042	2,692,250	3,274,686

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within financing activities	**56,529**

39. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

40. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 30 to these financial statements.

41. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting periods:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Intangible assets	**789**	–
Property, plant and equipment	**26,662**	10,735
	27,451	10,735

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its offices, warehouses and vehicles under operating lease arrangements. Leases were negotiated for terms ranging from one to ten years.

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

	2018 RMB'000
Within one year	61,907
In the second to fifth years, inclusive	101,255
After five years	7,548
	170,710

(c) There were no lease contracts that have not yet commenced as at 31 December 2019.

42. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

	Note	2019 RMB'000	2018 RMB'000
Purchases of finished goods from an associate	(i)	148,798	89,532
Interest from a loan to an associate		–	49
Repayment of a loan from an associate		–	40,000

Note:

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

(b) Material outstanding balances with related parties

Details of the Group's trade payable balances with the associate as at the end of the reporting period are disclosed in note 26 to these financial statements.

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	36,685	32,732
Pension scheme contributions	1,032	363
Equity-settled share option expense	15,250	9,849
Equity-settled share award expense	1,658	8,103
Termination benefits	2,425	–
Total compensation paid to key management personnel	57,050	51,047

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

2019

Financial assets

		Financial assets at fair value through profit or loss				
	Notes	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Bonds receivable	17	–	–	–	214,747	214,747
Loans receivable	18	–	–	–	5,306	5,306
Trade and bills receivables	23	–	–	–	1,106,815	1,106,815
Financial assets included in prepayments, other receivables and other assets		–	–	–	153,162	153,162
Derivative financial instruments	29	–	52,163	–	-	52,163
Pledged deposits	25	–	–	–	8,878	8,878
Cash and cash equivalents	25	–	–	–	2,217,335	2,217,335
Other non-current financial assets	21	44,591	63,223	21,755	–	129,569
		44,591	115,386	21,755	3,706,243	3,887,975

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	26	–	837,752	837,752
Financial liabilities included in other payables and accruals		–	827,626	827,626
Derivative financial instruments	29	121,329	–	121,329
Interest-bearing bank loans	30	–	3,751,563	3,751,563
Senior notes	31	–	2,124,779	2,124,779
Lease liabilities	13	–	162,354	162,354
		121,329	7,704,074	7,825,403

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

Financial assets

	Notes	Financial assets at fair value through profit or loss: Designated as such upon initial recognition RMB'000	Financial assets at fair value through profit or loss: Mandatorily designated as such RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Bonds receivable	17	–	–	137,148	137,148
Loans receivable	18	–	–	13,678	13,678
Trade and bills receivables	23	–	–	861,862	861,862
Financial assets included in prepayments, other receivables and other assets		–	–	80,604	80,604
Derivative financial instruments	29	–	99,689	–	99,689
Pledged deposits	25	–	–	19,872	19,872
Cash and cash equivalents	25	–	–	1,912,394	1,912,394
Other non-current financial assets	21	–	58,205	–	58,205
		–	157,894	3,025,558	3,183,452

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	26	–	829,607	829,607
Financial liabilities included in other payables and accruals		–	722,233	722,233
Derivative financial instruments	29	77,042	–	77,042
Interest-bearing bank loans	30	–	2,692,250	2,692,250
Senior notes	31	–	3,274,686	3,274,686
		77,042	7,518,776	7,595,818

44. 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	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	**51,105**	36,792	**51,105**	36,792
– The CCIRSs	**–**	58,596	**–**	58,596
– Forward currency contracts	**1,058**	4,301	**1,058**	4,301
Other non-current financial assets	**129,569**	58,205	**129,569**	58,205
	181,732	157,894	**181,732**	157,894
Financial liabilities				
Derivative financial instruments				
– The CCSs	**(59,033)**	(77,042)	**(59,033)**	(77,042)
– The CCIRSs	**(62,296)**	–	**(62,296)**	–
Senior notes	**(2,124,779)**	(3,274,686)	**(2,158,094)**	(3,299,727)
	(2,246,108)	(3,351,728)	**(2,279,423)**	(3,376,769)

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

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

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

(a) The fair values of bonds receivable, loans receivable, the non-current pledged deposits, lease liabilities and the non-current interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The change in fair value as a result of the Group's own non-performance risk for lease liabilities and interest-bearing loans, and the suppliers' non-performance risk for loans and bonds receivables as at 31 December 2019 were assessed to be insignificant.

(b) Other non-current financial assets are measured using the valuation techniques of discounted cash flow model, and using significant unobservable market inputs.

(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 CCIRSs and the CCSs, were measured by using a discounted cash flow model. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRSs and the CCSs, were the same as their carrying amounts.

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

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

44. 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	2019: 15.35% to 15.66% (2018: 15.19% to 15.50%)	1% (2018:1%) increase in discount rate would result in decrease in fair value by RMB36,000 (2018: RMB65,000) 1% (2018:1%) decrease in discount rate would result in increase in fair value by RMB36,000 (2018: RMB65,000)
Other non-current financial assets – investment in ISM	Discounted cash flow model	Discount rate	2019: 3.61% to 3.68% (2018: 3.72% to 3.79%)	1% (2018:1%) increase in discount rate would result in decrease in fair value by RMB63,000 (2018: RMB71,000) 1% decrease in discount rate would result in increase in fair value by RMB70,000 (2018: RMB71,000)
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – receive leg	2019: 1.69% to 1.91%	1% increase in discount rate would result in decrease in fair value by RMB1,790,000 1% decrease in discount rate would result in increase in fair value by RMB2,011,000
		Discount rate – pay leg	2019: 2.62% to 2.71%	1% increase in discount rate would result in increase in fair value by RMB2,916,000 1% decrease in discount rate would result in decrease in fair value by RMB2,700,000

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

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – the CCSs (AUD/RMB)	Discounted cash flow model	Discount rate – receive leg	2019: 1.69% to 1.91%	1% increase in discount rate would result in decrease in fair value by RMB8,274 1% decrease in discount rate would result in increase in fair value by RMB8,171
		Discount rate – pay leg	2019: 1.04% to 1.33%	1% increase in discount rate would result in increase in fair value by RMB79,194 1% decrease in discount rate would result in decrease in fair value by RMB79,599
Derivative financial instrument – the CCIRSs	Discounted cash flow model	Discount rate – receive leg	2019: 1.88% to 1.92%	1% increase in discount rate would result in increase in fair value by RMB1,432,000 1% decrease in discount rate would result in decrease in fair value by RMB1,381,000
		Discount rate – pay leg	2019: 1.21% to 1.23%	1% increase in discount rate would result in decrease in fair value by RMB129,138,000 1% decrease in discount rate would result in increase in fair value by RMB133,372,000
Derivative financial instrument – early redemption option embedded in the senior notes	Hull-White model	Credit spread	2019: 6.00% to 6.13%	1% increase in credit spread would result in decrease in fair value by RMB47,120,000 1% decrease in credit spread would result in decrease in fair value by RMB55,098,000

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

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2019				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	**–**	**–**	**51,105**	**51,105**
– Forward currency contracts	**–**	**1,058**	**–**	**1,058**
Other non-current financial assets	**21,755**	**44,591**	**63,223**	**129,569**
	21,755	**45,649**	**114,328**	**181,732**
As at 31 December 2018				
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 year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**153,593**	82,274
Addition	**36,364**	52,273
Derecognition	**(33,555)**	(9,498)
Cash settlement	**(67,425)**	–
Total gain/(loss) recognised in profit or loss	**16,641**	(32,078)
Total gains recognised in equity	**12,176**	54,110
Exchange realignment	**(3,466)**	6,512
At 31 December	**114,328**	153,593

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

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2019				
Derivative financial instruments				
– The CCSs	–	–	59,033	59,033
– The CCIRSs	–	–	62,296	62,296
	–	–	121,329	121,329
As at 31 December 2018				
Derivative financial instruments				
– The CCSs	–	–	77,042	77,042

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	77,042	186,195
Net cash settlement	(9,046)	(48,577)
Total loss/(gain) recognised in profit or loss	24,905	(1,553)
Total loss/(gain) recognised in equity	22,531	(61,317)
Exchange realignment	5,897	2,294
At 31 December	121,329	77,042

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, time deposits, interest-bearing bank loans, and senior notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and trade and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including the forward currency contracts, the CCIRSs and the CCSs. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to these financial statements.

Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

To manage the interest rate risk arising from the floating interest rate instruments, the Group has entered into CCIRSs, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of the CCIRSs, approximately 90% (2018: 84%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
Year ended 31 December 2019	50	(1,815)
Year ended 31 December 2019	(50)	1,815
Year ended 31 December 2018	50	(1,443)
Year ended 31 December 2018	(50)	1,443

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases or financing by operating units in currencies other than the units' functional currencies. Approximately 2% (2018: 2%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 61% (2018: 52%) of costs were denominated in currencies other than the units' functional currencies. Certain operating units of the Group use forward currency contracts to eliminate the foreign currency exposures. The Group also has certain bank balances denominated in AUD, HKD, USD and EUR. In addition, the Group has investments denominated in EUR, and provided loans to suppliers denominated in USD and DKK and issued senior notes in USD. Also, the Group has certain bank loans which are denominated in USD and AUD.

During the year, the Group had hedged 100% (2018: 100%) of its foreign currency exposure from its interest-bearing bank borrowings. The Group has used the CCIRSs to reduce the exposure to foreign currency risk arising from the borrowings.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate between RMB or AUD against each of the following currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/ (decrease) in AUD/USD/EUR DKK/NZD/GBP rates %	Increase/ (decrease) in profit before tax RMB'000
2019		
If the RMB weakens against the USD	5	1,656
If the RMB strengthens against the USD	(5)	(1,656)
If the RMB weakens against the EUR	5	7,727
If the RMB strengthens against the EUR	(5)	(7,727)
If the RMB weakens against the DKK	5	(40)
If the RMB strengthens against the DKK	(5)	40
If the AUD weakens against the USD	5	3,925
If the AUD strengthens against the USD	(5)	(3,925)
If the AUD weakens against the EUR	5	2,665
If the AUD strengthens against the EUR	(5)	(2,665)
If the AUD weakens against the NZD	5	–
If the AUD strengthens against the NZD	(5)	–
If the AUD weakens against the GBP	5	(22)
If the AUD strengthens against the GBP	(5)	22

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/(decrease) in AUD/USD/EUR/ DKK/NZD/GBP rates %	Increase/ (decrease) in profit before tax RMB'000
2018		
If the RMB weakens against the USD	5	1,257
If the RMB strengthens against the USD	(5)	(1,257)
If the RMB weakens against the EUR	5	4,442
If the RMB strengthens against the EUR	(5)	(4,442)
If the RMB weakens against the DKK	5	669
If the RMB strengthens against the DKK	(5)	(669)
If the AUD weakens against the USD	5	3,174
If the AUD strengthens against the USD	(5)	(3,174)
If the AUD weakens against the EUR	5	1,364
If the AUD strengthens against the EUR	(5)	(1,364)
If the AUD weakens against the NZD	5	(42)
If the AUD strengthens against the NZD	(5)	42
If the AUD weakens against the GBP	5	(106)
If the AUD strengthens against the GBP	(5)	106

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Bonds receivable#	214,747	–	214,747
Loans receivable#	5,306	–	5,306
Trade receivables*	–	1,006,109	1,006,109
Bills receivable#	100,706	–	100,706
Financial assets included in prepayments, other receivables and other assets#	153,162	–	153,162
Pledged deposits	8,878	–	8,878
Cash and cash equivalents	2,217,335	–	2,217,335
	2,700,134	1,006,109	3,706,243

As at 31 December 2018

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	RMB'000
Bonds receivable#	137,148	–	137,148
Loans receivable#	13,678	–	13,678
Trade receivables*	–	751,483	751,483
Bills receivable#	110,379	–	110,379
Financial assets included in prepayments, other receivables and other assets#	80,604	–	80,604
Pledged deposits	19,872	–	19,872
Cash and cash equivalents	1,912,394	–	1,912,394
	2,274,075	751,483	3,025,558

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

\# The credit quality of bonds receivable, loans receivable, bills receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	837,752	–	–	–	837,752
Financial liabilities included in other payables and accruals	827,626	–	–	–	–	827,626
Derivative financial instruments	–	(5,767)	13,139	150,287	–	157,659
Interest-bearing bank loans	–	23,628	107,493	4,346,336	–	4,477,457
Senior notes	–	–	117,723	2,563,754	–	2,681,477
Lease liabilities	–	9,197	43,477	112,285	7,552	172,511
	827,626	864,810	281,832	7,172,662	7,552	9,154,482

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	–	829,607	–	–	–	829,607
Financial liabilities included in other payables and accruals	722,233	–	–	–	–	722,233
Derivative financial instruments	–	–	57,017	53,059	–	110,076
Interest-bearing bank loans	–	–	112,452	2,872,965	–	2,985,417
Senior notes	–	–	236,351	3,900,514	–	4,136,865
	722,233	829,607	405,820	6,826,538	–	8,784,198

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Total liabilities	10,267,567	10,166,038	10,005,040
Total assets	15,861,373	15,015,585	14,854,587
Liabilities to assets ratio	65%	68%	67%

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

47. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, there was an outbreak of the novel coronavirus (the "COVID-19 outbreak") across China. The Group took immediate action to protect the safety and health of its employees and ensure business continuity. The Group's supply chains are on track and its key partner manufacturers are operating with limited disruption. With COVID-19 disrupting retail and logistics businesses across China, the Group has proactively adjusted its marketing plans and the way it communicates and engages with customers to respond to the changed retail landscape. It is leveraging its propriety MAMA100 CRM platform to support its business and target customers through live webcast.

The Group has identified potential risks in the supply of some raw materials and logistics if stricter lock-down measures are implemented by more governments around the world. The Group will pay close attention to the development of the COVID-19 outbreak and take additional measures as appropriate. As at the date on which these financial statements were authorised for issue, the Group assessed and concluded that there was no significant impact on the financial statements of the Group as a result of the COVID-19 outbreak.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	14	19
Investments in subsidiaries	10,448,337	7,452,972
Deferred tax assets	380	372
Derivative financial instruments	51,105	36,792
Other non-current financial assets	38,122	34,886
Total non-current assets	10,537,958	7,525,041
CURRENT ASSETS		
Prepayments, deposits and other receivables	9,319	9,320
Due from subsidiaries	2,734,986	4,891,490
Loans to subsidiaries	979,682	375,717
Loans receivable	5,306	13,678
Cash and cash equivalents	419,179	258,170
Total current assets	4,148,472	5,548,375
CURRENT LIABILITIES		
Trade payables	614	26,354
Due to subsidiaries	3,922,417	2,742,712
Other payables and accruals	18,474	11,096
Tax payable	2,153	2,106
Senior notes	21,533	236,351
Total current liabilities	3,965,191	3,018,619
NET CURRENT ASSETS	183,281	2,529,756
TOTAL ASSETS LESS CURRENT LIABILITIES	10,721,239	10,054,797
NON-CURRENT LIABILITIES		
Derivative financial instruments	59,033	77,042
Senior notes	2,103,246	3,038,335
Interest-bearing bank loans	172,578	–
Total non-current liabilities	2,334,857	3,115,377
Net assets	8,386,382	6,939,420
EQUITY		
Issued capital	5,500	5,473
Reserves (note)	7,878,357	6,669,361
Proposed dividend	502,525	264,586
Total equity	8,386,382	6,939,420

Luo Fei
Director

Wang Yidong
Director

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (restated)	540,608	(26,408)	3,260,270	47,538	29,122	(330,695)	2,929,431	6,449,866
Total comprehensive income for the year	–	–	–	–	–	316,288	56,606	372,894
Equity-settled share option arrangements	49,054	–	–	39,057	–	–	–	88,111
Shares issued for 2013 Share Award Scheme	–	(2)	–	–	–	–	–	(2)
Equity-settled share award schemes	–	13,329	–	–	(3,434)	–	13,183	23,078
Proposed final 2018 dividend	–	–	–	–	–	–	(264,586)	(264,586)
At 31 December 2018 and 1 January 2019	589,662	(13,081)	3,260,270	86,595	25,688	(14,407)	2,734,634	6,669,361
Total comprehensive income for the year	–	–	–	–	–	194,274	1,412,955	1,607,229
Equity-settled share option arrangements	63,377	–	–	38,498	–	–	–	101,875
Equity-settled share award schemes	–	9,684	–	–	(25,688)	–	19,933	3,929
Final 2018 dividend	–	–	–	–	–	–	(1,512)	(1,512)
Proposed final 2019 dividend	–	–	–	–	–	–	(502,525)	(502,525)
At 31 December 2019	653,039	(3,397)	3,260,270	125,093	–	179,867	3,663,485	7,878,357

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 23 March 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2015 RMB'000 (Restated)	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
RESULTS					
REVENUE	4,818,561	6,505,616	8,095,345	10,132,498	**10,925,217**
Gross profit	2,984,565	4,059,067	5,265,614	6,739,720	**7,228,541**
PROFIT BEFORE TAX	502,748	1,456,520	1,368,738	1,527,924	**1,565,200**
Income tax expense	(210,201)	(404,558)	(440,240)	(684,776)	**(560,151)**
PROFIT FOR THE YEAR	292,547	1,051,962	928,498	843,148	**1,005,049**
Attributable to:					
Owners of the parent	250,687	954,396	932,846	843,148	**1,005,049**
Non-controlling interests	41,860	97,566	(4,348)	–	**–**
PROFIT FOR THE YEAR	292,547	1,051,962	928,498	843,148	**1,005,049**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	0.41	1.52	1.48	1.32	**1.57**
– Diluted	0.40	1.50	1.46	1.30	**1.55**

	31 December				
	2015 RMB'000 (Restated)	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	9,206,410	9,777,038	10,140,204	10,322,022	**10,663,772**
Current assets	4,637,993	4,434,310	3,991,066	4,532,565	**5,197,601**
Current liabilities	(6,679,324)	(5,239,533)	(3,297,849)	(3,201,692)	**(3,203,050)**
Non-current liabilities	(3,562,836)	(5,775,711)	(6,620,329)	(6,803,348)	**(7,064,517)**
Net assets	3,602,243	3,196,104	4,213,092	4,849,547	**5,593,806**
Attributable to:					
Owners of the parent	3,293,152	3,161,506	4,213,092	4,849,547	**5,593,806**
Non-controlling interests	309,091	34,598	–	–	**–**
	3,602,243	3,196,104	4,213,092	4,849,547	**5,593,806**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