H&H Group
inspiring wellness

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

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

(Stock Code 股份代號: 1112)

2018 Interim Report
中期報告

BIOSTIME Swisse dodie™ Healthy Times™

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

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

BOARD COMMITTEE

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

Suites 4007-09, 40^{th} Floor, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 4007-09, 40^{th} Floor, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

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

AUDITOR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

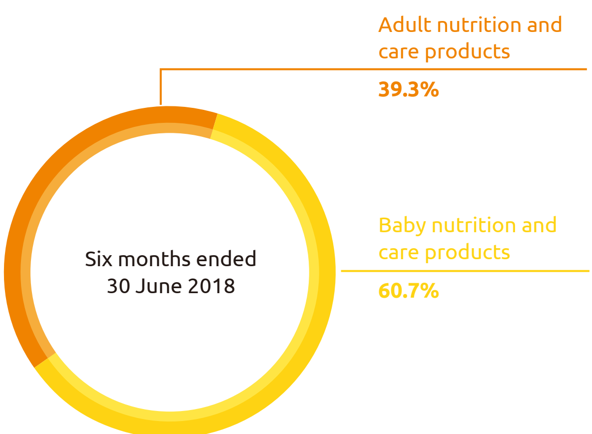
Financial Highlights

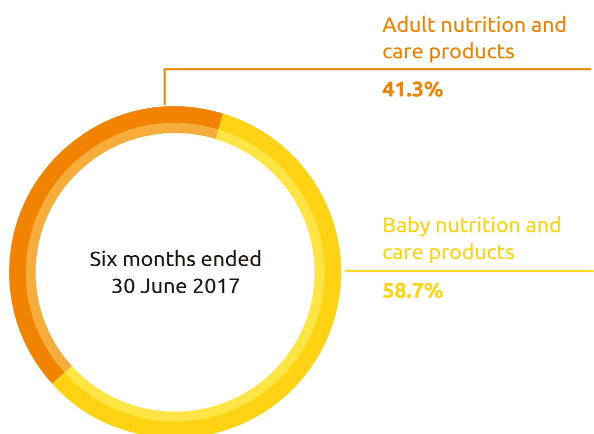
	Six months ended 30 June		
	2018	2017	% of Change
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Revenue	**4,573,574**	3,551,415	28.8%
Gross profit	**3,075,690**	2,315,688	32.8%
Adjusted EBITDA*	**1,249,006**	1,074,750	16.2%
Adjusted net profit**	**701,061**	495,670	41.4%
Net cash flows from operating activities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

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

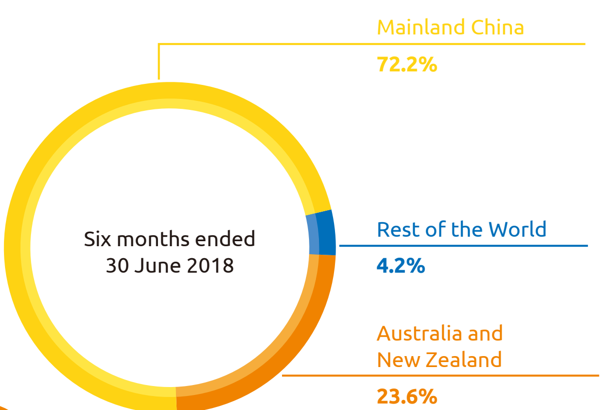
** Net profit for the six months ended 30 June 2018 amounted to RMB384.3 million (six months ended 30 June 2017: RMB396.6 million). Adjusted net profit = Adjusted EBITDA – depreciation and amortization – finance costs + interest income – income tax expenses + write-off of unamortized transaction costs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

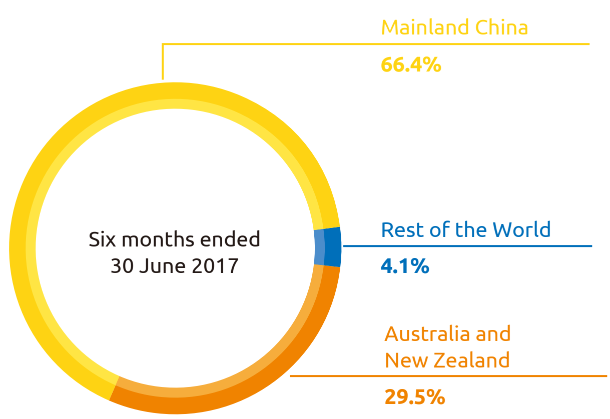
REVENUE BY PRODUCT SEGMENTS





REVENUE BY GEOGRAPHY





Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

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

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

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

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

Management Discussion and Analysis

During the period under review, revenue derived from the Group's ANC business (operating under the Swisse brand) was also robust. Sales rose 29.3% to AU$365.6 million during the period, compared to the same period of last year on a currency-adjusted basis. This result was driven by continued strong growth momentum in the Chinese and Australian markets. Higher price points for Swisse's top-selling products that were rolled out at the beginning of 2018 was well received by the market and helped strengthen the brand's premium position in the vitamin, herbal and mineral supplements ("**VHMS**") markets of both countries and was the basis of Swisse's growing market share during the period. According to research statistics by IRI, an independent market research company, Swisse further strengthened its leading position in the Australian VHMS market, with a market share of 18.6%* for the twelve months ended 30 June 2018. It also has a leading position in the Chinese online VHMS market.

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

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

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

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

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

4. Sponsorship of the Color Run in cities across China

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

In mid-June 2018, the Group successfully optimised its capital structure with a new 3-year term loan facility that refinanced an existing senior secured term loan facility with significantly improved terms and conditions. This refinancing further improved the Group's capital efficiency and enhanced its financial stability as a whole. The Group also enhanced its net leverage ratio and further developed the financial resources needed to support its future business growth with the strong cash flow generated during the first half of this year.

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

PROSPECTS

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

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

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

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

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

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

Management Discussion and Analysis

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

RESULTS OF OPERATION

Revenue

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

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

Infant formulas

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

Probiotic Supplements

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

Other pediatric products

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

Adult nutrition and care products

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

Gross profit and gross profit margin

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

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

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

Other income and gains

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

Selling and distribution costs

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

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

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

Administrative expenses

Administrative expenses increased by 34.7% from RMB219.6 million for the six months ended 30 June 2017 to RMB295.9 million for the six months ended 30 June 2018. The increase in administrative expenses was mainly due to the additional employee expenses incurred as the Group enhanced its operational capability to support global expansion.

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

Other expenses

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

During the period under review, R&D expenditure increased by 56.8% or RMB22.0 million as compared to the corresponding period of last year. The Group will continue to commit investment in R&D activities to sustain the long-term growth of the Group.

The net foreign exchange loss of RMB218.1 million was mainly consisted of: 1) unrealized loss of RMB31.4 million from the revaluation on the Group's interest-bearing bank loan post refinancing on 27 June 2018 and senior notes; and 2) unrealized loss of RMB145.8 million due to the revaluation on the intra-group loans between the Company and its subsidiaries resulted from the acquisition of the non-controlling interest in Swisse of AU$311.0 million as well as the first installment for PGT buy-out of US$72.0 million and others.

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

EBITDA, adjusted EBITDA and related margins

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

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

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

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

Finance costs

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

Income tax expense

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

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

Net profit and adjusted net profit

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

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

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

Investing activities

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

Financing activities

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

Cash and bank balances

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

Interest-bearing bank loans and senior notes

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

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

As of 30 June 2018, the annualized net leverage ratio was 1.6, calculated by dividing the net debts[(Note)] by annualized adjusted EBITDA. Gearing ratio was 42.9%, calculated by dividing the sum of the carrying amount of senior notes and interest bearing bank loans by total assets.

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

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables decreased by 1 days from 28 days for the six months ended 30 June 2017 to 27 days for the six months ended 30 June 2018. The average turnover days of trade payables were 82 days for the six months ended 30 June 2018, representing a decrease of 1 from 83 days as compared to that of 2017.

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

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

INTERIM DIVIDEND

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

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

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

On 21 June 2018, the Group entered into a facility agreement for a senior secured US dollar term loan facility and a senior secured Australian dollar term loan facility in an aggregated amount of up to US$300 million to be syndicated to other financial institutions, as well as a senior secured multi-currency revolving credit facility of up to US$50 million. The Group has drawn down the US$300 million term loan to repay the then existing interest-bearing bank loans on 27 June 2018. Up to the date of this report, the syndication is in progress but the facilities have already been oversubscribed by potential lenders well in excess of the facility amounts originally contemplated. Accordingly, the Company has decided to upsize the aggregate size of the facilities to US$450 million, comprised of a US$400 million refinancing term loan facility and a US$50 million revolving credit facility.

HUMAN RESOURCES

As at 30 June 2018, the Group had approximately 2,800 employees. The Group is committed to developing and retaining its right talents, offering them with competitive compensation, various training and education opportunities, and maintaining an incentive system to attract and retain talented staff. Please refer to the section headed "Corporate Governance and Other Information" below for details of the share options granted and the shares awarded to the employees under the various share option schemes and share award schemes.

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 2018.

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

Mr. Luo Fei, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The board (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 caliber individuals with sufficient number thereof being independent non-executive Directors.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2018.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2018. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

AUDIT COMMITTEE

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

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

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 2018, the Company participated at 14 investors' conferences and roadshows and approximately 300 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2018 are summarized as follows:

Date	Event	Organizer	Location
January 2018	dbAccess China Conference	Deutsche Bank	Beijing
January 2018	Goldman Sachs Consumer Corporate Day	Goldman Sachs	Hong Kong
January 2018	Citi Consumer Corporate Day	Citi	Hong Kong
March 2018	Hong Kong Non-Deal Roadshow	Citi	Hong Kong
March 2018	Hong Kong Non-Deal Roadshow	CLSA	Hong Kong
April 2018	UK Non-Deal Roadshow	CLSA	London, Edinburgh
April 2018	Daiwa China Corporate Day	Daiwa	Singapore
April 2018	US Non-Deal Roadshow	Citi	New York, Boston, San Francisco
May 2018	Taipei Roadshow	Citi	Taipei
May 2018	HSBC China Conference	HSBC	Shenzhen
May 2018	CLSA/CITIC China Investors' Forum	CLSA/CITIC	Hangzhou
June 2018	Investor Day	The Group	Melbourne
June 2018	Australia Non-Deal Roadshow	Macquarie	Melbourne, Sydney
June 2018	Daiwa Hong Kong China Investment Seminar	Daiwa	Tokyo

In June 2018, the Group has been awarded for the "Most Honored Company", "Best CFO", "Best Investor Relations Professional" and "Best Investor Relations Program" among a total of 2,368 companies in All Asia Executive Team survey by Institutional Investor. The Group also received "Best IR Company (Mid-cap)" and "Best IR by CFO (Mid-cap)" awards from Hong Kong Investor Relations Association in May 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

The last shareholders' meeting was the annual general meeting held on 11 May 2018 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@hh.global for any enquiries.

REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

SHARE OPTION SCHEMES

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

Share Option Scheme

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

On 20 April 2018, a total of 801,283 share options ("**Share Options**") to subscribe for 801,283 ordinary shares of HK$0.01 each in the share capital of the Company were granted to grantees (the "**Grantees**") under the Share Option Scheme at an exercise price of HK$60.02 per share. The closing prices of the shares of the Company immediately before date of grant was HK$61.40.

Particulars and movements of Share Options under the Share Option Scheme during six months ended 30 June 2018 by category of Grantees were as follows:

			Number of Share Options				
Category of Grantees	**Date of grant (DD/MM/YYYY)**	**Exercise price per Share**	**Outstanding as at 1 January 2018**	**Granted during the six months ended 30 June 2018**	**Exercised during the six months ended 30 June 2018**	**Lapsed during the six months ended 30 June 2018**	**Outstanding as at 30 June 2018**
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	19/04/2017	HK$25.75	150,000	–	–	–	150,000
Mr. Luo Fei	29/12/2015	HK$15.58	414,093	–	–	–	414,093
	24/08/2017	HK$29.25	616,253	–	–	–	616,253
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	29/12/2015	HK$15.58	308,982	–	–	–	308,982
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
Mr. Wang Yidong	03/05/2016	HK$21.05	181,157	–	–	–	181,157
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
Sub-total			**3,036,299**	**–**	**–**	**–**	**3,036,299**
Employees and others	09/06/2011	HK$15.312	22,054	–	(13,949)(1)	–	8,105
	29/11/2011	HK$11.52	39,091	–	(10,221)(2)	(66)	28,804
	01/06/2012	HK$19.64	42,262	–	(20,821)(3)	–	21,441
	07/12/2012	HK$24.70	107,735	–	(43,847)(4)	(254)	63,634
	29/12/2015	HK$15.58	6,502,618	–	(2,376,996)(5)	(186,443)	3,939,179
	03/05/2016	HK$21.05	18,542	–	–	–	18,542
	30/09/2016	HK$20.92	336,110	–	(27,025)(6)	(2,084)	307,001
	23/12/2016	HK$23.30	254,503	–	(59,175)(7)	(16,369)	178,959
	19/04/2017	HK$25.75	1,045,285	–	(115,709)(8)	(162,901)	766,675
	07/07/2017	HK$22.15	277,752	–	(67,682)(9)	–	210,070
	24/08/2017	HK$29.25	11,510,005	–	–	(909,393)	10,600,612
	05/12/2017	HK$47.10	774,497	–	–	–	774,497
	20/04/2018	HK$60.02	–	801,283	–	–	801,283
Total			**23,966,753**	**801,283**	**(2,735,425)**	**(1,277,510)**	**20,755,101**

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$60.20.
Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.03.
Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.75.
Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.57.
Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$58.52.
Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$58.16.
Note 7: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$59.70.
Note 8: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$59.45.
Note 9: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.34.

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

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

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

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

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

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

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

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

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

No Share Options granted under the Share Option Scheme were cancelled during the six months ended 30 June 2018.

The total number of shares available for issue under the Share Option Scheme was 37,405,007, representing approximately 5.85% of the Company's issued share capital as at 30 June 2018.

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 7 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the "**Listing Date**");

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

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

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

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 2018, no 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 2018 by category of grantees are set out below:

	Number of Pre-IPO Share Options			
Category of grantees	**Outstanding as at 1 January 2018**	**Exercised during the six months ended 30 June 2018**	**Lapsed during the six months ended 30 June 2018**	**Outstanding as at 30 June 2018**
Director				
Mr. Luo Fei	372,744	–	–	372,744
Sub-total	372,744	–	–	372,744
Others				
Senior management members	249,388	–	–	249,388
Other employees	57,628	(8,047)	–	49,581
Business partners	60,000	–	–	60,000
Sub-total	367,016	(8,047)	–	358,969
Total	**739,760**	**(8,047)**	**–**	**731,713**

Corporate Governance and Other Information

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2018.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 731,713, representing approximately 0.11% of the Company's issued share capital as at 30 June 2018.

2011 SHARE AWARD SCHEME

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

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

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

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

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

During the six months ended 30 June 2018, the Board either granted any awarded shares to eligible persons under the 2011 Share Award Scheme nor arranged any funds to be paid to the trustee of the 2011 Share Award Scheme for purchasing of shares of the Company on the Stock Exchange. The trustee of the 2011 Share Award Scheme did not purchase any shares of the Company on the Stock Exchange during the six months ended 30 June 2018.

2011 SHARE AWARD SCHEME (CONTINUED)

Below is a summary of the particulars of the shares awarded under the 2011 Share Award Scheme (the "**Awarded Shares**") which were outstanding during the six months ended 30 June 2018:

				Number of Awarded Shares		
Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Vested as at 30 June 2018	Forfeited/ lapsed as at 30 June 2018	Outstanding (held by the trustee for the grantees) as at 30 June 2018
23 December 2016	320,335 *(Note 1)*	0.053%	1 April 2018	(250,022)	–	–
19 April 2017	111,108 *(Note 2)*	0.018%	1 April 2018	(111,108)	–	–
22 September 2017	329,646 *(Note 3)*	0.055%	1 April 2019	–	(44,392)	285,254
Total	**761,089**	**0.126%**		**(361,130)**	**(44,392)**	**285,254**

Note 1: Among these Awarded Shares granted, 77,828 Awarded Shares were granted to Mr. Luo Fei, 62,262 Awarded Shares were granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and 242,507 Awarded Shares were granted to 4 participants who were directors of subsidiaries of the Company.

Note 2: These Awarded Shares were granted to a participant who was a director of certain subsidiaries of the Company.

Note 3: Among these Awarded Shares granted, 56,613 Awarded shares were granted to Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, 56,613 Awarded Shares were granted to Mr. Wang Yidong and 216,420 Awarded Shares were granted to 4 participants who were directors of certain subsidiaries of the Company.

2013 SHARE AWARD SCHEME

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

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

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

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

The Board shall not make any further award which will result in the number of shares awarded by the Board under the 2013 Share Award Scheme 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 Participants upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

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

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

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

During the six months ended 30 June 2018, the Board did not grant any awarded shares to Selected Participants under the 2013 Share Award Scheme.

2013 SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the awarded shares under the 2013 Share Award Scheme 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 of the 2013 Share Award Scheme	Vesting date	Number of awarded shares Vested as at 30 June 2018	Number of awarded shares Forfeited as at 30 June 2018	Number of awarded shares Outstanding (held by the trustee for the Selected Participants) as at 30 June 2018
23 December 2016	1,202,140 *(Note 1)*	0.200%	1 April 2018	(871,585)	(23,343)	–
19 April 2017	81,992	0.014%	1 April 2018	(59,802)	–	–
7 July 2017	48,637	0.008%	1 April 2018	(27,557)	–	–
25 August 2017	1,198,604	0.199%	1 April 2019	–	(57,992)	973,918
5 December 2017	26,949	0.004%	1 April 2019	–	–	26,949
Total	**2,558,322**	**0.425%**		**(958,944)**	**(81,335)**	**1,000,867**

Note1: Among these Awarded Shares granted, 62,262 Awarded Shares were granted to Mr. Wang Yi dong who is an executive Director of the Company with effective from 26 March 2018.

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

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 14)*
Luo Fei	Beneficial owner	Long position	372,744 *(Note 1)*	0.058%
	Beneficial owner	Long position	1,030,346 *(Note 2)*	0.161%
	Beneficial owner	Long position	398,359 *(Note 3)*	0.062%
	Beneficiary of a trust	Long position	432,000,000 *(Note 11)*	67.52%
Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	Beneficial owner	Long position	231,084 *(Note 4)*	0.036%
	Beneficial owner	Long position	781,889 *(Note 5)*	0.122%
	Beneficial owner	Long position	118,875 *(Note 6)*	0.019%
Wang Yidong	Beneficial owner	Long position	45,289 *(Note 7)*	0.007%
	Beneficial owner	Long position	654,064 *(Note 8)*	0.102%
	Beneficial owner	Long position	62,262 *(Note 9)*	0.010%
	Beneficial owner	Long position	56,613 *(Note 10)*	0.009%
Luo Yun	Beneficiary of a trust	Long position	432,000,000 *(Note 11)*	67.52%
Ngai Wai Fung	Beneficial owner	Long position	210,000 *(Note 12)*	0.033%
Tan Wee Seng	Beneficial owner	Long position	210,000 *(Note 12)*	0.033%
Xiao Baichun	Beneficial owner	Long position	210,000 *(Note 13)*	0.033%

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

Note 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.

Note 2: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 414,093 Share Options granted on 29 December 2015 and 616,253 Share Options granted on 24 August 2017. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

Note 3: These are the Awarded Shares granted by the Company under the 2011 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 2011 Share Award Scheme are set out in the section headed "2011 Share Award Scheme" above.

Note 4: These are the ordinary shares held by Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER directly.

Note 5: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 308,982 Share Options granted on 29 December 2015 and 472,907 Share Options granted on 24 August 2017. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

Note 6: These are the Awarded Shares granted by the Company under the 2011 Share Award Scheme, including 62,262 Awarded Shares granted on 23 December 2016 and 56,613 Awarded shares granted on 22 September 2017.

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

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

Note 9: These are the Awarded Shares granted by the Company on 23 December 2016 under the 2013 Share Award Scheme.

Note 10: These are the Awarded Shares granted by the Company on 22 September 2017 under the 2011 Share Award Scheme.

Note 11: As at 30 June 2018, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

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

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

Note 12: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 60,000 Share Options granted on 16 December 2011 and 150,000 Share Options granted 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.

Note 13: Professor Xiao's interests are consisted of (i) 60,000 shares issued pursuant to the exercise on 1 September 2017 of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011; and (ii) 150,000 shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 19 April 2017.

Note 14: As at 30 June 2018, the total number of the issued shares of the Company was 639,785,514.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2018.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2018, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding (Note 2)
Biostime Pharmaceuticals (China) Limited *(Note 1)*	Beneficial owner	Long position	432,000,000	67.52%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.52%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.52%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.52%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	432,000,000	67.52%

Note 1: As at 30 June 2018, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

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

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

Note 2: As at 30 June 2018, the total number of the issued shares of the Company was 639,785,514.

Save as mentioned above, as at 30 June 2018, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Corporate Governance and Other Information

CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

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 2017 Annual Report up to the date of this interim report are set out below:

Names of Directors	Details of Changes
Dr. Ngai Wai Fung	Resigned as an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee and the nomination committee of China HKBridge Holdings Limited (formerly known as Topsearch International (Holdings) Limited) (its shares are listed on the Main Board of the Stock Exchange (Stock Code: 2323)) on 18 April 2018.
Mr. Tan Wee Seng	Appointed as an independent non-executive director, the chairman of the audit committee and remuneration committee and a member of the nomination committee of Shineroad International Holdings Limited (a company listed on the Main Board of the Stock Exchange on 27 June 2018 (Stock Code: 1587)) on 31 May 2018.

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 2018 (six months ended 30 June 2017: Nil).

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 33 to 82, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, 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

27 August 2018

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

Six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	5	**4,573,574**	3,551,415
Cost of sales		**(1,497,884)**	(1,235,727)
Gross profit		**3,075,690**	2,315,688
Other income and gains	5	**25,756**	111,242
Selling and distribution costs		**(1,546,415)**	(1,072,163)
Administrative expenses		**(295,875)**	(219,620)
Other expenses		**(360,439)**	(195,903)
Finance costs	6	**(242,634)**	(306,056)
Share of profit/(loss) of an associate		**497**	(25)
PROFIT BEFORE TAX	7	**656,580**	633,163
Income tax expense	8	**(272,268)**	(236,533)
PROFIT FOR THE PERIOD		**384,312**	396,630
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period	21	**64,123**	(107,805)
Reclassification adjustments for gains/(losses) included in profit or loss		**(70,715)**	84,198
Income tax effect		**(673)**	7,082
Exchange realignment		**(999)**	(82)
		(8,264)	(16,607)
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	21	**(30,406)**	(30,850)
Exchange differences on translation of foreign operations		**42,130**	(14,652)
Exchange differences on net investment in a foreign operation		**(201,647)**	267,501
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**(198,187)**	205,392
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**186,125**	602,022
Profit attributable to:			
Owners of the parent		**384,312**	401,230
Non-controlling interests		**–**	(4,600)
		384,312	396,630
Total comprehensive income attributable to:			
Owners of the parent		**186,125**	592,137
Non-controlling interests		**–**	9,885
		186,125	602,022
		RMB (Unaudited)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		**0.60**	0.64
Diluted		**0.59**	0.63

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	488,194	503,587
Prepaid land lease payments	12	58,071	58,809
Goodwill	13	5,141,865	5,376,818
Intangible assets	14	3,371,427	3,564,964
Bonds receivable		133,726	136,361
Loans receivable		6,355	44,910
Deposits		14,222	14,965
Investment in an associate		51,078	41,095
Held-to-maturity investment		–	22,259
Deferred tax assets	24	287,508	296,907
Derivative financial instrument	21	25,297	79,529
Other non-current financial assets		56,026	–
Restricted deposit	18	3,931	–
Total non-current assets		9,637,700	10,140,204
CURRENT ASSETS			
Inventories	15	1,357,233	1,012,619
Trade and bills receivables	16	665,088	694,696
Prepayments, deposits and other receivables	17	140,328	117,394
Loan to an associate		–	40,000
Loans receivable		17,668	21,748
Derivative financial instruments	21	1,895	3,247
Restricted deposits	18	1,411	11,082
Cash and cash equivalents	18	1,989,671	2,090,280
Total current assets		4,173,294	3,991,066
CURRENT LIABILITIES			
Trade and bills payables	19	741,937	644,690
Other payables and accruals	20	857,304	1,563,339
Contract liabilities	3.1	602,761	–
Derivative financial instruments	21	9,189	5,968
Interest-bearing bank loans	22	905	508,467
Senior notes	23	287,821	284,235
Tax payable		159,477	291,150
Total current liabilities		2,659,394	3,297,849
NET CURRENT ASSETS		1,513,900	693,217
TOTAL ASSETS LESS CURRENT LIABILITIES		11,151,600	10,833,421

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Senior notes	23	3,691,596	3,646,428
Interest-bearing bank loans	22	1,949,968	1,844,277
Other payables and accruals	20	31,750	32,997
Derivative financial instruments	21	144,188	186,195
Deferred tax liabilities	24	873,553	910,432
Total non-current liabilities		6,691,055	6,620,329
Net assets		4,460,545	4,213,092
EQUITY			
Issued capital	26	5,469	5,447
Other reserves		4,455,076	4,207,645
Total equity		4,460,545	4,213,092

Luo Fei
Director

Wang Yidong
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2017 (Audited)		5,447	540,608*	(26,408)*	26,992*	95*	382,651*	47,538*	29,122*	124,016*	(1,217,025)*	8,264*	4,291,792*	4,213,092
Impact of adopting IFRS 9	3.1	-	-	-	-	-	-	-	-	-	-	-	(5,928)	(5,928)
Restated opening balance under IFRS 9		5,447	540,608	(26,408)	26,992	95	382,651	47,538	29,122	124,016	(1,217,025)	8,264	4,285,864	4,207,164
Profit for the Period		-	-	-	-	-	-	-	-	-	-	-	384,312	384,312
Other comprehensive income/(loss) for the Period:														
Cash flow hedges, net of tax	21	-	-	-	-	-	-	-	-	-	-	(8,264)	-	(8,264)
Hedge of net investments	21	-	-	-	-	-	-	-	-	(30,406)	-	-	-	(30,406)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	42,130	-	-	-	42,130
Exchange difference on net investment in a foreign operation		-	-	-	-	-	-	-	-	(201,647)	-	-	-	(201,647)
Total comprehensive income/(loss) for the Period		-	-	-	-	-	-	-	-	(189,923)	-	(8,264)	384,312	186,125
Equity-settled share option arrangements	27	22	37,435	-	-	-	-	15,236	-	-	-	-	-	52,693
Equity-settled share award schemes	28	-	-	13,329	-	-	-	-	(11,949)	-	-	-	13,183	14,563
At 30 June 2018 (Unaudited)		5,469	578,043*	(13,079)*	26,992*	95*	382,651*	62,774*	17,173*	(65,907)*	(1,217,025)*	-*	4,683,359*	4,460,545

* These reserve accounts comprise the consolidated other reserves of RMB4,455,076,000 (31 December 2017: RMB4,207,645,000) in these interim condensed consolidated statement of financial position as at 30 June 2018.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

		Attributable to owners of the parent																
	Notes	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 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	3,358,437	3,161,506	34,598	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)
Hedge on net investment		-	-	-	-	-	-	-	-	-	-	-	-	(30,850)	-	(30,850)	-	(30,850)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	(16,665)	-	-	-	-	(16,665)	2,013	(14,652)
Exchange difference 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-settled share award schemes	28	-	-	-	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#		-	-	-	-	-	-	-	-	-	-	-	1,529,893	-	28,274	1,558,167	-	1,558,167
Arising from the 17% Acquisition (as defined in note 1)	29	-	-	-	-	-	-	-	-	-	-	(1,593,783)	-	-	-	(1,593,783)	(39,577)	(1,633,360)
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,958)	(3,958)
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

Holdco put options represented put options granted to the non-controlling shareholders of Biostime Healthy Australia Holdings Pty Ltd. ("Biostime Healthy Australia Holdings") which enable them to require Biostime Healthy Australia Pty Ltd. ("**Biostime Healthy Australia**") to buy all of their shares in Biostime Healthy Australia Holdings at certain dates. Further details of the holdco put options were disclosed in the Company's announcement dated 29 August 2016.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	 2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**656,580**	633,163
Adjustments for:			
Bank interest income	5	**(7,036)**	(15,167)
Interest income from loans and bonds receivables	5	**(4,122)**	(5,738)
Finance costs	6	**242,634**	306,056
Share of (profit)/loss of an associate		**(497)**	25
Gain on deemed disposal of partial interest in an associate	7	**(9,487)**	–
Depreciation	7	**35,894**	35,989
Amortisation of intangible assets	7	**40,982**	48,946
Amortisation of prepaid land lease payments	7	**738**	738
Loss on disposal of items of property, plant and equipment	7	**3,435**	579
Equity–settled share option expense	7	**22,171**	5,889
Equity–settled share award expense	7	**14,563**	14,137
Foreign exchange differences, net	7	**218,123**	(50,988)
Fair value losses on derivative financial instruments, net	7	**70,139**	73,935
Fair value gains on financial assets	5	**(1,304)**	–
(Write–back)/impairment of trade receivables	7	**(30)**	285
Write–down of inventories to net realisable value	7	**49,286**	49,705
		1,332,069	1,097,554
Increase in inventories		**(374,872)**	(73,120)
Decrease/(increase) in trade and bills receivables		**56,242**	(86,022)
Increase in prepayments, deposits and other receivables		**(23,481)**	(7,295)
Increase in rental deposits		**(604)**	(883)
Increase in trade and bills payables		**83,420**	79,897
Increase in other payables and accruals and contract liabilities		**76,404**	59,507
Cash generated from operations		**1,149,178**	1,069,638
Corporate income tax paid		**(430,169)**	(293,328)
Net cash flows from operating activities		**719,009**	776,310

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Net cash flows from operating activities		**719,009**	776,310
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(34,617)**	(49,149)
Purchases of items of intangible assets		**(1,184)**	(2,877)
Proceeds from disposal of items of property, plant and equipment and intangible assets		**64**	4,001
Residual payment for the acquisition of intangible assets in the prior year		**(180,219)**	–
Repayment of loans receivable		**6,714**	8,974
Repayment of a loan from an associate		**40,000**	–
Interest received		**9,781**	26,520
Decrease in time deposits with original maturity of three months or more when acquired		**–**	209,875
Net cash flows (used in)/from investing activities		**(159,461)**	197,344
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	27	**30,522**	36,058
Repayment of bank loans		**(2,333,551)**	(188,735)
Borrowing of new bank loan		**1,932,079**	–
Payment for the 17% Acquisition	29	**–**	(1,108,670)
Redemption of convertible bonds		**–**	(1,240,880)
Issuance of senior notes, net of transaction costs		**–**	1,415,447
Decrease in pledged deposits for senior notes		**–**	987,674
Decrease/(increase) in restricted deposits	18	**5,740**	(8,240)
Proceeds from the termination of the Swaps (as defined in note 21)		**13,297**	–
Payment for the CCSs (as defined in note 21)	21	**(32,917)**	–
Interest paid		**(251,693)**	(223,652)
Dividends paid to non–controlling shareholders		**–**	(1,969)
Net cash flows used in financing activities		**(636,523)**	(332,967)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(76,975)**	640,687
Cash and cash equivalents at beginning of the period		**2,090,280**	1,292,170
Effect of foreign exchange rate changes, net		**(23,634)**	(3,686)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**1,989,671**	1,929,171
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**1,989,671**	1,929,171

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE AND GROUP INFORMATION

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

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

On 7 February 2017, the Group acquired the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings, the intermediate holding company of Swisse, (the "**17% Acquisition**") at a cash consideration of 311,300,000 in Australian dollars ("**A$**") (equivalent to approximately 1,633,360,000 in Renminbi ("**RMB**")). Since then, Swisse became a wholly-owned subsidiary of the Group. Further details of the 17% Acquisition have been contained in note 29 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") (which also include International Accounting Standards ("**IASs**") and Interpretations) as disclosed in note 3.1 below.

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

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:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

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

IFRS 15

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 (continued)

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

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

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

(i) Variable consideration

Certain sales contracts of the Group provide customers with rights of return and sales rebates. Under IFRS 15, rights of return and sales rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

Rights of return

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

Sales rebates

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 (continued)

(ii) Loyalty point programmes

The Group operates loyalty point programmes which allow customers to accumulate points when they purchase Biostime branded products from the Group. Under IFRS 15, the loyalty points give rise to a separate performance obligation because they provide a material right to the customers and the Group allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The Group determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty programme should approximate to the amount recognised according to the previous accounting policy. The deferred revenue related to this loyalty point programmes was reclassified to *Contract liabilities* from *Other payables and accruals*.

(iii) Advances from customers

Advance payment is normally required for the sales to customers in Mainland China except in limited circumstances for credit sales. Prior to the adoption of IFRS 15, the amount of revenue related to the advance payment was deferred and recognised in the statement of financial position within *Other payables and accruals*. Upon the adoption of IFRS 15, the Group reclassified the deferred revenue related to advance payments to *Contract liabilities* from *Other payable and accruals*.

(iv) Presentation and disclosure requirements

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

IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(i) Classification and measurement

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 (continued)

(i) Classification and measurement (continued)

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

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

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

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

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

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

The table below illustrates the effects on the classification and measurement arising from application of IFRS 9 as at the date of initial application, 1 January 2018. Line items or reserves that were not affected by the changes have not been included.

	31 December 2017 as originally presented RMB'000 (Audited)	**Reclassified to financial assets at FVPL** RMB'000 (Unaudited)	**1 January 2018 as restated** RMB'000 (Unaudited)
Loans and receivables			
Loans receivable	35,942	(35,942)	–
Held-to-maturity investment			
Held-to-maturity investment	22,259	(22,259)	–
Financial assets at FVPL			
Derivative financial instruments	2,745	(2,745)	–
Other non-current financial assets	–	55,018	55,018
	2,745	52,273	55,018
	60,946	(5,928)	55,018

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 (continued)

(ii) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("**ECL**") approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group has applied the simplified approach and recorded lifetime expected losses on trade receivables, and general approach and recorded twelve-month expected credit loss on bills receivables, financial assets included in prepayments, deposits and other receivables, bonds receivable, loans receivable and loan to an associate. The Group determined that there are no significant financial impact arising from these changes.

Under the simplified approach, the Group measures the loss based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

As at the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the end of the reporting period and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and, forward-looking analysis.

For the purposes of impairment assessment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 (continued)

(ii) Impairment (continued)

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using an allowance account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment provision reverts from lifetime ECL to 12-month ECL.

(iii) Hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application of IFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of certain Swaps and CCSs (as defined in note 21 to these interim condensed consolidated financial statements) in the Group's cash flow hedge relationships and hedge of net investments respectively, and, as such, the adoption of hedge accounting requirement of IFRS 9 had no significant impact on the Group's interim condensed consolidated financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSS

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[2]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

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

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

3 No mandatory effective date yet determined but available for adoption

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSS (CONTINUED)

Other than IFRS 16 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.

IFRS 16, issued in January 2016, 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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 30 to these interim condensed consolidated financial statements, as at 30 June 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB176,213,000. Upon the adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2018 (Unaudited):

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Mainland China	567,566	583,829
Australia and New Zealand	3,274,860	3,468,705
Other locations#	140,566	130,886
	3,982,992	4,183,420

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans, senior notes and convertible bonds	**209,221**	277,492
Write off of unamortised transaction cost upon refinancing of interest-bearing bank loans	**33,413**	–
Bank charges	**–**	15,242
Loss on redemption of convertible bonds	**–**	13,322
	242,634	306,056

7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Cost of inventories sold		1,448,598	1,186,022
Depreciation	11	35,894	35,989
Amortisation of intangible assets	14	40,982	48,946
Amortisation of prepaid land lease payments	12	738	738
Research and development costs**		60,701	38,723
Minimum lease payments under operating leases		33,514	32,587
Loss on disposal of items of property, plant and equipment		3,435	579
Employee benefit expenses:			
Wages and salaries		506,571	396,190
Pension scheme contributions (defined contribution schemes)		59,797	50,884
Staff welfare and other expenses		39,212	21,900
Equity-settled share option expense	27	22,171	5,889
Equity-settled share award expense	28	14,563	14,137
		642,314	489,000
Foreign exchange differences, net		218,123**	(50,988)
Fair value losses on derivative financial instruments, net		70,139**	73,935
(Write-back)/impairment of trade receivables**	16	(30)	285
Write-down of inventories to net realisable value#		49,286	49,705
Loss on redemption of convertible bonds		–	13,322
Gain on deemed disposal of partial interest in an associate*		(9,487)	–

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

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

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

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	**215,365**	194,262
Hong Kong	**7,738**	4,565
Australia	**40,226**	38,287
Elsewhere	**4,058**	(9,748)
Deferred (note 24)	**4,881**	9,167
Total tax charge for the period	**272,268**	236,533

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

PRC enterprise income tax ("EIT")

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

Hong Kong profits tax

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

8. INCOME TAX EXPENSE (CONTINUED)

Australia corporate income tax

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

Tax consolidation legislation

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

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

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

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

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

Income tax for other jurisdictions

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

9. DIVIDENDS

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

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent of RMB384,312,000 (six months ended 30 June 2017: RMB401,230,000), and the adjusted weighted average number of ordinary shares of 636,595,218 (six months ended 30 June 2017: 629,327,032) in issue during the Period.

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**384,312**	401,230

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**638,395,052**	632,467,772
Weighted average number of shares held for the share award schemes	**(1,799,834)**	(3,140,740)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**636,595,218**	629,327,032
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**13,396,812**	8,369,791
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**649,992,030**	637,696,823

11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB26,810,000 (six months ended 30 June 2017: RMB19,070,000). During the Period, depreciation of RMB35,894,000 (six months ended 30 June 2017: RMB35,989,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB3,499,000 (six months ended 30 June 2017: RMB4,118,000) were disposed of by the Group. Besides, exchange realignment with an amount of RMB2,810,000 was recognised in the Period (six months ended 30 June 2017: RMB2,639,000).

12. PREPAID LAND LEASE PAYMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount at 1 January	60,287	61,765
Recognised during the Period/year	(738)	(1,478)
Carrying amount at end of the Period/year	59,549	60,287
Current portion included in prepayments, deposits and other receivables (note 17)	(1,478)	(1,478)
Non-current portion	58,071	58,809

13. GOODWILL

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cost and carrying amount:		
At 1 January	5,376,818	5,296,618
Exchange realignment	(234,953)	80,200
At end of the Period/year	5,141,865	5,376,818

14. INTANGIBLE ASSETS

During the Period, the Group acquired computer software with an aggregate cost of RMB1,184,000 (six months ended 30 June 2017: RMB3,213,000). During the Period, amortisation of RMB40,982,000 (six months ended 30 June 2017: RMB48,946,000) was charged by the Group, and no intangible asset (six months ended 30 June 2017: RMB462,000) was disposed of by the Group. Besides, exchange realignment with an amount of RMB153,739,000 was recognised in the Period (six months ended 30 June 2017: RMB110,617,000).

15. INVENTORIES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Raw materials	**667,055**	579,325
Goods in transit	**224,556**	153,779
Work in progress	**1,394**	1,139
Finished goods	**460,981**	278,376
Right of return assets (note 3.1)	**3,247**	–
	1,357,233	1,012,619

16. TRADE AND BILLS RECEIVABLES

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

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

16. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

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

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

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Management has closely monitored the credit qualities and the collectability of the trade and bills receivables. Trade and bills receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. Impairment provision of RMB3,793,000 was made as at 30 June 2018 (31 December 2017: RMB4,744,000).

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At beginning of the Period/year	4,744	17,522
Impairment losses recognised	–	1,492
Amount written off as uncollectible	(837)	(8,664)
Impairment losses reversed	(30)	(6,212)
Exchange realignment	(84)	606
	3,793	4,744

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Prepayments	**59,430**	17,314
Deposits	**3,359**	4,379
Other receivables	**69,659**	83,446
Prepaid expenses	**6,402**	10,777
Current portion of prepaid land lease payments (note 12)	**1,478**	1,478
	140,328	117,394

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.

18. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Cash and bank balances	**1,989,671**	1,955,746
Time deposits	**–**	134,534
Restricted deposits	**5,342**	11,082
	1,995,013	2,101,362
Less:		
Restricted deposits for an operating lease	**(3,931)**	–
Restricted deposits for bills issued	**(1,411)**	(11,082)
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	**1,989,671**	2,090,280
Denominated in RMB(note)	**894,751**	1,158,118
Denominated in other currencies	**1,100,262**	943,244
	1,995,013	2,101,362

Note:

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

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

19. TRADE AND BILLS PAYABLES

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

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

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

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

As at 30 June 2018, included in trade payables is an amount due to an associate of the Group of RMB12,502,000 (31 December 2017: RMB4,391,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

20. OTHER PAYABLES AND ACCRUALS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Advances from customers (note 3.1)	–	21,665
Salaries and welfare payables	199,444	190,324
Accruals	442,572	844,186
Other tax payables	143,946	121,094
Deferred income (note 25)	–	77,070
Refund liabilities (note 3.1)	21,499	–
Other payables	81,593	341,997
	889,054	1,596,336
Less: Current portion	(857,304)	(1,563,339)
Non-current portion	31,750	32,997

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2018 Assets RMB'000 (Unaudited)	30 June 2018 Liabilities RMB'000 (Unaudited)	31 December 2017 Assets RMB'000 (Audited)	31 December 2017 Liabilities RMB'000 (Audited)
Current					
Conversion option embedded in a loan receivable	3.1	–	–	2,745	–
Forward currency contracts	(a)	1,895	9,189	502	5,968
		1,895	9,189	3,247	5,968
Non-current					
Early redemption option embedded in the senior notes	(b)	25,297	–	79,529	–
The Swaps (as defined below)	(c)	–	–	–	52,137
The CCSs (as defined below)	(d)	–	144,188	–	134,058
		25,297	144,188	79,529	186,195

Notes:

(a) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The fair value of the forward currency contracts as at 30 June 2018 was RMB7,294,000 (negative) (31 December 2017: RMB5,466,000 (negative)). A fair value loss of RMB1,791,000 was recognised in profit or loss for the Period (six months ended 30 June 2017: a gain of RMB5,953,000).

(b) An early redemption option is embedded in the senior notes, details of which are set out in note 23 to these interim condensed consolidated financial statements. The fair value of the early redemption option as at 30 June 2018 was RMB25,297,000 (31 December 2017: RMB79,529,000). A fair value loss of RMB52,943,000 was recognised in profit or loss for the Period (six months ended 30 June 2017: a gain of RMB27,231,000).

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

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

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

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

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

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

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

22. INTEREST-BEARING BANK LOANS

	30 June 2018			31 December 2017		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current						
Secured bank loan	BBSY+margin	April 2019	–	BBSY+margin	April 2018	242,759
Secured bank loan	LIBOR+margin	April 2019	–	LIBOR+margin	April 2018	265,708
Secured bank loan	LIBOR+margin	July 2019	905	–	–	–
			905			508,467
Non-current						
Secured bank loan			–	BBSY+margin	April 2019	877,737
Secured bank loan			–	LIBOR+margin	April 2019	966,540
Secured bank loan	LIBOR+margin	June 2021	1,949,968	–	–	–
			1,949,968			1,844,277
			1,950,873			2,352,744

Analysed into:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Bank loans repayable:		
Within one year	905	508,467
In the second year	–	1,844,277
In the third to fifth years, inclusive	1,949,968	–
	1,950,873	2,352,744

BBSY stands for Australian Bank Bill Swap Bid Rate
LIBOR stands for London InterBank Offered Rate

Notes:

(a) As at 30 June 2018, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges 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 2018, the Group's bank loans were denominated in US$ and A$ at aggregate amounts of RMB1,950,873,000 (31 December 2017: RMB1,232,248,000) and nil (31 December 2017: RMB1,120,496,000), respectively.

23. 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 previously issued.

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 interest is paid semi-annually. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

As at 30 June 2018 and 31 December 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.

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

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

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

23. SENIOR NOTES (CONTINUED)

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

As at 30 June 2018, the fair value of the early redemption option embedded in the senior notes which was separately recognised amounted to RMB25,297,000 (31 December 2017: RMB79,529,000), details of which are set out in note 21(b) to these interim condensed consolidated financial statements.

The movements of the senior notes during the Period and the year ended 31 December 2017 are set out below:

	RMB'000
At 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 year	291,781
Interest paid during the year	(354,540)
Exchange realignment	(163,931)
At 31 December 2017 and 1 January 2018 (Audited)	3,930,663
Interest charged during the Period	137,790
Interest paid during the Period	(171,621)
Exchange realignment	82,585
At 30 June 2018 (Unaudited)	3,979,417
Less: Current portion	(287,821)
Non-current portion	3,691,596

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period and the year ended 31 December 2017 are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Tax losses recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Contract liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018 (Audited)	15,951	217,094	14,556	8,804	9,274	31,228	–	–	296,907
Credited/(charged) to profit or loss for the Period (note 8)	1,244	(21,363)	10,559	–	(8,945)	(29,443)	32,512	11,163	(4,273)
Reclassification*	–	(102,046)	–	(8,804)	–	–	110,850	–	–
Charged to equity for the Period	–	–	–	–	–	(673)	–	–	(673)
Exchange realignment	–	(2,902)	–	–	(329)	(1,112)	–	(110)	(4,453)
At 30 June 2018 (Unaudited)	17,195	90,783	25,115	–	–	–	143,362	11,053	287,508
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 year	(29,718)	10,704	(4,193)	973	(69,293)	23,302	–	–	(68,225)
Charged to equity for the year	–	–	–	–	–	8,443	–	–	8,443
Exchange realignment	–	1,940	–	–	2,293	(517)	–	–	3,716
At 31 December 2017 (Audited)	15,951	217,094	14,556	8,804	9,274	31,228	–	–	296,907

* Reclassification due to the adoption of IFRS 15

24. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018 (Audited)	**288**	**65,277**	**839,487**	**–**	**5,380**	**910,432**
(Credited)/charged to profit or loss for the Period (note 8)	**9**	**16,986**	**(11,198)**	**–**	**(5,189)**	**608**
Exchange realignment	**(17)**	**(643)**	**(36,636)**	**–**	**(191)**	**(37,487)**
At 30 June 2018 (Unaudited)	**280**	**81,620**	**791,653**	**–**	**–**	**873,553**
At 1 January 2017 (Audited)	(1,265)	69,667	877,953	20,687	–	967,042
(Credited)/charged to profit or loss for the year	1,598	(4,184)#	(51,949)	(21,316)	5,469	(70,382)
Charged to equity for the year	–	–	–	(298)	–	(298)
Exchange realignment	(45)	(206)	13,483	927	(89)	14,070
At 31 December 2017 (Audited)	288	65,277	839,487	–	5,380	910,432

The amount represented a deferred tax provision of RMB59,830,000 on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB64,014,000 arising from dividends declared by these subsidiaries to their foreign investors during the year ended 31 December 2017.

25. DEFERRED INCOME

	Note	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Customer loyalty program			
At 1 January		77,070	31,324
Addition		–	444,012
Reclassified to contract liabilities	3.1	(77,070)	–
Recognised as revenue during the Period/year		–	(398,266)
Carrying amount at end of the Period/year		–	77,070

26. SHARE CAPITAL

Shares

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Authorised: 10,000,000,000 (31 December 2017: 10,000,000,000) ordinary shares of 0.01 each in Hong Kong dollars ("HK$")	HK$100,000,000	HK$100,000,000
Issued and fully paid: 639,785,514 (31 December 2017: 637,042,042) ordinary shares of HK$0.01 each	HK$6,397,855	HK$6,370,420
Equivalent to	RMB5,469,000	RMB5,447,000

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 2017 (Audited)	630,472,096	6,305	5,390
Share options exercised (note (a))	5,388,038	53	47
Shares issued for 2013 Share Award Scheme (note (b))	1,181,908	12	10
At 31 December 2017 and 1 January 2018 (Audited)	637,042,042	6,370	5,447
Share options exercised (note (c))	2,743,472	27	22
At 30 June 2018 (Unaudited)	639,785,514	6,397	5,469

26. SHARE CAPITAL (CONTINUED)

Notes:

(a) During the year ended 31 December 2017, the subscription rights attaching to 5,388,000 share options were exercised at the subscription prices ranging from HK$2.53 to HK$24.70, resulting in the issue of 5,388,000 ordinary shares for a total cash consideration, before expenses, of HK$82,725,000 (equivalent to approximately RMB71,993,000).

(b) During the year ended 31 December 2017, the Company issued 1,182,000 shares of HK$0.01 each pursuant to 2013 Share Award Scheme, resulting in an increase in share capital of HK$12,000 (equivalent to RMB10,000).

(c) During the Period, the subscription rights attaching to 2,743,000 share options were exercised at the subscription prices ranging from HK$2.53 to HK$25.75, resulting in the issue of 2,743,000 ordinary shares for a total cash consideration, before expenses, of HK$45,300,000 (equivalent to RMB30,522,000).

Share options

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

Share award schemes

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

27. SHARE OPTION SCHEMES

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

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

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is 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 of Hong Kong Limited (the "**Stock Exchange**") closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

27. SHARE OPTION SCHEMES (CONTINUED)

(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 2018

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

Six months ended 30 June 2017

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000	Total 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

27. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

The weighted average share prices at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the Period were HK$60.31 per share (six months ended 30 June 2017: HK$24.79 per share) and HK$59.25 per share (six months ended 30 June 2017: HK$24.24 per share), respectively.

A total of 2,743,000 share options were exercised during the Period under the two share option schemes, resulting in the issue of 2,743,000 ordinary shares of the Company and new share capital of HK$27,000 (equivalent to approximately RMB22,000) and share premium of HK$45,273,000 (equivalent to approximately RMB30,500,000) (before issue expenses). An amount of RMB6,935,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

No share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the Period (six months ended 30 June 2017: Nil).

During the Period, the Group has recognised share option expense related to the two share option schemes of RMB22,171,000 (six months ended 30 June 2017: RMB5,889,000) in total.

(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 grant date, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the Period was HK$24.34 per share (equivalent to approximately RMB19.51 per share) (six months ended 30 June 2017: HK$10.26 per share (equivalent to RMB9.06 per share)).

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

	Six months ended 30 June	
	2018	2017
Dividend yield (%)	**0**	0
Expected volatility (%)	**37.20-41.58**	41.97-42.29
Risk-free interest rate (%)	**2.02-2.07**	1.36-1.39

28. SHARE AWARD SCHEMES

Share Award Scheme

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

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

During the Period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (six months ended 30 June 2017: Nil).

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

					Number of Awarded Shares		
Date of grant	Number of outstanding Awarded Shares at 31 December 2017	Shares newly granted during the Period	Fair value RMB	Vesting date	Vested during the Period	Forfeited during the Period	Outstanding Awarded Shares at 30 June 2018
23 December 2016	250,022	–	6,680,000	1 April 2018	(250,022)	–	–
19 April 2017	111,108	–	2,453,000	1 April 2018	(111,108)	–	–
22 September 2017	329,646	–	9,957,000	1 April 2019	–	(44,392)	285,254*
Total	690,776	–	19,090,000		(361,130)	(44,392)	285,254

* Among the Awarded Shares granted, 113,226 Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB3,990,000 during the Period (six months ended 30 June 2017: RMB3,227,000) in relation to the Share Award Scheme.

361,130 shares for the Share Award Scheme, amounting to RMB13,319,000, were awarded upon vesting during the Period (six months ended 30 June 2017: RMB282,000). Share award reserve of RMB5,968,000 (negative) related to the vested Awarded Shares was transferred to retained profits for the vested Awarded Shares during the Period (six months ended 30 June 2017: RMB127,000 (negative)).

28. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme

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

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

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

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

					Number of 2013 Awarded Shares		
Date of grant	Number of outstanding 2013 Awarded Shares at 31 December 2017	Shares newly granted during the Period	Fair value	Vesting date	Vested during the Period	Forfeited during the Period	Outstanding 2013 Awarded Shares at 30 June 2018
			RMB				
23 December 2016	894,928	–	25,067,000	1 April 2018	(871,585)	(23,343)	–
19 April 2017	59,802	–	1,811,000	1 April 2018	(59,802)	–	–
7 July 2017	27,557	–	937,000	1 April 2018	(27,557)	–	–
25 August 2017	1,031,910	–	29,578,000	1 April 2019	–	(57,992)	973,918*
5 December 2017	26,949	–	1,073,000	1 April 2019	–	–	26,949*
Total	2,041,146	–	58,466,000		(958,944)	(81,335)	1,000,867

* Among the 2013 Awarded Shares granted, none of the 2013 Awarded Shares were granted to the executive directors.

During the Period, no shares were issued for 2013 Share Award Scheme (six months ended 30 June 2017: Nil).

The Group recognised a share award expense of RMB10,573,000 during the Period (six months ended 30 June 2017: RMB10,910,000) in relation to 2013 Share Award Scheme.

958,944 shares for the Share Award Scheme, amounting to RMB10,000, were awarded upon vesting during the Period (six months ended 30 June 2017: RMB1,000). Share award reserve of RMB19,151,000 related to the vested Awarded Shares was transferred to retained profits for the vested Awarded Shares during the Period (six months ended 30 June 2017: RMB8,491,000).

29. ACQUISITION OF NON-CONTROLLING INTERESTS

On 7 February 2017, the Group acquired the remaining 17% equity interest in Biostime Healthy Australia Holdings at a cash consideration of A$311,300,000 (equivalent to approximately RMB1,633,360,000) from the non-controlling shareholders. Biostime Healthy 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 financial impact arising from the changes in the Group's ownership interest in Biostime Healthy Australia Holdings on the equity attributable to owners of the Company:

	RMB'000 (Unaudited)
Consideration for the acquisition of the non-controlling interests:	
Deposit paid during the year ended 31 December 2016	524,690
Cash paid during the year ended 31 December 2017	1,108,670
Total consideration paid to the non-controlling shareholders	1,633,360
Less:	
Carrying amount of the non-controlling interests acquired	(39,577)
Decrease in equity attributable to owners of the Company	1,593,783

30. OPERATING LEASE ARRANGEMENTS

As lessee

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

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**50,941**	36,682
In the second to fifth years, inclusive	**114,065**	115,813
After five years	**11,207**	13,069
	176,213	165,564

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments as at the end of the reporting period:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	–	155
Property, plant and equipment	3,373	11,915
	3,373	12,070

32. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Purchases of finished goods from an associate	(i)	46,481	959
Interest from a loan to an associate	(ii)	49	796
Repayment of a loan from an associate	(ii)	40,000	–

Notes:

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

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

(b) Outstanding balance with a related party

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

32. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**880**	2,430
Short-term employee benefits	**19,073**	13,674
Pension scheme contributions	**344**	339
Equity-settled share option expense	**6,039**	1,237
Equity-settled share award expense	**6,533**	3,819
Total compensation paid to key management personnel	**32,869**	21,499

33. 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 2018	31 December 2017	**30 June 2018**	31 December 2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	**–**	2,745	**–**	2,745
– Early redemption option embedded in the senior notes	**25,297**	79,529	**25,297**	79,529
– Forward currency contracts	**1,895**	502	**1,895**	502
Other non-current financial assets	**56,026**	–	**56,026**	–
	83,218	82,776	**83,218**	82,776
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	**9,189**	5,968	**9,189**	5,968
– The Swaps	**–**	52,137	**–**	52,137
– The CCSs	**144,188**	134,058	**144,188**	134,058
Senior notes	**3,979,417**	3,930,663	**3,981,949**	4,086,358
	4,132,794	4,122,826	**4,135,326**	4,278,521

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

Management has assessed that the fair values of cash and cash equivalents, restricted deposits (current), 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 (current) 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 are used to estimate the fair values:

(a) The fair values of restricted deposit (non-current), bonds receivable, loans receivable, loan to an associate, and interest-bearing bank loans (non-current) have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivables as at 30 June 2018 were assessed to be insignificant.

(b) Other non-current financial assets are measured using valuation technique of discounted cash flow model and market approach 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, are 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.

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

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets	Discounted cash flow model	Discount rate	10.98% to 11.20%	1% increase in discount rate would result in decrease in fair value by RMB67,000 1% decrease in discount rate would result in increase in fair value by RMB67,000
	Discounted cash flow model	Discount rate	3.66% to 3.74%	1% increase in discount rate would result in decrease in fair value by RMB69,000 1% decrease in discount rate would result in increase in fair value by RMB69,000
Derivative financial instrument – Early redemption option embedded in the senior notes	Hull white model	Credit spread	3.73% to 3.81%	1% increase in credit spread would result in increase in fair value by RMB4,706,000 1% decrease in credit spread would result in decrease in fair value by RMB4,718,000
Derivative financial instruments – The CCSs	Discounted cash flow model	Discount Rate – Receive leg	2.32% to 2.92%	1% increase in discount rate would result in decrease in fair value by RMB2,147,000 1% decrease in discount rate would result in increase in fair value by RMB1,409,000
		Discount Rate – Pay leg	3.40% to 3.88%	1% increase in discount rate would result in increase in fair value by RMB1,975,000 1% decrease in discount rate would result in decrease in fair value by RMB2,720,000

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

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 30 June 2018 (Unaudited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	25,297	25,297
– Forward currency contracts	–	1,895	–	1,895
Other non-current financial assets	–	–	56,026	56,026
	–	1,895	81,323	83,218
At 31 December 2017 (Audited)				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	–	2,745	2,745
– Early redemption option embedded in the senior notes	–	–	79,529	79,529
– Forward currency contracts	–	502	–	502
	–	502	82,274	82,776

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

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2017 are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At 1 January	82,274	249,665
Additions	51,674	–
Total loss recognised in profit or loss	(51,639)	(94,957)
Total loss recognised in equity	–	(62,313)
Exchange realignment	(986)	(10,121)
At end of the Period/year	81,323	82,274

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
At 30 June 2018 (Unaudited)				
Derivative financial instruments				
– Forward currency contracts	–	9,189	–	9,189
– The CCSs	–	–	144,188	144,188
	–	9,189	144,188	153,377
At 31 December 2017 (Audited)				
Derivative financial instruments				
– Forward currency contracts	–	5,968	–	5,968
– The Swaps	–	–	52,137	52,137
– The CCSs	–	–	134,058	134,058
	–	5,968	186,195	192,163

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

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2017 are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At 1 January	**186,195**	–
Net cash settlement	**(24,566)**	(85,284)
Total loss recognised in profit or loss	**15,405**	47,031
Total loss recognised in equity	**(33,717)**	229,244
Exchange realignment	**871**	(4,796)
At end of the Period/year	**144,188**	186,195

During the Period and the year ended 31 December 2017, 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.

34. COMPARATIVE AMOUNTS

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

35. EVENT AFTER THE END OF THE REPORTING PERIOD

On 26 July 2018, a total of 555,375 share options were granted under the Share Option Scheme. The share options shall vest on 1 April 2021 with a 6-year exercise period at an exercise price of HK$59.05 per share.

36. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 27 August 2018.

H&H Group
inspiring wellness

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