



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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 1112)

Interim Report

中期報告

2017





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Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. Luo Fei (*Chairman and Chief Executive Officer*)

Non-executive Directors

Dr. Zhang Wenhui
Mr. Wu Xiong
Mr. Luo Yun
Mr. Chen Fufang

Independent Non-executive Directors

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

BOARD COMMITTEE

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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5 Zhujiang West Road, Zhujiang New Town
Tianhe District, Guangzhou
Guangdong Province 510623
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

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

AUDITOR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
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KY1-1110
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

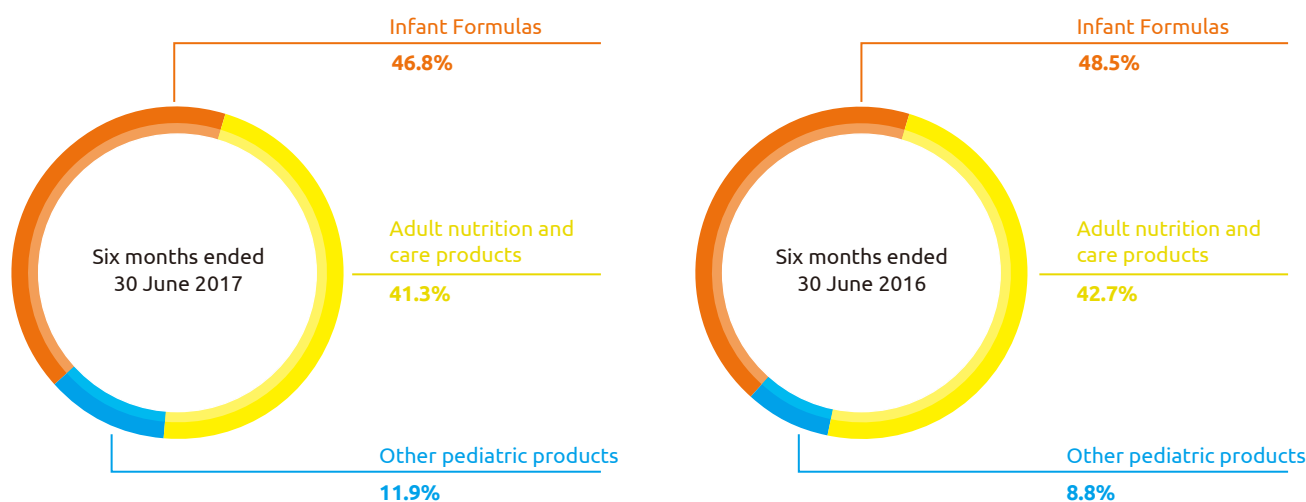
Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Financial Highlights

	Six months ended 30 June		
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	% of Change
Revenue	3,551,415	3,008,304	18.1%
Gross profit	2,315,688	1,928,108	20.1%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	1,003,987	949,948	5.7%
Adjusted EBITDA*	1,061,794	849,016	25.1%
Profit for the period	396,630	404,892	-2.0%
Net cash flows generated from operating activities	776,310	551,440	40.8%
Basic earnings per share	RMB0.64	RMB0.57	12.3%

* Adjusted EBITDA = EBITDA – net foreign exchange gains – fair value gains on derivative financial instruments + fair value losses on derivative financial instruments + one-time expense paid to the original shareholders of Swisse on some tax refund

REVENUE BY PRODUCT SEGMENT



Management Discussion and Analysis

BUSINESS REVIEW

During the first half of 2017, Health and Happiness (H&H) International Holdings Limited (“**H&H**” or the “**Company**”) and its subsidiaries (collectively the “**Group**”) completed the acquisition of the remaining 17% minority interest in Swisse Wellness Group Pty Ltd (“**Swisse**”) and subsequently accelerated its integration plans by bringing all of its businesses together under a new Group name that reflects its new corporate mission, vision and positioning as an all-round premium nutrition and wellness provider, with two equally strategic segments: baby nutrition and care (“**BNC**”) and adult nutrition and care (“**ANC**”).

Stepping into a new phase of growth, the Group focused on premium nutrition and lifetime wellness consolidated its current business under four major brands, including Biostime™, Swisse™, Healthy Times™ and Dodie™. Under the new Group name with a shared vision, these four aspirational brands with superior products already enjoyed established market positions in Australia, New Zealand, China, France and the United States, and are quickly gaining recognition in other international markets.

During the first half of the year, the Group achieved strong revenue growth of 18.1% to RMB3,551.4 million, compared with the same period of last year, with the BNC and ANC businesses contributing approximately 58.7% and 41.3% of total revenue, respectively. Adjusted EBITDA during the period also increased by 25.1% to RMB1,061.8 million year-over-year. Net profit remained relatively stable at RMB396.6 million, compared with the corresponding period of last year, despite additional finance costs incurred for senior notes issued to complete the acquisition of the minority interest in Swisse in the first half of 2017.

Revenue derived from the BNC business increased by 20.9% during the first half of 2017, compared to the corresponding period of 2016, as the result of robust growth in both infant milk formula (“**IMF**”) and probiotics supplements. The Group saw strong sales momentum for its premium and super premium IMF series, which grew 18.3% compared to same period of last year due to strong branding, overall market growth, consolidation and premiumization. In the first half of 2017, the IMF market in China showed some signs of recovery as the industry continued to respond to the new formula registration rules that will soon be imposed by the Chinese government. In particular, the level of competition in the market started to stabilise as small-scale brands exited the market, which resulted in less discounting and more rational pricing strategies – a development that will continue to benefit larger IMF players.

According to Nielsen, an independent market research company, the Group’s share of the overall IMF market in China was 5.5% for the twelve months ended 30 June 2017. The market share of Biostime™, the Group’s flagship IMF brand, increased slightly, while the share of mid-tier Adimil™ branded IMF products weakened compared to same period of last year. Consequently, the Group’s overall market share was down slightly compared with 5.8% for the twelve months ended 30 June 2016.

The sales momentum of the Group’s probiotics products segment remained strong with revenue growth of 72.9% compared to the corresponding period of 2016, as a result of rising demand due to heightened awareness in China of the benefits of probiotics, effective marketing initiatives, as well as introduction of high profile brand ambassador for the first time.

Management Discussion and Analysis

The Group's ANC business is led by its wholly-owned subsidiary Swisse, a leading provider of vitamin, herbal and mineral supplements ("VHMS") products. Despite the high base of the first four months in 2016 prior to the Cross-border Ecommerce ("CBEC") regulatory change in China, the ANC business still managed to grow 14.2% (5.7% on a currency-adjusted basis) during the six months under review compared to the corresponding period of 2016. The growth was mainly driven by strong sales momentum in the second quarter of 2017 in both the Chinese and Australian markets, as well as further clarity on the incoming CBEC regulation. This clarity was provided in a published statement by the Chinese regulator in March 2017, which stated that any commodities imported through CBEC should be considered as personal goods, therefore implying that they do not fall under the normal trade rules. As a result, sales of Swisse products realized through CBEC following the announcement, both in Australia and China, were strong and above the Group's original expectations. According to research statistics by IRI, an independent market research company, Swisse continued to retain its leading position in the Australian VHMS market with 15.8% market share for the twelve months ended 30 June 2017, which remained stable compared with 15.9% for the twelve months ended 31 March 2017.

In March 2017, Swisse entered into an international partnership agreement with the Scuderia Ferrari F1® Team, the most successful Formula 1 team in history. This partnership supported our growth in existing markets and its expansion into new markets by boosting brand awareness worldwide. Swisse also launched multiple consumer engagement campaigns across different markets, featuring its aspirational ambassadors, premium ingredients and proven products.

On 8 April 2017, the Group officially launched Swisse's normal trade business in China, leveraging new and existing nationwide retail network and starting with certain hero products such as Hair, Skin and Nails (HSN) and Cranberry Concentrate in liquid and effervescent forms. The Group believes that the expansion of Swisse's China business, both CBEC and normal trade, will strengthen Swisse's brand awareness among Chinese consumers and further broaden its customer base. Furthermore, following the official release of guidelines for filing of vitamin and mineral supplements by the China Food and Drug Administration ("CFDA") in May 2017, the Group has started to proceed with the related filing process in China, which will enable Swisse to sell a wider and more compelling range of products in the China market starting from next year.

To accelerate both its CBEC and normal trade businesses in China, the Group also invested significantly in sophisticated marketing campaigns and sponsorship activities, in partnership with major ecommerce platforms in China, which saw it successfully enhance brand awareness and drive consumer demand. These included:

- Super Brand Day Campaigns with Tmall.hk, JD.com, VIP.com and NetEase Kaola.com
- Live Show for 618 Promotional Campaign with JD.com
- Sponsorship of the Color Run™ in cities across China

Other than the major CBEC platforms mentioned above, the Group has also developed new strategic partnerships with vertical ecommerce platforms and social network based online retailers, such as xiaohongshu.com, kidswant.com, aiyingshi.com, among others, during the period. This has allowed the Group to further explore opportunities for sales growth while growing its brand presence online in China.

Management Discussion and Analysis

PROSPECTS

Looking ahead, the Group will continue to prioritise the integration of its four brands under its new mission and vision in order to further enhance their growth potential and extract more synergies and operational efficiencies, particularly in supply chain, distribution, research and innovation, finance, customer relationship management (“CRM”), corporate culture and personnel capability.

The Group anticipates great opportunities for sustainable growth within its BNC and ANC businesses, despite ongoing challenges posed by competition and regulatory changes. As the Chinese IMF market further consolidates, the Group will continue to step up its investment in branding and marketing activities, particularly for the Biostime™ brand, in order to strengthen its market positioning in the premium and super premium segment. The Group will also ramp-up its celebrity-endorsement activities following the recent appointment of Chinese actor, Liu Ye (劉燁) and French movie star, Juliette Binoche as Biostime™ new brand ambassadors. The Group has already applied to register five IMF series with the CFDA ahead of the effective date of the new IMF registration rules, and has already gained approval of four series from the CFDA, including existing premium and supreme series renamed β-star and n-star series under the Biostime™ brand, organic series under the Healthy Times™ brand, as well as the Manle series under the Adimil™ brand. The Group expects that the remaining formula series submitted will fully meet the stringent requirements set by the authorities and will be approved within the second half of this year.

Subsequent to the announcement of the filing procedures for fast-tracked application for vitamin and mineral supplements, the government also released registration procedures for health food products in July 2017. In response, the Group has been subsequently preparing application documents for its functional food products in order to secure approval for Swisse to offer a more complete range of food supplements in China, paving the way for additional growth in the coming years.

To facilitate the expansion of the Swisse normal trade business and distribution of Swisse products in the China market, the Group will further leverage its existing nationwide distribution network by utilizing its sales teams, distribution systems, store networks and CRM systems. This will help to accelerate the expansion of the brand and exposure of its products within the fast growing VHMS market in China. Furthermore, the Group will step up investment in marketing initiatives, such as endorsements by well-known Chinese celebrities, to support active sales and improve consumer awareness.

Going forward, the Group will expand its global business footprint through the implementation of new initiatives in R&D, brand building and marketing. This included the opening of the first European office of Biostime Institute for Nutrition and Care (“BINC”) in Geneva, Switzerland in May. The BINC will offer sustainable scientific support that underpins the premium quality of the Group’s products while boosting its R&D capacity through partnership with world-class research institutions in Europe, and laying down the groundwork for BINC to become a world-class international research body.

With inspiring brands and integrated global resources, the Group is continuing to build its leadership credentials in the IMF and VHMS segments by bringing its high quality products to new markets. The Group recently launched the super premium organic IMF products under its Healthy Times™ brand in the United States, as well as Biostime™ branded organic series in France, leveraging its local existing sales resources to accelerate its international exposure. Meanwhile, building on the strong momentum of expansion into international markets in 2016 through its partnership with PGT, the Group is committed to widening the global presence of Swisse with recent launches in the Hong Kong and the United States markets. It expects to enter more markets in the coming year.

With these steps, the Group aspires to strengthen its competitiveness and make further strides towards becoming a global leader in premium nutrition and wellness.

Management Discussion and Analysis

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2017, the Group's revenue increased by 18.1% to RMB3,551.4 million as compared with the corresponding period in 2016. The increase in revenue was mainly attributable to the solid growth of both the BNC and ANC segments, especially the strong sales momentum of the Biostime™ branded IMF and probiotics supplement products.

	Six months ended 30 June			% to revenue	
	2017 RMB'000	2016 RMB'000	Change	2017	2016
Baby nutrition and care products	2,085,465	1,724,294	20.9%	58.7%	57.3%
– Infant formulas	1,661,255	1,460,490	13.7%	46.8%	48.5%
– Other pediatric products	424,210	263,804	60.8%	11.9%	8.8%
Adult nutrition and care products	1,465,950	1,284,010	14.2%	41.3%	42.7%
Total	3,551,415	3,008,304	18.1%	100.0%	100.0%

Infant formulas

Revenue from IMF amounted to RMB1,661.3 million in the six months ended 30 June 2017, representing an increase of RMB200.8 million, or 13.7%, as compared with the same period of last year. The growth was mainly attributable to the strong sales momentum of Biostime™ branded super premium and premium series IMF products, as well as the incremental sales from the Healthy Times™ branded organic IMF, which was launched in December 2016. The increase was partially offset by a decline in revenue attributable to the mid-tier Adimil™ branded IMF products.

Other pediatric products

During the period under review, the Group recorded revenue from probiotic supplements of RMB337.8 million, a robust growth of 72.9% compared to RMB195.4 million in the first half of 2016. Probiotic supplements also contributed 79.6% of total revenue within the other pediatric product segment for the six months ended 30 June 2017. The increase in revenue was attributable to rising consumer demand as a result of heightened awareness in China of the health benefits associated with probiotics, the launch of effective marketing initiatives, as well as the introduction of a high profile brand ambassador for the first time.

Management Discussion and Analysis

Adult nutrition and care products

Revenue from the adult nutrition and care products segment amounted to RMB1,466.0 million for the six months ended 30 June 2017, representing an increase of 14.2% compared to revenue of RMB1,284.0 million for the corresponding period of 2016. Despite the high base for the first four months of 2016 prior to the CBEC regulatory change, the Group still managed to achieve a 5.7% increase in revenue on a currency-adjusted basis, from AUD267.6 million in the first half of 2016 to AUD282.8 million in the first half of 2017. The increase was mainly led by increased consumer demand for Swisse™ branded products in both the Chinese and Australian markets.

In April 2017, Swisse officially kicked off normal trade in China, further expanding the Chinese business beyond CBEC, which was launched in 2016. Active sales in China from both online and offline accounted for 24.4% of revenue from the adult nutrition and care products segment in the six months ended 30 June 2017.

Gross profit and gross profit margin

During the first half of 2017, the Group recorded gross profit of RMB2,315.7 million, an increase of 20.1% compared with the prior corresponding period. The Group's gross profit margin increased from 64.1% in the first half of 2016 to 65.2% in the first half of 2017.

The gross profit of the baby nutrition and care segment increased by 27.6% to RMB1,438.2 million in the first half of 2017 compared with the same period of last year, with the gross profit margin increasing from 65.4% to 69.0%. The higher gross profit margin mainly resulted from: (i) an improved product mix towards higher proportion of sales from the higher-margin Biostime™ branded IMF and probiotic supplements; and (ii) reduced price-discounting activities, which was replaced by other value-added consumer rewards programs, which had less impact on the gross profit.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 1.4% to AUD169.3 million in the first half of 2017, compared with AUD167.0 million in the first half of 2016. The gross profit margin of the adult nutrition and care segment decreased from 62.4% in the first half of 2016 to 59.9% in the first six months of 2017, which was mainly the result of non-recurring stock relabeling and the destruction of returned goods. Excluding these impacts, the gross profit margin of the adult nutrition and care products has almost rebounded back to the level recorded prior to the CBEC regulation change.

Other income and gains

Other income and gains amounted to RMB111.2 million for the six months ended 30 June 2017, representing a decrease of 19.1% compared with the previous corresponding period. Other income and gains primarily consisted of a net foreign exchange gain of RMB51.0 million, interest income of RMB20.9 million, fair value gains from the early redemption option embedded in the senior notes and forward currency contracts of RMB33.2 million and others.

Management Discussion and Analysis

Selling and distribution costs

Selling and distribution costs amounted to RMB1,072.2 million for the six months ended 30 June 2017, an increase of 12.3% compared to the same period of last year. The increase in selling expenses was mainly attributable to increased sales and marketing activities, such as the new brand ambassador and sponsorship programs, to support business expansion. These expenses were budgeted and incurred according to the Group's new strategic plan. They were deemed critical during the year 2017 before the new Chinese IMF registration rules become effective. The expenses were also necessary for the recent launch of Swisse normal trade sales and Healthy Times™ branded organic IMF in the Chinese market.

Selling and distribution costs as a percentage of the Group's revenue decreased slightly from 31.7% for the six months ended 30 June 2016 to 30.2% for the six months ended 30 June 2017 due to higher effectiveness in generating sales returns from the budgeted expense investments.

In the second half of 2017, the Group will further step up its investments in sophisticated marketing and brand building campaigns, as well as in sales channel expansions, to enhance the premium positioning of the Group's products, raise brand awareness and reach a broader consumer base.

Administrative expenses

Administrative expenses increased by 32.8% from RMB165.4 million for the six months ended 30 June 2016 to RMB219.6 million for the six months ended 30 June 2017. The increase in administrative expenses was mainly due to the additional employee expenses incurred as the Group enhanced its operational capability to support Swisse's global expansion, especially in China, as well as incremental expenses related to the Group's integration projects.

Administrative expenses as a percentage of the Group's revenue was 6.2% in the first half of 2017, compared with 5.5% in the same period of last year.

Other expenses

Other expenses for the six months ended 30 June 2017 increased to RMB195.9 million from RMB52.5 million in the first half of 2016. Other expenses mainly consisted of non-cash fair value losses on swap contracts of RMB107.1 million, R&D expenses of RMB38.7 million, a one-time expense paid to the original shareholders of Swisse on some tax refund of RMB34.9 million and others.

EBITDA and EBITDA margin

EBITDA for the six months ended 30 June 2017 increased to RMB1,004.0 million from RMB949.9 million for the six months ended 30 June 2016. The EBITDA margin was 28.3% during the period under review.

Adjusted EBITDA is reconciled from EBITDA by excluding the impact of net foreign exchange gains/losses, non-cash fair value changes on derivative financial instruments and other non-recurring expenses. During the first half of 2017, the adjusted EBITDA was RMB1,061.8 million, after excluding the impact of (i) a net foreign exchange gain of RMB51.0 million, (ii) non-cash fair value gains from the early redemption option embedded in the senior notes and forward currency contracts of RMB33.2 million, (iii) non-cash fair value losses on swap contracts of RMB107.1 million, and (iv) a one-time expense paid to the original shareholders of Swisse on some tax refund of RMB34.9 million. The adjusted EBITDA for the corresponding period in 2016 was RMB849.0 million, after excluding the impact of a foreign exchange gain of RMB91.3 million and net fair value gains on derivative financial instruments of RMB9.6 million. The Group's adjusted EBITDA margin increased by 1.7 percentage point from 28.2% in the first six months ended 2016 to 29.9% in the same period of 2017.

Management Discussion and Analysis

Finance costs

During the six months ended 30 June 2017, the Group incurred finance costs of RMB306.1 million, including interest expenses for convertible bonds, senior notes and interest-bearing bank loans of RMB277.5 million, bank charges relating to the financing for the Swisse minority interest buy-out of RMB15.2 million, and losses from the early redemption of the remaining part of the convertible bonds of RMB13.3 million.

Income tax expense

Income tax expense decreased from RMB256.9 million in the first half of 2016 to RMB236.5 million in the first half of 2017.

The effective tax rate decreased from 38.8% in the first half of 2016 to 37.4% in the first half of 2017. The decrease was mainly attributable to the tax deduction that resulted from tax consolidation of the Group's Australian subsidiaries, which occurred in September 2016, post the completion of the exercise of the Roll-up Call Option.

The decrease in income tax expense was partially offset by the non-deductibility of certain expenses for tax purpose, such as finance costs associated with the senior notes, losses from the early redemption of the remaining part of the convertible bonds and others.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2017, the Group recorded net cash generated from operating activities of RMB776.3 million, resulting from pre-tax cash from operations of RMB1,069.6 million, minus income tax paid of RMB293.3 million.

Investing activities

For the six months ended 30 June 2017, net cash flows generated from investing activities amounted to RMB197.3 million, primarily resulted from the decrease in time deposits of RMB209.9 million and others.

Financing activities

For the six months ended 30 June 2017, net cash flows used in financing activities amounted to RMB333.0 million. The cash outflows were primarily related to payment for the acquisition of the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings Pty Ltd. (the "**17% Acquisition**") of RMB1,108.7 million, redemption of the convertible bonds of RMB1,240.9 million, repayment of bank loans of RMB188.7 million and interest for bank loans and senior notes of RMB223.7 million. The cash inflows were primarily related to net proceeds from the issuance of senior notes of RMB1,415.4 million and the release of pledged deposits of RMB987.7 million in an escrow account.

Cash and bank balances

As of 30 June 2017, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB1,933.3 million.

Management Discussion and Analysis

Interest-bearing bank loans, senior notes and convertible bonds

As of 30 June 2017, the Group's outstanding interest-bearing bank loans amounted to RMB2,647.1 million, including RMB479.7 million repayable within one year and RMB2,167.4 million repayable after one year.

In January 2017, the Company issued US\$200.0 million 7.25% senior notes, due in 2021. The net proceeds from this issuance, together with the Group's cash on hand, was used to fund the 17% Acquisition. Taking the US\$400.0 million senior notes issued in June 2016 into account, as of 30 June 2017, the total carrying amount of the senior notes was RMB4,074.5 million.

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

Thus, taking the senior notes and the interest-bearing bank loans into consideration, the gearing ratio was 50.1%. The gearing ratio is calculated by dividing the sum of the carrying amount of senior notes and interest bearing bank loans by total assets.

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables decreased by 3 days from 31 days for the six months ended 30 June 2016 to 28 days for the six months ended 30 June 2017. The average turnover days of trade payables were 83 days for the six months ended 30 June 2017, representing a decrease of 17 from 100 days in the same period of 2016.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 122 days for the six months ended 30 June 2017, representing a decrease by 32 days from 154 days in the first half of 2016.

Corporate Governance and Other Information

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) as its own code of corporate governance. Except for the deviation from code provision A.2.1 as disclosed below, the Company has complied with the code provisions contained in the CG Code for the six months ended 30 June 2017.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors’ dealings in the Company’s securities (the “**Company Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2017.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2017. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

Corporate Governance and Other Information

AUDIT COMMITTEE

The audit committee of the Board (the “**Audit Committee**”) was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

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

REMUNERATION COMMITTEE

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

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

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

NOMINATION COMMITTEE

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

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

Corporate Governance and Other Information

NOMINATION COMMITTEE (CONTINUED)

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the six months ended 30 June 2017, the Company attended 12 investors' conferences and roadshows and had approximately 300 individual meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2017 are summarized as follows:

Date	Event	Organizer	Location
January 2017	Citi Consumer Corporate Day	Citi	Hong Kong
January 2017	dbAccess China Conference	Deutsche Bank	Beijing
January 2017	Nomura Consumer and Gaming Corporate Day	Nomura	Hong Kong
March 2017	Hong Kong Roadshow	Citi	Hong Kong
April 2017	European Roadshow	Macquarie	London, Paris
April 2017	Daiwa China Corporate Day	Daiwa	Singapore
April 2017	US Roadshow	Citi	Boston, New York, San Francisco
April 2017	Shenzhen Roadshow	Industrial Bank	Shenzhen
May 2017	HSBC China Conference	HSBC	Shenzhen
June 2017	BAML Innovative China Forum	BAML	Shenzhen
June 2017	Daiwa Hong Kong China Investment Seminar	Daiwa	Tokyo
June 2017	UBS Asian Consumer Conference	UBS	Hong Kong

Corporate Governance and Other Information

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

The last shareholders' meeting was the annual general meeting held on 12 May 2017 at Marina Room II, 2/F., The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, and the re-election of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017.

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by the Hong Kong Institute of Certified Public Accountants.

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

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

Corporate Governance and Other Information

SHARE OPTION SCHEMES

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

Share Option Scheme

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

During the six months ended 30 June 2017, 1,927,499 share options (“Share Options”) under the Share Option Scheme to subscribe for 1,927,499 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 on 19 April 2017 (the “Date of Grant”) at an exercise price of HK\$25.75 per share. The closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the day preceding the Date of Grant was HK\$25.50.

Particulars and movements of Share Options under the Share Option Scheme during the six months ended 30 June 2017 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per share	Number of Share Options				
			Outstanding as at 1 January 2017	Granted during the six months ended 30 June 2017	Exercised during the six months ended 30 June 2017	Lapsed during the six months ended 30 June 2017	Outstanding as at 30 June 2017
Directors							
Dr. Ngai Wai Fung	16/12/2011	HK\$12.12	60,000	–	–	–	60,000
	19/04/2017	HK\$25.75	–	150,000	–	–	150,000
Mr. Tan Wee Seng	16/12/2011	HK\$12.12	60,000	–	–	–	60,000
	19/04/2017	HK\$25.75	–	150,000	–	–	150,000
Prof. Xiao Baichun	16/12/2011	HK\$12.12	60,000	–	–	–	60,000
	19/04/2017	HK\$25.75	–	150,000	–	–	150,000
Mr. Luo Fei	29/12/2015	HK\$15.58	414,093	–	–	–	414,093
Sub-total:			594,093	450,000	–	–	1,044,093
Employees and others	09/06/2011	HK\$15.312	66,468	–	(11,668) ⁽¹⁾	–	54,800
	29/11/2011	HK\$11.52	86,377	–	(9,846) ⁽²⁾	–	76,531
	01/06/2012	HK\$19.64	88,541	–	(17,301) ⁽³⁾	(202)	71,038
	07/12/2012	HK\$24.70	194,661	–	(82) ⁽⁴⁾	(8,400)	186,179
	29/12/2015	HK\$15.58	13,433,958	–	(2,510,283) ⁽⁵⁾	(1,396,985)	9,526,690
	03/05/2016	HK\$21.05	483,735	–	–	(211,805)	271,930
	30/09/2016	HK\$20.92	490,590	–	(3,000) ⁽⁶⁾	(83,945)	403,645
	23/12/2016	HK\$23.30	540,804	–	–	(249,886)	290,918
	19/04/2017	HK\$25.75	–	1,477,499	–	(136,854)	1,340,645
Total:			15,979,227	1,927,499	(2,552,180)	(2,088,077)	13,266,469

Corporate Governance and Other Information

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\$25.5.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$24.5.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$25.2.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$25.0.

Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$24.1.

Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK\$24.8.

All Share Options granted since the adoption of the Share Option Scheme until 7 December 2012 have vested in the Grantees 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 Share Options granted by the Company on 29 December 2015, 2,732,019 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

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

Among the 18,868,509 Share Options granted by the Company on 29 December 2015, 16,136,490 Share Options, including Share Options granted to Mr. Luo Fei, an executive Director, and Ms. Kong Qingjuan, a former executive Director, 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

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 483,735 Share Options granted by the Company 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 Share Options granted by the Company on 3 May 2016, 181,157 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

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

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

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

Among the 554,009 Share 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

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 540,804 Share 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 Share 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 Share Options granted on 19 April 2017, 1,477,499 Share Options, including Share Options granted to three Grantees who are directors of certain indirect subsidiaries of the Company (and otherwise not connected persons of the Company), 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 Share Options granted on 19 April 2017, 450,000 Share Options were granted to Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun, who are independent non-executive Directors of the Company, and shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Amount 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

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

No Share Options granted under the Share Option Scheme were cancelled during the six months ended 30 June 2017.

The total number of shares available for issue under the Share Option Scheme is 46,165,780, representing approximately 7.29% of the Company's issued share capital as at 30 June 2017.

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme

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

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme (the “**Pre-IPO Share Options**”) is HK\$2.53;
- (b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 17 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the “**Listing Date**”);
- (c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

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

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK\$1.00 paid by each grantee. During the six months ended 30 June 2017, 3 employees were 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 505 Pre-IPO Share Options lapsed. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2017 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options			Outstanding as at 30 June 2017
	Outstanding as at 1 January 2017	Exercised during the six months ended 30 June 2017	Lapsed during the six months ended 30 June 2017	
Director				
Mr. Luo Fei	372,744	–	–	372,744
Others				
Senior management members	334,794	(406) ⁽¹⁾	–	334,388
Other employees	155,577	(16,019) ⁽²⁾	(505)	139,053
Business partners	60,000	–	–	60,000
Total:	923,115	(16,425)	(505)	906,185

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$23.20.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Pre-IPO Share Options were exercised is HK\$24.65.

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2017.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 906,185, representing approximately 0.14% of the Company's issued share capital as at 30 June 2017.

SHARE AWARD SCHEME

The share award scheme (the "**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 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 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 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.

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

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date. Details of the Share Award Scheme are set out in the Company's announcements dated 28 November 2011 and 30 March 2012.

On 19 April 2017, the Board resolved to grant and granted a total of 111,108 awarded shares, to one selected participant, who is a director of certain indirect subsidiaries of the Company (and would otherwise not be a connected person of the Company), by way of allocation of a combination of awarded shares previously granted to certain other selected participants that did not vest, and shares previously purchased by the trustee of the Share Award Scheme which were not yet granted and held by the trustee pursuant to the Share Award Scheme. Subject to the terms of the Share Award Scheme, the awarded shares will vest on 1 April 2018. Please refer to the announcement of the Company dated 19 April 2017 for details.

Save as disclosed above, during the six months ended 30 June 2017, the Board neither granted any awarded shares to eligible persons under the Share Award Scheme nor arranged any funds to be paid to the trustee of the Share Award Scheme for purchasing of shares of the Company on the Stock Exchange. The trustee of the Share Award Scheme did not purchase any shares of the Company on the Stock Exchange during the six months ended 30 June 2017.

Corporate Governance and Other Information

SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the shares awarded under the Share Award Scheme (the “**Awarded Shares**”) which were outstanding during the six months ended 30 June 2017 are set out below:

Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Number of Awarded Shares		
				Vested as at 30 June 2017	Forfeited/lapsed as at 30 June 2017	Outstanding (held by the trustee for the grantees) as at 30 June 2017
23 December 2016	7,713 ⁽¹⁾	0.001%	1 April 2017	(7,713)	–	–
23 December 2016	320,335 ⁽²⁾	0.053%	1 April 2018	–	–	320,335
19 April 2017	111,108 ⁽³⁾	0.018%	1 April 2018	–	–	111,108
Total:	439,156			(7,713)	–	431,443

Note 1: These Awarded Shares were granted to a participant who was a director of a subsidiary of the Company.

Note 2: Among these Awarded Shares granted, 77,828 Awarded Shares were granted to Mr. Luo Fei and 242,507 Awarded Shares were granted to 5 participants who were directors of subsidiaries of the Company.

Note 3: These Awarded Shares were granted to a participant who was a director of certain indirect subsidiaries of the Company.

Further details in relation to the Share Award Scheme are set out in note 30 to the financial statements of this interim report.

2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the “**2013 Share Award Scheme**”) on 29 November 2013 (the “**2013 Adoption Date**”), which was further amended on 14 May 2015. It is implemented in parallel with the 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 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.

Corporate Governance and Other Information

2013 SHARE AWARD SCHEME (CONTINUED)

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 Participant in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme would represent 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 participant 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.

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 2013 Adoption Date.

On 19 April 2017, the Board also resolved to grant and granted 81,992 awarded shares, to 6 selected participants, who are employees of the Group, by way of allotment of new shares. Please refer to the announcement of the Company dated 19 April 2017 for details.

Save as disclosed above, during the six months ended 30 June 2017, the Board did not grant other any awarded shares to any other eligible persons under the 2013 Share Award Scheme.

Corporate Governance and Other Information

2013 SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the grants of awarded shares pursuant to the 2013 Share Award Scheme are set out below:

Date of grant	Number of awarded shares granted	Percentage of the Company's share capital as at the 2013 Adoption Date	Vesting Date	Number of awarded shares		Outstanding (held by the trustee for the selected employees) as at 30 June 2017
				Vested as at 30 June 2017	Forfeited/lapsed as at 30 June 2017	
1 July 2015	68,300	0.011%	30 June 2017	-	(68,300)	-
29 December 2015	585,947	0.097%	1 April 2017	(511,877)	-	-
3 May 2016	82,522	0.014%	1 April 2017	(82,522)	-	-
30 September 2016	14,641	0.002%	1 April 2017	(14,641)	-	-
23 December 2016	17,839	0.003%	1 April 2017	(17,839)	-	-
23 December 2016	1,202,140	0.200%	1 April 2018	-	(47,466)	1,154,674
19 April 2017	81,992	0.014%	1 April 2018	-	(22,190)	59,802
Total:	2,053,381	0.003%		(626,879)	(137,956)	1,214,476

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

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company ⁽⁷⁾
Luo Fei	Beneficial owner	Long position	372,744 ⁽¹⁾	0.059%
	Beneficial owner	Long position	414,093 ⁽²⁾	0.065%
	Beneficial owner	Long position	398,359 ⁽³⁾	0.063%
	Beneficiary of a trust	Long position	450,000,000 ⁽⁴⁾	71.085%
Luo Yun	Beneficiary of a trust	Long position	450,000,000 ⁽⁴⁾	71.085%
Ngai Wai Fung	Beneficial owner	Long position	60,000 ⁽⁵⁾	0.009%
			150,000 ⁽⁶⁾	0.024%
Tan Wee Seng	Beneficial owner	Long position	60,000 ⁽⁵⁾	0.009%
			150,000 ⁽⁶⁾	0.024%
Xiao Baichun	Beneficial owner	Long position	60,000 ⁽⁵⁾	0.009%
			150,000 ⁽⁶⁾	0.024%

Corporate Governance and Other Information

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

Notes:

1. These are the shares subject to the exercise of the Pre-IPO Share Options granted by the Company under the Pre-IPO Share Option Scheme on 16 July 2010. Details of the Company's Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes – Pre-IPO Share Option Scheme" above.
2. These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 29 December 2015. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.
3. These are the Awarded Shares granted by the Company under the Share Award Scheme, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012, 30,500 Awarded Shares granted on 25 March 2013, 138,031 Awarded Shares granted on 31 December 2015 and 77,828 Awarded Shares granted on 23 December 2016. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" above.
4. As at 30 June 2017, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% 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.

5. These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.
6. These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 19 April 2017. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.
7. As at 30 June 2017, the total number of the issued shares of the Company was 633,040,701.

Save as disclosed above, at no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouses and children under eighteen years old) to hold any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

Corporate Governance and Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2017, 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	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company ⁽²⁾
Biostime Pharmaceuticals (China) Limited ⁽¹⁾	Beneficial owner	Long position	450,000,000	71.085%
Flying Company Limited ⁽¹⁾	Interest in a controlled corporation	Long position	450,000,000	71.085%
Sailing Group Limited ⁽¹⁾	Interest in a controlled corporation	Long position	450,000,000	71.085%
Coliving Limited ⁽¹⁾	Interest in a controlled corporation	Long position	450,000,000	71.085%
UBS Trustees (BVI) Limited ⁽¹⁾	Trustee	Long position	450,000,000	71.085%

Notes:

- As at 30 June 2017, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% 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.

- As at 30 June 2017, the total number of the issued shares of the Company was 633,040,701.

Save as mentioned above, as at 30 June 2017, 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.

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Change of Senior Management

During the first half of 2017, the Group completed the acquisition of the remaining 17% minority interest in Swisse and subsequently accelerated its integration plans by bringing all of its business together under a new Group name that reflects its new corporate mission, vision and position as an all-round premium nutrition and wellness provider.

In order to support the integration and development of the Group, the Company engaged some talents joining in the senior management, including Chief Operating Officer, Chief Strategy Officer, Managing Directors of ANC Business Unit and Managing Director of BNC International Business Unit.

Corporate Governance and Other Information

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company since the date of the 2016 Annual Report up to the date of this interim report are set out below:

Names of Directors	Details of Changes
Dr. Ngai Wai Fung	<ol style="list-style-type: none">1. Resigned as an independent non-executive director of China Coal Energy Company Limited (its H shares are listed on the Main Board of the Stock Exchange (Stock Code: 1898) and its A shares are listed on the Shanghai Stock Exchange (Stock Code: 601898)) on 26 June 20172. Resigned as an independent non-executive director of China Railway Group Limited (its H shares are listed on the Main Board of the Stock Exchange (Stock Code: 390) and its A shares are listed on the Shanghai Stock Exchange (Stock Code: 601390)) on 26 June 20173. Pursuant to the supplemental service agreement entered into between the Company and Dr. Ngai Wai Fung dated 11 May 2017, the remuneration of Dr. Ngai Wai Fung as an independent non-executive Director of the Company has been adjusted to RMB400,000 per annum, effective retrospectively from 1 January 2017.
Mr. Tan Wee Seng	<ol style="list-style-type: none">1. Appointed as chairman of the audit committee of Xtep International Holdings Limited (Stock Code: 1368), a company listed on the Main Board of the Stock Exchange on 8 May 2017.2. Pursuant to the supplemental service agreement entered into between the Company and Mr. Tan Wee Seng dated 11 May 2017, the remuneration of Mr. Tan Wee Seng as an independent non-executive Director of the Company has been adjusted to RMB400,000 per annum, effective retrospectively from 1 January 2017.
Professor Xiao Baichun	<ol style="list-style-type: none">1. Pursuant to the supplemental service agreement entered into between the Company and Professor Xiao Baichun dated 11 May 2017, the remuneration of Professor Xiao Baichun as an independent non-executive Director of the Company has been adjusted to RMB400,000 per annum, effective retrospectively from 1 January 2017.

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.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENT

References are made to the announcement issued by the Company on 24 April 2016, regarding the entering into of a facility agreement (the “**Facility Agreement**”) among Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrower, the Company and certain subsidiaries as guarantors, and certain affiliates of The Goldman Sachs Group, Inc., to provide for a 3-year senior secured term loan facility in an aggregate amount of up to US\$450 million (the “**Loan Facility**”) to be syndicated to other financial institutions.

Pursuant to the Facility Agreement, if Mr. Luo Fei, Mr. Luo Yun and the family members of each of them (collectively) cease to (i) hold (directly or indirectly) beneficially 23% or more of the issued voting share capital of the Company, or (ii) be the persons who hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, the Loan Facility will be cancelled and all outstanding principal, along with accrued interest, and all other amounts accrued under the finance documents, should become immediately due and payable.

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

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of Health and Happiness (H&H) International Holdings Limited
(Formerly known as “Biostime International Holdings Limited”)
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 31 to 84, which comprise the interim condensed consolidated statement of financial position as at 30 June 2017, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes.

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

SCOPE OF REVIEW

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Ernst & Young

Certified Public Accountants

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

22 August 2017

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

Six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	RMB'000 (Unaudited)	RMB'000 (Unaudited)
REVENUE	5	3,551,415	3,008,304
Cost of sales		(1,235,727)	(1,080,196)
Gross profit		2,315,688	1,928,108
Other income and gains	5	111,242	137,473
Selling and distribution costs		(1,072,163)	(954,704)
Administrative expenses		(219,620)	(165,362)
Other expenses		(195,903)	(52,517)
Finance costs	6	(306,056)	(228,389)
Share of losses of an associate		(25)	(2,858)
PROFIT BEFORE TAX	7	633,163	661,751
Income tax expense	8	(236,533)	(256,859)
PROFIT FOR THE PERIOD		396,630	404,892
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		(107,805)	–
Reclassification adjustment for gain included in profit or loss		84,198	–
Income tax effect		7,082	–
Exchange realignment		(82)	–
		(16,607)	–
Hedge on net investment:			
Effective portion of changes in fair value of hedging instruments arising during the period		(30,850)	–
Exchange differences on translation of foreign operations		(14,652)	46,166
Exchange differences on net investment in a foreign operation		267,501	92,090
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		205,392	138,256
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		602,022	543,148
Profit attributable to:			
Owners of the parent		401,230	356,909
Non-controlling interests		(4,600)	47,983
		396,630	404,892
Total comprehensive income attributable to:			
Owners of the parent		592,137	480,549
Non-controlling interests		9,885	62,599
		602,022	543,148
		RMB	RMB
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		0.64	0.57
Diluted		0.63	0.56

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	11	512,799	531,197
Prepaid land lease payments	12	59,549	60,287
Goodwill	13	5,497,390	5,296,618
Intangible assets	14	3,077,856	3,013,432
Bonds receivable		135,440	127,701
Loans receivable		34,670	48,789
Deposits		6,743	5,662
Investment in an associate		35,168	35,193
Loan to an associate		40,000	40,000
Held-to-maturity investment		19,552	18,435
Deferred tax assets	26	310,556	352,973
Derivative financial instruments	21	90,283	246,751
Total non-current assets		9,820,006	9,777,038
CURRENT ASSETS			
Inventories	15	899,654	775,983
Trade and bills receivables	16	602,646	516,624
Prepayments, deposits and other receivables	17	96,698	610,004
Loans receivable		37,171	27,084
Derivative financial instruments	21	5,635	2,914
Pledged deposits	18	16,064	995,498
Cash and cash equivalents	18	1,933,329	1,506,203
Total current assets		3,591,197	4,434,310
CURRENT LIABILITIES			
Trade and bills payables	19	612,018	532,121
Other payables and accruals	20	1,057,361	864,872
Derivative financial instruments	21	-	3,074
Interest-bearing bank loans	22	479,739	549,387
Convertible bonds	23	-	1,223,619
Senior notes	24	294,685	201,171
Financial liabilities associated with put options	25	-	1,561,387
Tax payable		211,758	303,902
Total current liabilities		2,655,561	5,239,533
NET CURRENT ASSETS/(LIABILITIES)		935,636	(805,223)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,755,642	8,971,815

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,755,642	8,971,815
NON-CURRENT LIABILITIES			
Senior notes	24	3,779,817	2,542,703
Interest-bearing bank loans	22	2,167,441	2,242,791
Other payables and accruals	20	20,748	23,175
Derivative financial instruments	21	64,608	–
Deferred tax liabilities	26	957,901	967,042
Total non-current liabilities		6,990,515	5,775,711
Net assets		3,765,127	3,196,104
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	5,413	5,390
Equity component of convertible bonds	23	–	24,489
Other reserves		3,758,766	3,131,627
		3,764,179	3,161,506
Non-controlling interests		948	34,598
Total equity		3,765,127	3,196,104

Luo Fei

Director

Chen Fufang

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2017

Notes	Attributable to owners of the parent																
	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds 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	Put option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total equity RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017 (Audited)	5,390	450,673	24,489	(19,271)	26,992	95	360,239	37,648	7,681	57,012	381,263	(1,529,893)	751	3,338,437	3,161,506	34,398	3,196,104
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	401,230	401,230	(4,600)	396,630
Other comprehensive income for the period:																	
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	(29,079)	-	(29,079)	12,472	(16,607)
Hedges on net investment	-	-	-	-	-	-	-	-	-	-	-	-	(30,850)	-	(30,850)	-	(30,850)
Exchange differences on transition of foreign operations	-	-	-	-	-	-	-	-	-	(16,665)	-	-	-	-	(16,665)	2,013	(14,652)
Exchange differences on net investment in a foreign operation	-	-	-	-	-	-	-	-	-	267,501	-	-	-	-	267,501	-	267,501
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	250,836	-	-	(59,929)	401,230	592,137	9,885	602,022
Transfer to statutory reserve funds	-	-	-	-	-	-	380	-	-	-	-	-	-	(380)	-	-	-
Equity-settle share option arrangements	23	45,131	-	-	-	-	-	(3,207)	-	-	-	-	-	-	41,947	-	41,947
Equity-settle share award schemes	-	-	-	283	-	-	-	-	5,490	-	-	-	-	8,364	14,137	-	14,137
Redemption of convertible bonds	-	-	(9,932)	-	-	-	-	-	-	-	-	-	-	-	(9,932)	-	(9,932)
Transfer to retained profits upon redemption of convertible bonds	-	-	(14,557)	-	-	-	-	-	-	-	-	-	14,557	-	-	-	-
Derecognition of Holdco Put Options (as defined in note 25)	-	-	-	-	-	-	-	-	-	-	-	1,529,893	-	28,274	1,558,167	-	1,558,167
Arising from the 17% Acquisition (as defined in note 1)	-	-	-	-	-	-	-	-	-	-	(1,593,783)	-	-	-	(1,593,783)	(39,577)	(1,633,360)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,958)	(6,958)
At 30 June 2017 (Unaudited)	5,413	495,804*	-	(18,988)*	26,992*	95*	360,619*	34,441*	13,171*	307,848*	(1,212,520)**	-	(59,178)*	3,810,482*	3,764,179	948	3,765,127

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2017

		Attributable to owners of the parent										
		Issued capital	Share premium account	Equity component of convertible bonds	Shares held for the share award schemes	Contributed surplus	Capital surplus	Statutory reserve	Share option reserve	Share award reserve	Exchange fluctuation reserve	Retained profits
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (Restated)	5,387	443,825	66,978	(42,141)	26,992	95	358,226	6,914	899	37,881	2,388,096	3,293,152
Profit for the period	-	-	-	-	-	-	-	-	-	-	356,909	3,602,243
Other comprehensive income for the period:												404,892
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	31,550	-	14,616
Exchange difference on net investment in a foreign operation	-	-	-	-	-	-	-	-	-	92,090	-	92,090
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	123,640	356,909	543,148
Equity-settled share option arrangements	2	4,321	-	-	-	-	17,283	-	-	-	-	21,606
Equity-settled share award schemes	30	-	-	-	-	-	-	14,375	-	-	-	14,375
Repurchase of convertible bonds	-	-	(24,847)	-	-	-	-	-	-	-	(24,847)	(24,847)
Transfer to retained profits upon repurchase of convertible bonds	-	-	(17,642)	-	-	-	-	-	-	17,642	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,327)	(2,327)
At 30 June 2016 (Unaudited)	5,389	448,146	24,489	(42,141)	26,992	95	358,226	24,197	15,274	161,521	2,762,647	3,784,835
												369,363
												4,154,198

* These reserve accounts comprise the consolidated other reserves of RMB3,758,766,000 (31 December 2016: RMB3,131,627,000) in the interim condensed consolidated statement of financial position.

The 17% Acquisition has been accounted for as an equity transaction, details of which are contained in note 31 to these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		633,163	661,751
Adjustments for:			
Bank interest income	5	(15,167)	(24,183)
Interest income from loans and bonds receivables	5	(5,738)	(5,159)
Finance costs	6	306,056	228,389
Share of losses of an associate		25	2,858
Depreciation	7	35,989	41,062
Amortisation of intangible assets	7	48,946	47,350
Amortisation of prepaid land lease payments	7	738	738
Loss on disposal of items of property, plant and equipment and intangible assets	7	579	3,240
Equity-settled share option expense	7	5,889	18,783
Equity-settled share award expense	7	14,137	14,375
Fair value losses/(gains) on derivative financial instruments, net	7	73,935	(9,647)
Impairment of trade receivables	7	285	346
Write-down of inventories to net realisable value	7	49,705	71,568
		1,148,542	1,051,471
Increase in inventories		(73,120)	(206,246)
(Increase)/decrease in trade and bills receivables		(86,022)	207,182
Increase in prepayments, deposits and other receivables		(7,295)	(17,170)
(Increase)/decrease in rental deposits		(883)	4,027
Increase/(decrease) in trade and bills payables		79,897	(21,758)
Increase/(decrease) in other payables and accruals		8,519	(211,241)
Cash generated from operations		1,069,638	806,265
Corporate income tax paid		(293,328)	(254,825)
Net cash flows from operating activities		776,310	551,440

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Net cash flows from operating activities		776,310	551,440
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(49,149)	(53,084)
Purchases of items of intangible assets		(2,877)	(8,081)
Proceeds from disposal of items of property, plant and equipment and intangible assets		4,001	7,702
Residual payment in relation to the Acquisition (as defined in note 1)		-	(131,956)
Repayment of loans receivable		8,974	2,509
Interest received		26,520	135,314
Decrease/(increase) in time deposits with original maturity of three months or more when acquired	18	209,875	(119,880)
Increase in time deposits with maturity date after one year		-	(52,308)
Net cash flows from/(used in) investing activities		197,344	(219,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	29	36,058	1,830
New bank loans		-	2,860,239
Repayment of bank loans		(188,735)	(4,570,450)
Payment for the 17% Acquisition (as defined in note 1)	31	(1,108,670)	-
Repurchase of convertible bonds		-	(1,649,465)
Redemption of convertible bonds	23	(1,240,880)	-
Issuance of senior notes, net of transaction costs	24	1,415,447	2,591,813
Decrease/(increase) in pledge deposits for senior notes	18	987,674	(944,498)
Decrease in pledged deposits		-	1,739,000
Increase in restricted deposits for bills issue	18	(8,240)	-
Interest paid		(223,652)	(162,264)
Dividends paid to non-controlling shareholders		(1,969)	(2,327)
Net cash flows used in financing activities		(332,967)	(136,122)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		1,292,170	1,115,235
Effect of foreign exchange rate changes, net		(3,686)	46,314
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,929,171	1,357,083
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	1,929,171	1,357,083

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

1. CORPORATE AND GROUP INFORMATION

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

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

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

On 7 February 2017, the Group acquired the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings Pty Ltd. (“**Biostime Australia Holdings**”), the intermediate holding company of Swisse, (the “**17% Acquisition**”) at a cash consideration of 311,300,000 in Australian dollars (“**AUD**”) (equivalent to approximately 1,633,360,000 in Renminbi (“**RMB**”). Since then, Swisse became a wholly-owned subsidiary of the Group. Further details of the 17% Acquisition have been contained in note 31 to these interim condensed consolidated financial statements.

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 (the “**Period**”) have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the new and revised International Financial Reporting Standards (“**IFRSs**”) (which also include International Accounting Standards and Interpretations) as disclosed in note 3.1 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2016.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Amendments to IFRS 12 included in Annual improvements 2014 – 2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

The adoption of the above revised standards has had no significant financial effect on these interim condensed financial statements of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3.2 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 interim condensed consolidated financial statements:

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transaction</i> ¹
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ¹
IFRS 9	<i>Financial Instrument</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> ¹
IFRS 16	<i>Leases</i> ²
IFRS 17	<i>Insurance Contracts</i> ³
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ²
Amendment to IAS 40	<i>Transfers to Investment Property</i> ¹
<i>Amendments to IFRS 1 included in Annual improvements 2014 – 2016 Cycle</i>	<i>First-time Adoption of international Financial Reporting Standards</i> ¹
<i>Amendments to IAS 28 included in Annual improvements 2014 – 2016 Cycle</i>	<i>Investment in Associates and Joint Ventures</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements and the disclosures.

The International Accounting Standards Board (the "IASB") issued amendments to IFRS 2 in June 2016 that address what diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During the Period, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance. The Group expects to adopt IFRS 15 on 1 January 2018. During the Period, the Group performed an assessment on the impact of the adoption of IFRS15 and the preliminary result shows that IFRS15 would not have significant impact on the consolidated financial statements in the future.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. The Group has three 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 adult nutrition and care products segment comprises the production of vitamins, health supplements, skin care and sports nutrition products for adults; and
- (c) other pediatric products segment comprises the production of probiotic supplements, dried baby food and nutrition supplements and baby care products.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

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

	Infant formulas 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	1,661,255	1,465,950	424,210	–	3,551,415
Segment results	1,134,510	877,509	303,669	–	2,315,688
<i>Reconciliations:</i>					
Interest income					20,905
Other income and unallocated gains					90,337
Share of loss of an associate					(25)
Corporate and other unallocated expenses					(1,487,686)
Finance costs					(306,056)
Profit before tax					633,163
Other segment information:					
Depreciation and amortisation	93	48,724	5,371	31,485	85,673
Impairment of trade receivables	–	285	–	–	285
Write-down of inventories to net realisable value	22,862	21,144	5,699	–	49,705
Capital expenditure*	1,128	13,130	5,422	2,603	22,283

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2016 (Unaudited):

	Infant formulas 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	1,460,490	1,284,010	263,804	–	3,008,304
Segment results	957,182	801,196	169,730	–	1,928,108
<i>Reconciliations:</i>					
Interest income					29,342
Other income and unallocated gains					108,131
Share of loss of an associate					(2,858)
Corporate and other unallocated expenses					(1,172,583)
Finance costs					(228,389)
Profit before tax					661,751
Other segment information:					
Depreciation and amortisation	1,420	46,916	2,588	38,226	89,150
Impairment of trade receivables	–	346	–	–	346
Write-down of inventories to net realisable value	53,387	18,174	7	–	71,568
Capital expenditure*	5,244	26,647	8,382	1,188	41,461

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	2,359,266	1,863,413
Australia	1,000,574	1,063,154
Other locations [#]	191,575	81,737
	3,551,415	3,008,304

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

(b) Non-current assets

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Mainland China	618,983	621,752
Australia	2,953,636	2,887,575
Other locations [#]	119,496	136,444
	3,692,115	3,645,771

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts (net of value-added tax and goods and services tax) during the Period.

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue		
Sale of goods	3,551,415	3,008,304
Other income and gains		
Bank interest income	15,167	24,183
Interest income from loans and bonds receivables	5,738	5,159
Service income	–	307
Foreign exchange gains	50,988	91,285
Fair value gains on derivative financial instruments	33,202	9,647
Government subsidies*	3,650	3,865
Others	2,497	3,027
	111,242	137,473

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

6. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest on bank loans, senior notes and convertible bonds	277,492	159,179
Bank charges	15,242	51,522
Loss on redemption/repurchase of convertible bonds	13,322	17,688
	306,056	228,389

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cost of inventories sold [#]		1,186,022	1,008,628
Depreciation	11	35,989	41,062
Amortisation of intangible assets	14	48,946	47,350
Amortisation of prepaid land lease payments	12	738	738
Research and development costs ^{**}		38,723	42,362
Minimum lease payments under operating leases		32,587	25,605
Loss on disposal of items of property, plant and equipment and intangible assets		579	3,240
Employee benefit expenses:			
Wages and salaries		396,190	395,400
Pension scheme contributions (defined contribution schemes)		50,884	43,478
Staff welfare and other expenses		21,900	6,652
Equity-settled share option expense	29	5,889	18,783
Equity-settled share award expense	30	14,137	14,375
		489,000	478,688
Foreign exchange differences, net [*]		(50,988)	(91,285)
Fair value losses/(gains) on derivative financial instruments, net		73,935	(9,647)
Impairment of trade receivables ^{**}		285	346
Write-down of inventories to net realisable value [#]		49,705	71,568
Loss on redemption/repurchase of convertible bonds		13,322	17,688

* 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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8. INCOME TAX

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current – Charge for the period		
Mainland China	194,262	58,685
Hong Kong	4,565	5,660
Australia	38,287	152,523
Elsewhere	(9,748)	3,250
Deferred (note 26)	9,167	36,741
Total tax charge for the period	236,533	256,859

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

PRC enterprise income tax (“EIT”)

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% (six months ended 30 June 2016: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2016: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

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

The head entity, Biostime Australia, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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8. INCOME TAX (CONTINUED)

Australia corporate income tax (continued)

Tax consolidation legislation (continued)

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

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

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

9. DIVIDEND

No interim dividend was proposed during the Period (six months ended 30 June 2016: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 629,327,032 (six months ended 30 June 2016: 626,867,751) in issue during the Period.

The calculation of the diluted earnings per share amount for the Period is based on the profit for the Period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share option schemes and the share award schemes. As the conversion or exercise of the convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the convertible bonds.

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	401,230	356,909
Number of shares		
Shares		
Weighted average number of ordinary shares in issue	632,467,772	630,284,526
Weighted average number of shares held for the share award schemes	(3,140,740)	(3,416,775)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	629,327,032	626,867,751
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	8,369,791	10,602,390
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	637,696,823	637,470,141

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB19,070,000 (six months ended 30 June 2016: RMB36,574,000). During the Period, depreciation of RMB35,989,000 (six months ended 30 June 2016: RMB41,062,000) was charged, property, plant and equipment with an aggregate carrying amount of RMB4,118,000 (six months ended 30 June 2016: RMB10,942,000) was disposed of by the Group, and an exchange realignment with an aggregate amount of RMB2,639,000 was recognised in the Period (six months ended 30 June 2016: RMB1,171,000).

12. PREPAID LAND LEASE PAYMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Carrying amount at 1 January	61,765	63,243
Recognised during the Period/year (note 7)	(738)	(1,478)
Carrying amount at end of the Period/year	61,027	61,765
Current portion included in prepayments, deposits and other receivables (note 17)	(1,478)	(1,478)
Non-current portion	59,549	60,287

13. GOODWILL

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
Cost and carrying amount:		
At 1 January	5,296,618	4,937,296
Acquisition of subsidiaries	-	62,161
Exchange realignment	200,772	297,161
At end of the Period/year	5,497,390	5,296,618

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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14. INTANGIBLE ASSETS

During the Period, the Group acquired trademark and computer software with an aggregate cost of RMB3,213,000 (six months ended 30 June 2016: RMB4,887,000). During the Period, amortisation of RMB48,946,000 (six months ended 30 June 2016: RMB47,350,000) was charged by the Group, and intangible assets with an aggregate carrying amount of RMB462,000 (six months ended 30 June 2016: Nil) was disposed of by the Group. An exchange realignment with an aggregate amount of RMB110,617,000 was recognised in the Period (six months ended 30 June 2016: RMB125,461,000).

15. INVENTORIES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
Raw materials	354,676	226,310
Raw materials in transit	217,531	60,161
Work in progress	341	1,291
Finished goods	327,106	488,221
	899,654	775,983

16. TRADE AND BILLS RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	558,967	498,043
Bills receivable	48,293	36,103
	607,260	534,146
Less: Impairment provision	(4,614)	(17,522)
	602,646	516,624

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. TRADE AND BILLS RECEIVABLES (CONTINUED)

Advance payment is normally required for sales of the baby nutrition and care products except in limited circumstances for credit sales. Credit sales are usually allowed for the adult nutrition and care products with credit terms of 30 to 60 days from end of month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	529,831	434,166
1 to 3 months	66,200	79,610
Over 3 months	6,615	2,848
	602,646	516,624

Receivables that were past due but not impaired, amounting to approximately RMB8,121,000 (31 December 2016: RMB1,529,000), related to a number of independent customers that have good track records with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Receivables that were neither past due nor impaired related to recognised and creditworthy customers for whom there was no recent history of default. Customers who trade on credit terms are subject to credit verification procedures.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
At beginning of the Period/year	17,522	5,171
Acquisition of subsidiaries	-	1,747
Impairment losses recognised	285	14,060
Amount written off as uncollectible	(13,824)	-
Impairment losses reversed	-	(3,925)
Exchange realignment	631	469
At end of the Period/year	4,614	17,522

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB4,614,000 (31 December 2016: RMB17,522,000) with a carrying amount before provision of RMB4,614,000 (31 December 2016: RMB17,522,000).

The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected not to be recovered.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
Prepayments	11,656	6,853
Deposits	3,142	506,003
Other receivables	54,092	68,369
Prepaid expenses	26,330	27,301
Current portion of prepaid land lease payments (note 12)	1,478	1,478
	96,698	610,004

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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18. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Cash and bank balances	1,587,032	1,162,170
Time deposits	346,297	344,033
Pledged deposits	16,064	995,498
	1,949,393	2,501,701
Less:		
Pledged deposits for senior notes	–	(987,674)
Restricted deposits for bills issue	(16,064)	(7,824)
Cash and cash equivalents as stated in the consolidated statement of financial position	1,933,329	1,506,203
Less:		
Non-pledged time deposits with original maturity of three months or more when acquired	(4,158)	(214,033)
Cash and cash equivalents as stated in the consolidated statement of cash flows	1,929,171	1,292,170
Denominated in RMB (note)	1,167,102	1,252,380
Denominated in other currencies	782,291	1,249,321
	1,949,393	2,501,701

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. 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. TRADE AND BILLS PAYABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	595,954	524,459
Bills payable	16,064	7,662
	612,018	532,121

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	406,209	411,358
1 to 3 months	195,071	112,389
Over 3 months	10,738	8,374
	612,018	532,121

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

As at 30 June 2017, included in the trade payables was an amount due to the Group's associate of RMB3,480,000 (31 December 2016: RMB4,497,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

20. OTHER PAYABLES AND ACCRUALS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Restated)
Advances from customers	40,303	38,892
Salaries and welfare payables	130,218	68,017
Accruals	617,192	564,168
Other tax payables	98,765	89,295
Deferred income (note 27)	71,546	31,324
Dividend payable to non-controlling shareholders	1,989	-
Other payables	118,096	96,351
	1,078,109	888,047
Less: Current portion	(1,057,361)	(864,872)
Non-current portion	20,748	23,175

The above balances are non-interest-bearing and have no fixed terms of repayment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2017		31 December 2016	
		Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Current					
Conversion option embedded in a loan receivable	(a)	2,846	-	2,914	-
Forward currency contracts	(b)	2,789	-	-	3,074
		5,635	-	2,914	3,074
Non-current					
Early redemption option embedded in the senior notes	(c)	80,604	-	55,509	-
The Swaps (as defined below)	(d)	-	39,515	68,957	-
The CCSs (as defined below)	(e)	9,679	25,093	122,285	-
		90,283	64,608	246,751	-

Notes:

- (a) A conversion option is embedded in a loan receivable which is convertible at the option of the Company at any time before maturity into equity interest of a supplier of the Group that may not exceed 49% of the outstanding equity interest of that supplier. Accordingly, the loan is separated into two components: the debt element and the conversion option element. The fair value of the conversion option as at 30 June 2017 was RMB2,846,000 (31 December 2016: RMB2,914,000). A fair value gain of RMB18,000 was recognised in profit or loss during the Period (six months ended 30 June 2016: a fair value gain of RMB3,000).
- (b) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The fair value of the forward currency contracts as at 30 June 2017 was RMB2,789,000 (31 December 2016: RMB3,074,000 (negative)). A fair value gain of RMB5,953,000 was recognised in profit or loss during the Period (six months ended 30 June 2016: a fair value gain of RMB1,318,000).
- (c) An early redemption option which is embedded in the senior notes issued on 21 June 2016, details of which are set out in note 24 to these interim condensed consolidated financial statements, is separately recognised. The fair value of the early redemption option as at 30 June 2017 was RMB80,604,000 (31 December 2016: RMB55,509,000). A fair value gain of RMB27,231,000 was recognised in profit or loss for the Period (six months ended 30 June 2016: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

- (d) A subsidiary of the Group entered into interest rate swap, cross currency swap and cross currency interest rate swap agreements (collectively the “**Swaps**”) with financial institutions with an aggregate notional amount of US\$239,500,000 for the purpose of hedging the foreign currency risk and interest rate risk in relation to a United States dollar (“**US\$**”) denominated floating rate bank borrowing.

As at 30 June 2017, fair value of the Swaps designated for hedge purposes amounted to RMB39,515,000 (negative) (31 December 2016: RMB68,957,000).

The terms of the Swaps have been negotiated to match the terms of that bank borrowing. The cash flow hedge relating to the expected interest and principal payments were assessed to be highly effective. A net loss of RMB16,607,000 (six months ended 30 June 2016: Nil) was included in the hedging reserve as follows and a net loss of the ineffective portion of RMB3,320,000 was charged to profit or loss.

	Six months ended 30 June 2017 RMB'000 (Unaudited)
Total fair value losses included in the hedging reserve	107,805
Deferred tax on fair value losses	(32,342)
Reclassified from other comprehensive income and recognised in profit or loss	(84,198)
Deferred tax on reclassification to profit or loss	25,260
Exchange realignment	82
Net losses on cash flow hedges	16,607

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

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

The fair value of these CCSs as at 30 June 2017 was RMB15,414,000 (negative) (31 December 2016: RMB122,285,000). Net loss of RMB103,817,000 arising from the changes in fair value of these CCSs was charged to profit or loss and a net loss on net investment hedge of RMB30,850,000 was included in hedging reserve, respectively.

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22. INTEREST-BEARING BANK LOANS

	30 June 2017			31 December 2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Secured bank loan	BBSY+margin	Apr-2018	226,700	BBSY+margin	Apr-2017	257,325
Secured bank loan	Libor+margin	Apr-2018	253,039	Libor+margin	Apr-2017	292,062
			479,739			549,387
Non-current						
Secured bank loan	BBSY+margin	Apr-2019	1,025,955	BBSY+margin	Apr-2019	1,021,135
Secured bank loan	Libor+margin	Apr-2019	1,141,486	Libor+margin	Apr-2019	1,221,656
			2,167,441			2,242,791
			2,647,180			2,792,178

BBSY stands for Australian Bank Bill Swap Bid Rate

Libor stands for London InterBank Offered Rate

Notes:

- (a) As at 30 June 2017, 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 Biostime Hong Kong Limited, a floating charge only) over all present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.
- (b) As at 30 June 2017, the Group's bank loans were denominated in US\$ and AUD in the aggregate amounts of RMB1,394,525,000 and RMB1,252,655,000 respectively.

Notes to Interim Condensed Consolidated Financial Statements

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23. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 with an aggregate principal amount of 3,100,000,000 in Hong Kong dollars (“HK\$”). The convertible bonds had been listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 21 February 2014.

The bonds may be converted, at the option of the bondholders, at any time on or after 4 April 2014 to the close of business on the date falling seven days prior to 20 February 2019, or if such convertible bonds have been called for redemption before 20 February 2019, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption. The convertible bonds are convertible into shares at an initial conversion price of HK\$90.84 per share. The conversion price is subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities and other dilutive events.

The bonds are redeemable at the option of the Company in whole, but not in part, at a redemption price equal to the early redemption amount as at such date, (i) at any time after 20 February 2017, provided that the closing price of the Company’s share, for 20 out of the 30 consecutive trading days immediately prior to the date upon which the notice is given, was at least 130% of the early redemption amount divided by the conversion ratio then in effect immediately prior to the date upon which notice of such redemption is given, or (ii) if, prior to the date the relevant notice is given, conversion rights have been exercised and/or purchased (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in the principal amount of the convertible bonds originally issued.

The bonds do not bear any coupon interest. Unless previously redeemed, converted or purchased and cancelled, the Company is required to redeem each bond at 115.34% of its principal amount on 20 February 2019.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component and has been included in shareholders’ equity.

On 6 June 2016, the Company commenced an offer to repurchase in cash the convertible bonds (the “**Offer**”) and announced to accept for purchase valid tenders of the convertible bonds with an aggregate principal amount of HK\$1,814,000,000 pursuant to the Offer on 15 June 2016. The purchase price is HK\$2,140,000 for each HK\$2,000,000 in the principal amount of the convertible bonds and the Offer was settled on 22 June 2016.

On 20 February 2017, at the option of the bondholders, the Company redeemed the remaining outstanding convertible bonds with an aggregate principal amount of HK\$1,286,000,000. The purchase price is HK\$2,178,800 for each HK\$2,000,000 in the principal amount of the convertible bonds.

Notes to Interim Condensed Consolidated Financial Statements

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23. CONVERTIBLE BONDS (CONTINUED)

According to IAS 32, when the Company extinguishes a convertible bond before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Company is required to allocate the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the convertible bond at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the convertible bond was issued. The gain or loss relating to the equity component is recognised in equity. The gain or loss relating to the liability component is recognised in profit or loss.

The movements of the convertible bonds for the Period are set out below:

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2017 (Audited)	1,223,619	24,489	1,248,108
Interest charged	5,961	-	5,961
Redemption of convertible bonds	(1,230,948)	(9,932)	(1,240,880)
Loss on redemption of convertible bonds charged to profit or loss (note 7)	13,322	-	13,322
Transfer to retained profits	-	(14,557)	(14,557)
Exchange realignment	(11,954)	-	(11,954)
At 30 June 2017 (Unaudited)	-	-	-

Notes to Interim Condensed Consolidated Financial Statements

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24. SENIOR NOTES

On 21 June 2016, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US\$400,000,000. The net proceeds after deduction of underwriting discount and certain expenses related to the senior notes issue were released to repurchase the convertible bonds tendered in the Offer as detailed in note 23 above. The net proceeds from the senior notes issue was deposited into an escrow account (the "**Escrow Account**") to fund the repurchase/redemption of the convertible bonds.

On 23 January 2017, the Company issued additional senior notes due 21 June 2021 with an aggregate principal amount of US\$200,000,000, which were under the same indenture entered by the Company on 21 June 2016 and formed part of the same series as the aforesaid US\$400,000,000 senior notes. The net proceeds after deduction of underwriting discount and certain expenses related to the senior notes issue were released for the 17% Acquisition.

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

As at 30 June 2017, the senior notes are secured by a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries) on a second-ranking basis. Besides, the senior notes are jointly and severally guaranteed on a senior subordinated basis by certain subsidiaries.

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

The Company may redeem part or all of the senior notes at certain time and certain redemption prices as specified in the terms of the senior notes.

As at 30 June 2017, the fair value of the early redemption option embedded in the senior notes which is separately recognised amounted to RMB80,604,000, details of which are set out in note 21(c) to these interim condensed consolidated financial statements.

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24. SENIOR NOTES (CONTINUED)

The movements of the senior notes during the Period and the year ended 31 December 2016 are set out below:

	RMB'000
Upon completion of the issuance on 21 June 2016	
Proceeds received	2,640,712
Transaction costs incurred	(65,627)
Redemption option embedded in the senior notes	27,577
Interest charged during the year	104,920
Interest paid during the year	(101,272)
Exchange realignment	137,564
At 31 December 2016 and 1 January 2017 (Audited)	2,743,874
Upon completion of the additional issuance on 23 January 2017	
Proceeds received	1,433,155
Transaction costs incurred*	(19,676)
Interest charged during the Period	147,590
Interest paid during the Period	(178,863)
Exchange realignment	(51,578)
At 30 June 2017 (Unaudited)	4,074,502
Less: Current portion (Unaudited)	(294,685)
Non-current portion (Unaudited)	3,779,817

* Transaction costs of RMB1,968,000 remained unpaid as at 30 June 2017.

25. FINANCIAL LIABILITIES ASSOCIATED WITH PUT OPTIONS

In contemplation with the Acquisition, the following three wholly-owned investment holding companies were set up by the Company during the year ended 31 December 2015:

- Biostime Australia Investment;
- Biostime Australia Holdings, the immediate holding company of Biostime Australia Investment; and
- Biostime Australia, the immediate holding company of Biostime Australia Holdings.

Biostime Australia Investment entered into a roll-up call option deed (the “**Roll-Up Call Option Deed**”) with the non-controlling shareholders of Swisse (the “**Non-controlling Shareholders**”) simultaneously with the entry into of the share sale agreement (the “**Share Sale Agreement**”) dated 17 September 2015 in relation to the Acquisition. Under the Roll-Up Call Option Deed, Biostime Australia Investment has the right (the “**Roll-up Call Option**”) to require the Non-controlling Shareholders to sell all of the shares they continue to hold in Swisse after the completion of the Acquisition in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings within an agreed period.

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25. FINANCIAL LIABILITIES ASSOCIATED WITH PUT OPTIONS (CONTINUED)

Pursuant to the Share Sale Agreement, on completion of the exercise of the Roll-up Call Option, a put option (the “**Holdco Put Option**” or “**Holdco Put Options**” as appropriate) is to be granted to each of the Non-controlling Shareholders whereby each Non-controlling Shareholders is given the right to require Biostime Australia to buy all (but not some only) of its shares in Biostime Australia Holdings within an agreed period by giving a put option exercise notice. In the case of an exercise of the Holdco Put Option in the exercise period which immediately follows the third anniversary of the completion of the Acquisition, the fair market value of the relevant shares in Biostime Australia Holdings will be determined on the assumption that the financial indebtedness included in Swisse and its subsidiaries (the “**Swisse Group**”) at such time is the lower of: (i) net debt of the Swisse Group as at the date of such valuation; and (ii) 2.0x times the Swisse Group’s consolidated earnings before interest, tax, depreciation and amortisation in the 12 calendar months preceding the date of such valuation.

On 14 September 2016, the Roll-up Call Option was exercised and the Holdco Put Options were granted. Consequently, Biostime Australia Investment directly holds the entire share capital of Swisse whereas Biostime Australia and the Non-controlling Shareholders in aggregate hold approximately 83% and 17% equity interests in Biostime Australia Holdings, respectively.

Under current IFRSs, when the Holdco Put Option is granted, the Group is required to record a financial liability which is to be measured at the present value of the redemption amount. On initial recognition, the corresponding debit is made to put option reserve which is a component of equity attributable to owners of the Company. The financial liability is subsequently measured in accordance with IAS 39 *Financial Instruments*.

The directors have estimated that at the grant date of the Holdco Put Options, the redemption amount would be approximately AUD307,020,000 (equivalent to approximately RMB1,535,438,000), based on 17% of the business value of the Swisse Group as at that date. Accordingly, the Group recorded financial liabilities in respect of the Holdco Put Options of RMB1,535,438,000 as at 14 September 2016 with a corresponding debit to the put option reserve.

On 15 December 2016, the Group announced the 17% Acquisition at a cash consideration of AUD311,300,000 (equivalent to approximately RMB1,561,387,000). Accordingly, as at 31 December 2016, the Group has remeasured the financial liabilities associated with the Holdco Put Options according to the consideration payable and charged the difference between the amounts as at the date of initial recognition and the year-end date to profit or loss.

On 7 February 2017, the Group completed the 17% Acquisition. Consequently, Biostime Australia Holdings and its subsidiaries became the wholly-owned subsidiaries of the Group. Hence, the financial liabilities associated with the Holdco Put Options were derecognised with corresponding credit to the put option reserve and retain profits.

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26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period and the year ended 31 December 2016 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 financial instruments RMB'000	Total RMB'000
At 1 January 2017 (Audited)	45,669	204,450	18,749	7,831	76,274	-	352,973
Credited/(charged) to profit or loss for the Period (note 8)	(3,329)	(8,605)	(5,462)	10,055	(48,838)	4,887	(51,292)
Charged to equity for the Period	-	-	-	-	-	6,784	6,784
Exchange realignment	-	1,908	-	-	-	183	2,091
At 30 June 2017 (Unaudited)	42,340	197,753	13,287	17,886	27,436	11,854	310,556
At 1 January 2016 (Audited)	2,171	152,740	37,223	5,927	-	-	198,061
Credited/(charged) to profit or loss for the year	43,498	49,372	(18,474)	1,904	76,274	-	152,574
Exchange realignment	-	2,338	-	-	-	-	2,338
At 31 December 2016 (Audited)	45,669	204,450	18,749	7,831	76,274	-	352,973

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26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of financial instruments RMB'000	Total RMB'000
At 1 January 2017 (Restated)	(1,265)	69,667	877,953	20,687	967,042
(Credited)/charged to profit or loss for the Period (note 8)	(446)	(6,396) [#]	(13,993)	(21,290)	(42,125)
Charged to equity for the Period	-	-	-	(298)	(298)
Exchange realignment	(51)	-	32,432	901	33,282
At 30 June 2017 (Unaudited)	(1,762)	63,271	896,392	-	957,901
At 1 January 2016 (Audited)	4,691	21,316	849,076	-	875,083
(Credited)/charged to profit or loss for the year	(6,153)	48,351 [#]	(25,513)	20,306	36,991
Acquisition of subsidiaries (note 32)	-	-	4,009	-	4,009
Charged to equity for the year	-	-	-	298	298
Exchange realignment	197	-	50,381	83	50,661
At 31 December 2016 (Restated)	(1,265)	69,667	877,953	20,687	967,042

[#] The amount represented a deferred tax provision of RMB24,543,000 (year ended 31 December 2016: RMB95,301,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB30,939,000 (year ended 31 December 2016: RMB46,950,000) arising from dividends declared by these subsidiaries to their foreign investors during the Period.

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27. DEFERRED INCOME

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Customer loyalty program		
At 1 January	31,324	23,707
Addition	185,735	346,653
Recognised as revenue during the Period/year	(145,513)	(339,036)
Carrying amount at end of the Period/year	71,546	31,324

28. SHARE CAPITAL

Shares

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Authorised: 10,000,000,000 (31 December 2016: 10,000,000,000) ordinary shares of HK\$0.01 each	HK\$100,000,000	HK\$100,000,000
Issued and fully paid: 633,040,701 (31 December 2016: 630,472,096) ordinary shares of HK\$0.01 each	HK\$6,330,407	HK\$6,304,721
Equivalent to	RMB5,413,000	RMB5,390,000

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

	Number of shares in issue	Share capital HK\$'000	Equivalent to RMB'000
At 1 January 2016 (Audited)	630,080,426	6,301	5,387
Share options exercised (note (a))	391,670	4	3
At 31 December 2016 and 1 January 2017 (Audited)	630,472,096	6,305	5,390
Share options exercised (note (b))	2,568,605	25	23
At 30 June 2017 (Unaudited)	633,040,701	6,330	5,413

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28. SHARE CAPITAL (CONTINUED)

Notes:

- (a) During the year ended 31 December 2016, the subscription rights attaching to 391,670 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 391,670 ordinary shares for a total cash consideration, before expenses, of HK\$3,732,000 (equivalent to approximately RMB4,581,000).
- (b) During the Period, the subscription rights attaching to 2,568,605 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 2,568,605 ordinary shares for a total cash consideration, before expenses, of HK\$39,848,000 (equivalent to approximately RMB36,058,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 29 to these interim condensed consolidated financial statements.

Share awards

Details of the Company's share award schemes and the share options exercised under the schemes are included in note 30 to these interim condensed consolidated financial statements.

29. 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 HK\$2.53. 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.

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29. 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:

Six months ended 30 June 2017 (Unaudited)

	Pre-IPO Share Option Scheme		Share Option Scheme		Total Number of options '000
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000	
At 1 January 2017	2.53	923	16.24	15,979	16,902
Granted during the Period	2.53	–	25.75	1,927	1,927
Forfeited during the Period	2.53	(1)	17.98	(2,087)	(2,088)
Exercised during the Period	2.53	(16)	15.60	(2,553)	(2,569)
At 30 June 2017	2.53	906	17.47	13,266	14,172

Six months ended 30 June 2016 (Unaudited)

	Pre-IPO Share Option Scheme		Share Option Scheme		Total Number of options '000
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000	
At 1 January 2016	2.53	1,131	15.71	19,815	20,946
Granted during the period	2.53	–	21.05	484	484
Forfeited during the period	2.53	(1)	20.82	(1,956)	(1,957)
Exercised during the period	2.53	(157)	16.06	(111)	(268)
At 30 June 2016	2.53	973	15.30	18,232	19,205

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 Period were HK\$24.79 per share (six months ended 30 June 2016: HK\$20.13 per share) and HK\$24.24 per share (six months ended 30 June 2016: HK\$25.35 per share), respectively.

Notes to Interim Condensed Consolidated Financial Statements

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29. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

A total of 2,568,605 share options were exercised during the Period under the two share option schemes, resulting in the issue of 2,568,605 ordinary shares of the Company and new share capital of HK\$25,000 (equivalent to approximately RMB23,000) and share premium of HK\$39,823,000 (equivalent to approximately RMB36,035,000) (before issue expenses). An amount of RMB9,096,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) Fair value of the share options

The directors of the Company used 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 Period was HK\$10.26 per share (equivalent to approximately RMB9.06 per share) (six months ended 30 June 2016: HK\$6.01 per share (equivalent to approximately RMB5.01 per share)).

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

	Six months ended 30 June	
	2017	2016
Dividend yield (%)	0	5.32
Expected volatility (%)	41.97 – 42.29	43.51
Risk-free interest rate (%)	1.36 – 1.39	1.15

During the Period, the Group has recognised share option expense related to the two share option schemes of RMB5,889,000 (six months ended 30 June 2016: RMB18,783,000) in total.

Notes to Interim Condensed Consolidated Financial Statements

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

During the Period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (six months ended 30 June 2016: Nil).

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

Date of grant	Number of outstanding Awarded Shares as at 31 December 2016 and newly granted during the Period	Fair value RMB	Vesting date	Number of Awarded Shares		
				Vested during the Period	Forfeited during the Period	Outstanding Awarded Shares as at 30 June 2017
23 December 2016	7,713	161,000	1 April 2017	(7,713)	-	-
23 December 2016	320,335	6,680,000	1 April 2018	-	-	320,335*
19 April 2017	111,108	2,453,000	1 April 2018	-	-	111,108
Total	439,156	9,294,000		(7,713)	-	431,443

* 77,828 Awarded Shares were granted to the Company’s directors.

The Group recognised a share award expense of RMB3,227,000 during the Period (six months ended 30 June 2016: RMB4,911,000) in relation to the Share Award Scheme.

Notes to Interim Condensed Consolidated Financial Statements

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30. 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.

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

Date of grant	Number of outstanding 2013 Awarded Shares as at 31 December 2016 and newly granted during the Period	Fair value RMB	Vesting date	Number of Awarded Shares		
				Vested during the Period	Forfeited during the Period	Outstanding Awarded Shares as at 30 June 2017
1 July 2015	68,300	1,173,000	30 June 2017	-	(68,300)	-
29 December 2015	511,877	7,238,000	1 April 2017	(511,877)	-	-
3 May 2016	82,522	1,375,000	1 April 2017	(82,522)	-	-
30 September 2016	14,641	234,000	1 April 2017	(14,641)	-	-
23 December 2016	17,839	372,000	1 April 2017	(17,839)	-	-
23 December 2016	1,202,140	25,067,000	1 April 2018	-	(47,466)	1,154,674
19 April 2017	81,992	1,811,000	1 April 2018	-	(22,190)	59,802*
Total	1,979,311	37,270,000		(626,879)	(137,956)	1,214,476

* None of the 2013 Awarded Shares were granted to the Company’s directors.

Notes to Interim Condensed Consolidated Financial Statements

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30. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme (continued)

During the Period, no shares were issued for the 2013 Share Award Scheme (six months ended 30 June 2016: Nil).

The Group recognised a share award expense of RMB10,910,000 during the Period (six months ended 30 June 2016: RMB9,464,000) in relation to the 2013 Share Award Scheme.

31. ACQUISITION OF NON-CONTROLLING INTERESTS

On 7 February 2017, the Group acquired the remaining 17% equity interest in Biostime Australia Holdings at a cash consideration of AUD311,300,000 (equivalent to approximately RMB1,633,360,000) from the non-controlling shareholders. Biostime Australia Holdings was an indirect 83%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

The following summarised the effect of the changes in the Group's ownership interest in Biostime Australia Holdings on the equity attributable to owners of the Company:

	RMB'000 (Unaudited)
Consideration paid to the non-controlling interests:	
Cash deposit paid in prior year	524,690
Cash paid in the Period	1,108,670
Total consideration paid to the non-controlling interests	1,633,360
Less:	
Carrying amount of non-controlling interests acquired	(39,577)
Decrease in equity attributable to owners of the Company	1,593,783

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32. BUSINESS COMBINATION

On 21 December 2016, the Group acquired all the equity interest in AB Pharma and its subsidiary (collectively, "AB Pharma Group"). The purchase consideration for the acquisition, amounting to EUR16,023,000 (equivalent to RMB115,795,000), was in form of cash.

As at 31 December 2016, the purchase price allocation of AB Pharma Group was incomplete, pending on the finalisation of valuation of certain assets and liabilities and the determination of the tax bases of the assets and liabilities acquired.

During the Period, the valuation of these assets and liabilities has been completed, and the purchase price allocation has been completed as follows:

	Preliminary fair value recognised on acquisition RMB'000	Final fair value recognised on acquisition RMB'000 (Restated)
Property, plant and equipment	5,172	5,172
Intangible assets	23,534	34,953
Deposits	1,376	1,376
Inventories	9,754	10,374
Trade receivables	26,276	26,276
Prepayments, deposits and other receivables	7,613	8,608
Cash and cash equivalents	7,992	7,992
Tax payable	(9,219)	(9,219)
Trade payables	(13,639)	(13,639)
Other payables and accruals	(8,924)	(10,057)
Deferred tax liabilities	–	(4,009)
Total identifiable net assets at fair value	49,935	57,827
Goodwill on acquisition	64,865	57,968
Total consideration	114,800	115,795
Satisfied by:		
Cash	114,800	115,795*

* By the end of the Period, cash consideration of EUR15,885,000 (equivalent to RMB114,800,000) has been paid by the Group.

Notes to Interim Condensed Consolidated Financial Statements

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32. BUSINESS COMBINATION (CONTINUED)

The quantitative impact on the consolidated statement of financial position is summarised below:

	As at 31 December 2016 RMB'000
Increase in intangible assets	11,546
Decrease in goodwill	(6,974)
Increase in total non-current assets	4,572
Increase in inventories	627
Increase in prepayments, deposits and other receivables	1,006
Increase in total current assets	1,633
Increase in other payables and accruals	(2,151)
Increase in deferred tax liabilities	(4,054)

The restatement did not have any impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, nor any impact on the earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2016.

33. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its offices, production plants, warehouses and vehicles under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

As at 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	44,473	32,930
In the second to fifth years, inclusive	131,641	84,255
After five year	17,633	23,954
	193,747	141,139

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34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting periods:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	620	335
Property, plant and equipment	2,821	1,629
	3,441	1,964

35. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

		Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
	Notes		
Purchases of raw materials from a company under the common control of directors	(i)	-	1
Purchases of finished goods from an associate	(ii)	959	7,302
Interest from loans to an associate	(iii)	796	583

Notes:

- (i) The transactions were conducted in accordance with mutually agreed terms.
- (ii) The transactions were conducted in accordance with mutually agreed terms.
- (iii) Interest from loans to an associate was charged at a rate of 4% and 3% per annum for the six months ended 30 June 2017 and 30 June 2016, respectively.

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35. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(b) Material outstanding balances with related parties

- (i) Details of the Group's trade payables balance with its associate as at the end of the reporting period are disclosed in note 19 to these interim condensed financial statements.
- (ii) As at 30 June 2017, the loan to an associate is secured, interest bearing at a rate of 4% per annum and is repayable on 7 November 2018.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	2,430	890
Short-term employee benefits	13,674	21,793
Pension scheme contributions	339	329
Equity-settled share option expense	1,237	4,013
Equity-settled share award expense	3,819	7,461
Total compensation paid to key management personnel	21,499	34,486

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Financial assets				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	2,846	2,914	2,846	2,914
– Forward currency contracts	2,789	–	2,789	–
– Early redemption option embedded in the senior notes	80,604	55,509	80,604	55,509
– The Swaps	–	68,957	–	68,957
– The CCSs	9,679	122,285	9,679	122,285
	95,918	249,665	95,918	249,665
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	–	3,074	–	3,074
– The Swaps	39,515	–	39,515	–
– The CCSs	25,093	–	25,093	–
Senior notes	4,074,502	2,743,874	4,273,806	2,918,743
Financial liabilities associated with put options	–	1,561,387	–	1,561,387
	4,139,110	4,308,335	4,338,414	4,483,204

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

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, 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.

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, loan to an associate, held-to maturity investment and 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 Group's own non-performance risk for interest-bearing loans and the suppliers' non-performance risk for loans and bonds receivables as at 30 June 2017 were assessed to be insignificant.
- (b) The conversion option embedded in a loan receivable is measured using valuation technique of Binomial tree model 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 Swaps and the CCSs, were measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the Swaps and the CCSs were the same as their carrying amounts.
- (e) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of Hull-White model using significant unobservable market inputs.
- (f) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

Notes to Interim Condensed Consolidated Financial Statements

30 June 2017

36. 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
Derivative financial instrument – Conversion option embedded in a loan receivable	Binomial tree model	Weighted average cost of capital (“WACC”)	12.00% to 13.00%	1% increase in WACC would result in decrease in fair value by RMB217,000 1% decrease in WACC would result in increase in fair value by RMB2,320,000
		Discount Rate	13.09% to 13.35%	1% increase in discount would result in increase in fair value by RMB956,000 1% decrease in discount would result in decrease in fair value by RMB896,000
Derivative financial instrument – Early redemption option embedded in the senior notes	Hull-White model	Credit spread	2.62% to 2.67%	1% increase in credit spread would result in decrease in fair value by RMB1,552,000 1% decrease in credit spread would result in increase in fair value by RMB1,554,000

Notes to Interim Condensed Consolidated Financial Statements

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – the Swaps	Discounted cash flow model	Discount Rate – Receive leg	1.30% to 1.59%	1% increase in discount rate would result in decrease in fair value by RMB27,000 1% decrease in discount rate would result in increase in fair value by RMB27,000
		Discount Rate – Pay leg	1.78% to 2.04%	1% increase in discount rate would result in increase in fair value by RMB464,000 1% decrease in discount rate would result in decrease in fair value by RMB465,000
Derivative financial instruments – the CCSs	Discounted cash flow model	Discount Rate – Receive leg	1.36% to 1.86%	1% increase in discount rate would result in decrease in fair value by RMB1,634,000 1% decrease in discount rate would result in increase in fair value by RMB1,635,000
		Discount Rate – Pay leg	3.88% to 4.12%	1% increase in discount rate would result in increase in fair value by RMB3,524,000 1% decrease in discount rate would result in decrease in fair value by RMB3,539,000

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36. 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			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	–	2,846	2,846
– Forward currency contracts	–	2,789	–	2,789
– Early redemption option embedded in the senior notes	–	–	80,604	80,604
– The CCSs	–	–	9,679	9,679
At 30 June 2017 (Unaudited)	–	2,789	93,129	95,918
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	–	2,914	2,914
– Early redemption option embedded in the senior notes	–	–	55,509	55,509
– The Swaps	–	–	68,957	68,957
– The CCSs	–	–	122,285	122,285
At 31 December 2016 (Audited)	–	–	249,665	249,665

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

The movements in fair value measurements within Level 3 during the Period and the year ended 31 December 2016 are as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
At 1 January	249,665	2,728
Additions	–	27,577
Total (losses)/gains recognised in profit or loss	(61,387)	149,052
Total (losses)/gains recognised in equity	(89,604)	62,313
Exchange realignment	(5,545)	7,995
Fair value at end of the Period/year	93,129	249,665

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments				
– The Swaps	–	–	39,515	39,515
– The CCSs	–	–	25,093	25,093
At 30 June 2017 (Unaudited)	–	–	64,608	64,608
At 31 December 2016 (Audited)				
Derivative financial instruments				
– Forward currency contracts	–	3,074	–	3,074

Notes to Interim Condensed Consolidated Financial Statements

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

The movements in fair value measurements within Level 3 during the Period are as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
At 1 January	–	13,446
Derecognition	–	(5,545)
Total losses/(gains) recognised in profit or loss	18,501	(8,581)
Total losses recognised in equity	49,051	–
Exchange realignment	(2,944)	680
Fair value at end of the Period/year	64,608	–

During the Period, 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 (six months ended 30 June 2016: Nil).

37. COMPARATIVE AMOUNTS

As further explained in note 32 to these interim condensed financial statements, the purchase price allocation for a business combination occurred in prior year has been completed during the Period. Certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment. The consolidated statement of financial position as at 1 January 2016 was not presented as the retrospective restatement had no effect on the information in the consolidated statement of financial position at the beginning of the preceding period.

38. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed financial statements were approved and authorised for issue by the board of directors on 22 August 2017.





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