H&H Group
inspiring wellness

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

Annual Report
年度報告
2018

BIOSTIME dodie Swisse Healthy Times

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

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

BOARD COMMITTEE

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

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Cayman Islands

HEAD OFFICE

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Quarry Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

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Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
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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
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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	% of Change
	RMB'000	RMB'000	
Revenue	**10,132,498**	8,095,345	25.2%
Gross profit	**6,739,720**	5,265,614	28.0%
Adjusted EBITDA*	**2,480,738**	2,245,467	10.5%
Adjusted net profit for the year**	**1,323,031**	1,208,431	9.5%
Cash flows from operating activities***	**2,409,670**	2,405,362	0.2%
Adjusted earnings per share ("EPS")****	**RMB2.07**	RMB1.91	8.4%
Proposed dividend per ordinary share	**HKD0.48**	–	–

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the year ended 31 December 2018 amounted to RMB2,158.6 million (2017: RMB2,060.4 million). Adjusted EBITDA = EBITDA + Non-recurring losses of RMB16.2 million for the year ended 31 December 2018 (2017: RMB94.7 million) + Non-cash losses of RMB305.9 million for the year ended 31 December 2018 (2017: RMB90.4 million)

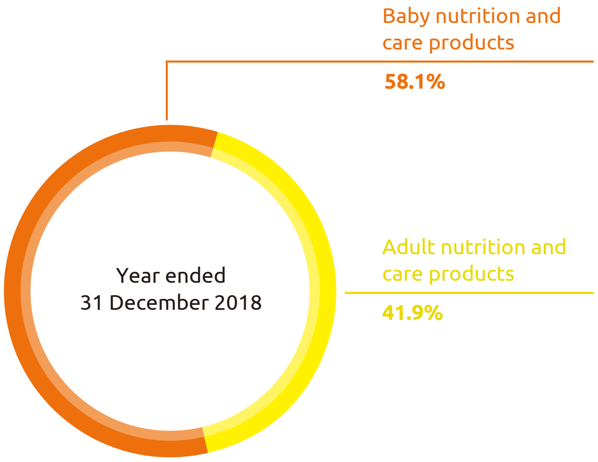
** Net profit for the year ended 31 December 2018 amounted to RMB843.1 million (2017: RMB928.5 million). Adjusted net profit = Net profit + EBITDA adjustment items of RMB322.1 million (2017: RMB185.1 million) + Other non-recurring losses of RMB123.8 million (2017: RMB28.3 million) + Other non-cash losses of RMB34.0 million (2017: RMB66.5 million)

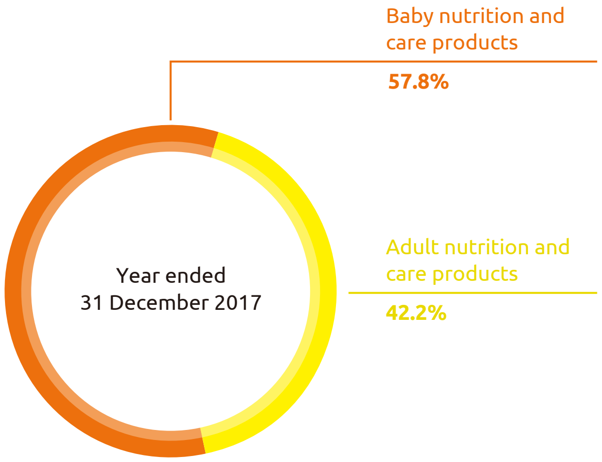
*** Cash flows from operating activities is calculated on a pre-tax basic

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

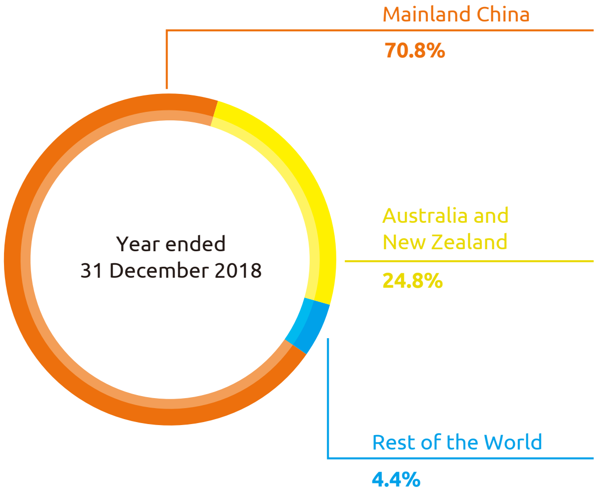
FINANCIAL HIGHLIGHTS

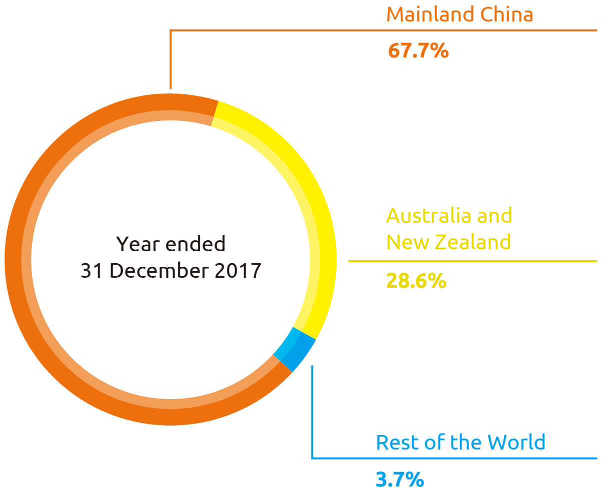
REVENUE BY BUSINESS SEGMENTS





REVENUE BY GEOGRAPHY





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am pleased to present our annual report for the year ended 31 December 2018.

BUSINESS REVIEW

2018 was another successful year for the Group with all parts of its business performing strongly. Despite the macroeconomic environment becoming increasingly unstable throughout the year, the Group's two core business segments achieved double-digit revenue growth while maintaining healthy profitability.

During the year under review, total revenue reached RMB10,132.5 million for the year ended 31 December 2018, an improvement of 25.2% compared to the previous year, with the Group's baby nutrition and care ("**BNC**") and adult nutrition and care ("**ANC**") segments accounting for approximately 58.1% and 41.9% of total revenue respectively. Adjusted EBITDA for the year under review was RMB2,480.7 million, an increase of 10.5% compared to the previous year. Adjusted net profit was RMB1,323.0 million, an increase of 9.5% compared to the previous year.

In 2018, the Group continued to work towards its strategic goal of becoming a global premium wellness player by further driving the growth of its BNC and ANC businesses in core markets, accelerating the global footprint of its brands, and growing its product portfolio. The Group also successfully implemented many initiatives, including three key milestones. The first was the launch of its new Infant Milk Formula ("**IMF**") series following the introduction of new registration rules in China in 2018, which was also a landmark year for the domestic IMF market. In order to comply with the new registration rules, the Group successfully registered and launched upgraded formulas and new packaging for its new IMF series under the Biostime and Healthy Times brands in the beginning of 2018, smoothly transitioning its IMF series from old to new products.

The second milestone was completing the transition of the global distribution rights for Swisse, with the Group transitioning of the remaining markets in 2018, including Hong Kong, Singapore, Italy, Netherlands and the United Kingdom. Following this smooth transition, the Group invested in and achieved strong growth in these markets, which provides a basis of further expanding the Swisse brand in new and emerging markets.

Last but not least, the Group launched an exciting range of new products in different markets, including pregnancy and infant ranges, a probiotics range, and a lifestyle range under the Swisse brand, in response to the increasing consumer demand for these new categories in the global vitamin, herbal and mineral supplements ("**VHMS**") sector.

In 2018, the BNC segment achieved robust revenue growth both in China and other global markets. Revenue derived from the BNC business, which includes the Group's IMF, probiotic and baby care products, reached RMB5,888.3 million in 2018, up 25.8% compared to the previous year. The IMF segment in China remained the largest contributor to the BNC business, despite several challenges including the declining birth-rate, weakening economic growth, and the stricter registration rules, which is intensifying competition among major players. However, the Chinese IMF market continued to thrive in 2018, particularly the premium and super premium segments, a factor which underpinned the Group's strong performance in 2018. Its IMF business increased by 21.3% in 2018, as a result of the Group's premium positioning, strong branding and marketing initiatives, and channels investments. Sales of the Group's Biostime and Healthy Times branded IMF products increasing by 18.9% and 171.8%, respectively.

According to Nielsen, an independent market research company, the market share in China held by the Group's premium and super premium series under Biostime and Healthy Times brands increased to 5.8% for the twelve months ended 31 December 2018. Consequently, the Group's share of the overall IMF market in China increased to 5.9% for the twelve months ended 31 December 2018.

The Group also positioned itself to capture the fast growing organic IMF segment – a market that grew 42.4% in 2018, according to Nielsen. In particular, the Group continued to expand the brand exposure of its IMF products under the Healthy Times brand, building on its earlier launch in the China and US markets. At the same time, the Group appointed a well-regarded Chinese celebrity as brand ambassador for Healthy Times, while also promoting the benefits of organic and natural raw ingredients for infants. Both of these actions were highly instrumental in positioning the brand squarely at the centre of China's rapidly growing organic IMF market.

CHAIRMAN'S STATEMENT

Meanwhile, the Group continued to see strong sales momentum for its probiotic products segment, with new probiotic products being introduced in the Hong Kong and French markets in 2018. Revenue derived from this segment reached RMB1,044.6 million, an increase of 33.6% compared to the previous year, which was mostly attributed to comprehensive branding and marketing campaigns, and continued robust consumer demand towards probiotic products.

Apart from the IMF and probiotic segments, sales of other pediatric products also grew rapidly in 2018, which mostly attributed to the sale of Dodie branded products in its home French market, as well as in China. In France, the Group leveraged Dodie's 60th anniversary to launch a new accessories collection, new brand campaigns, and a new personal care range for infants, which received very positive consumer feedback.

The Group also accelerated the penetration of its Dodie premium diaper range in China in 2018 – which was first launched in September 2017 – to capture opportunities arising from the recent premiumization of the domestic diaper market. This effort was supported by the appointment of Guo Jingjing, a Chinese Olympic medal-winning diver, as a brand ambassador, as well as comprehensive marketing campaigns on Chinese online and offline platforms.

Global demand for health supplements remained strong in 2018, driven by consumers' growing aspiration for healthier lifestyles, as well as increasing purchasing power in markets such as China. In 2018, Swisse continued to invest in its home markets, while launching new product categories and expanding into new markets. Revenue derived from the Group's ANC segment continued to grow very strongly in 2018, reaching AUD859.0 million, an 30.3% increase compared to the previous year on a currency-adjusted basis. Australia and New Zealand ("**ANZ**") and China active sales[1] increased by 13.7% and 63.2%, respectively. This result was primarily attributed to robust growth in the Chinese market, which contributed 35.6% of total Swisse sales in 2018, while sales in Swisse's Australian home market continued to outperform the industry, resulting in market share gain.

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 31 December 2018. Swisse also holds a leading position in the Chinese online VHMS market. This strong outcome was the result of a well-coordinated marketing strategy – which strengthened the brand's premium position in the VHMS markets of both countries – as well as the launch of new products ranges under the Swisse brand, including new pregnancy and infant series, alongside new probiotics and lifestyle ranges.

[1] *Note:* China active sales include sales from Cross-border E-commerce ("CBEC") and normal trade

In the Chinese market, Swisse's revenue growth, particularly in the Cross-border E-Commerce ("**CBEC**") segment, was driven by a number of innovative marketing campaigns and interactions with key opinion leaders. Swisse was named the number one health brand and number one imported consumer brand across all industries during TMall's landmark "Single's Day" shopping festival in November 2018, during which it launched new product series that were well received in the Chinese CBEC market.

Swisse also expanded its normal trade business in China in 2018, successfully registering its high-selling Ultiboost Calcium + Vitamin D product with the State Administration for Market Regulation ("**SAMR**") – the first Australian-made VHMS product approved under China's new "blue hat" filing process. Meanwhile, the Group continued to expand and deepen its penetration of offline distribution channels in China, including a new cosmetics channel, to further expand Swisse's brand exposure, leveraging its more comprehensive range of products and enlarged network.

The Group also laid the foundation for future innovation and success with the launch of a new wholly owned innovation fund, NewH², which aims to invest up to a total of USD60 million in emerging and innovative technologies, product categories and business models. This initiative will enable the Group to leverage external innovation capabilities and entrepreneurial ventures to capture future growth opportunities.

In connection with NewH², the Group has entered into a licensing and co-development agreement with Relief Therapeutics Holding SA, a clinical-stage biotechnology company based in Switzerland, to develop a disruptive technology and products which are derived from whey and/or no-fat milk and have the potential to prevent allergies. The Group will also continue to leverage on the Biostime Institute for Nutrition and Care ("**BINC**") in Geneva to underpin the premium quality of the Group's products.

PROSPECTS

Following the integration of Swisse's new fully controlled markets into the wider Group, the Group will continue to implement its Premium, Proven and Aspirational ("**PPA**") model and undertake innovative marketing campaigns and celebrity endorsements to positively convey the image of its brands on a local and global scale. The Group will further leverage its Chinese distribution network and resources to facilitate brand exposure in this market, while also integrating its global brand assets to accelerate its expansion in international markets. For instance, the Group launched Biostime's organic IMF products and probiotics products in Australia at the beginning of 2019, appointing model Miranda Kerr as Biotime's brand ambassador in this market.

In addition to its existing growth strategy, the Group is also exploring new product categories including organic baby food, goat milk infant formula, and the adult natural beauty segment. In September 2018, the Group completed its acquisition of Good Goût, a French organic baby food brand, which will enable it to further capture the strong growth momentum of the organic baby food segment in France, China and other international markets where there is increasing consumer demand for proven and premium BNC products. To support the future expansion of its IMF product range, the Group recently acquired a CNCA[1]-approved factory in Australia that has the capability to produce goat milk infant formula. This acquisition will enable the Group to tap into other parts of the fast-growing IMF segment in China.

Furthermore, the Group is taking steps to explore the global premium and natural beauty segment following its acquisition of Aurelia Probiotic Skincare, an ultra-premium skincare brand that combines sustainably sourced Bio-Organic botanical ingredients and probiotics, which will further complement the care segment of its ANC business.

[1] *Note:* Certification and Accreditation Administration of the People's Republic of China

Baby Nutrition and Care

In 2019, the Group anticipates competition in the Chinese IMF market to remain intensely competitive. However, the Group believes that it can consolidate its leading position in the market by leveraging on its leadership in the premium and super premium segments as the premiumization trend continues. In order to stay ahead of toughening competition in both the online and offline markets, the Group will continue to invest in branding and marketing campaigns, launch new product categories, and deepen its distribution network and enhance its strategic partnerships with key customers in China. In January 2019, the Group became one of the key sponsors of the high-profile annual ceremony "Weibo Nights", achieving 12 billion brand exposures during the event and enhancing its premium branding among consumers, as well as its customer engagement.

Adult Nutrition and Care

The Group believes that demand for health products will continue to grow, in line with increasing health-consciousness as more and more young consumers enter the category. In order to capture these opportunities, the Group will further grow Swisse's brand exposure in the Chinese online and offline markets, as well as in other global markets, with the launch of new products, innovative marketing and branding campaigns, and through continued investment in sales channels.

The Group sees great opportunities arising from the China State Council's decision to expand the CBEC pilot zone to 37 cities (as of 31 December 2018), which it expects will boost the sustainable growth of Swisse's CBEC business in China. To facilitate the expansion of its normal trade business in China, the Group is currently preparing filing documents for several Swisse products in 2019, following the approval of Swisse's Ultiboost Calcium + Vitamin D product license by SAMR in July 2018. The Group will continue to focus on new product development as one of its main growth drivers, to further meet ever-changing consumer demand in the future.

In line with its PPA model, the Group recently appointed an influential and well-recognized Hollywood actor, Chris Hemsworth as Swisse's new global brand ambassador. This addition to Swisse's team of brand ambassadors, which includes critically-acclaimed actress Nicole Kidman, former international cricketer Ricky Ponting, and Australia's No.1 men's tennis player, Alex de Minaur, perfectly places the Group to further grow the Swisse brand around the world.

Capital Structure

The Group further improved its leverage ratio and capital structure in 2018 as a result of strong revenue growth and cash flow generation. In 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, while also redeeming some of its senior notes in the second half of 2018. Going forward, the Group expects that it will continue to generate strong cash flow from its current business operations to further improve capital efficiency.

CHAIRMAN'S STATEMENT

CHALLENGES

In 2019, the Group expects that market competition would continue to intensify given the ongoing birthrate decline, weaker macro-economy and stricter regulatory environment. This competitiveness will be driven by the ongoing consolidation in the Chinese market that has been taking place since the new IMF registration rules came into force at the beginning of 2018. This consolidation has led major IMF brands to step up their investment in branding and marketing initiatives to win the market share vacated by smaller brands who are exiting the market as a result of the registration rules. In response to this toughening competition, the Group will continue to consolidate its leadership in the premium and super premium segments of the market through aspirational branding, product differentiation, the introduction of new products, continued penetration of both the online and offline markets in China, as well as through global expansion.

The Group's ANC business growth is currently facing some headwinds from the impact of the new E-commerce law in China targeting daigou-related channels. This law, which was first announced in August 2018 and came into force on 1 January 2019, requires all online merchants, including daigou, to register with SAMR and file taxes with the Tax Bureau. While the implementation of the new E-commerce law could benefit larger players operating within a more regulated environment, small-scale merchants and daigou who are currently operating without an appropriate license may face pressure to exit the market. Although its daigou channels are currently being impacted, the Group believes that overall demand for VHMS products will remain strong and will gradually shift to major CBEC and other emerging online platforms. At the same time, the Group will continue to invest in marketing globally in order to drive brand awareness, consumer education and conversion through its omni channels that better meet ever-changing consumer demand across different channels.

SOCIAL RESPONSIBILITY

Throughout 2018, the Group demonstrated its high level of commitment to sustainability and how it can be applied in ways that balance environmental, social and economic factors. The Group has also introduced discipline and structure around the application of sustainability and governance in areas including compliance, reporting and aligned community investment, while also making sustainability a standing item at all board meetings.

This was demonstrated by the development of a publicly available Supplier Code of Conduct, the accounting of all scope 1 & 2 carbon emissions across all locations globally and the subsequent offsetting of those emissions. The Group actively participates in World Environment Day and is also listed as one of the top 90 companies of the Hang Seng Corporate Sustainability Benchmark Index. Furthermore, the Group is building community-based programs, such as the launch of the global H&H Foundation, which aim to advance the story of health through the context of the needs of communities. It has also kicked off activity around World Community Day with team members from all regions volunteering within their local communities.

In 2018, the Group has become a member of three leading sustainability associations: The Sustainability Consortium, the Shared Value Project and the United Nations Global Compact. The Group intends to harness these opportunities to move the discussion beyond the basics and towards a more expansive view of sustainability that creates new forms of value and improves its competitive positioning within the different markets in which it operates. In 2019, the Group will continue to increase awareness, understanding and thought leadership, while increasing the level of support for a more pro-active and value-focused approach to sustainability.

ACKNOWLEDGEMENTS

2019 will be an even bigger year for the Group. However, the great success and progress that the Group achieved in 2018 would not have been possible without the devoted effort and enormous support from its employees, consumers, business partners, creditors and investors across all markets. I would like to express my sincere gratitude to everyone who contributed to H&H's success during the year under review and I look forward to building more long-term partnerships that make people around the world healthier and happier.

Luo Fei
Chairman

Hong Kong, 19 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2018, the Group's revenue increased by 25.2% to RMB10,132.5 million as compared with the year ended 31 December 2017. Despite an unstable overall macro-environment, the Group achieved double-digit revenue growth in both baby nutrition and care and adult nutrition and care segments in 2018 driven by the continued growth in both segments and effective strategic and operational initiatives taken by the Group.

	Year ended 31 December				
				% to revenue	
	2018	2017	Change	**2018**	2017
	RMB'000	RMB'000			
Baby nutrition and care products	**5,888,292**	4,681,467	25.8%	**58.1%**	57.8%
– Infant formulas	**4,508,539**	3,717,214	21.3%	**44.5%**	45.9%
– Probiotic supplements	**1,044,614**	781,741	33.6%	**10.3%**	9.7%
– Other pediatric products	**335,139**	182,512	83.6%	**3.3%**	2.2%
Adult nutrition and care products	**4,244,206**	3,413,878	24.3%	**41.9%**	42.2%
Total	**10,132,498**	8,095,345	25.2%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB4,508.5 million for the year ended 31 December 2018, representing an increase of 21.3% compared with the year ended 31 December 2017. The growth was mainly attributable to the strong demand of Biostime branded super premium and premium series IMF products resulting from continuous and effective investments in marketing and channel initiatives, despite a number of challenges in China including the declining birth-rate, lower economic growth, and stricter registration rules, which leads to intensifying competition among IMF market. Incremental sales from the Healthy Times branded organic IMF also contributed to the Group's sales growth. For the year ended 31 December 2018, revenue from the Group's Biostime and Healthy Times branded IMF products increased by 18.9% and 171.8%, respectively, as compared with last year, and the Healthy Times branded organic IMF accounted for 4.7% of the Group's total IMF revenue.

Probiotic Supplements

For the year ended 31 December 2018, the Group recorded revenue from probiotic supplements of RMB1,044.6 million, a strong growth of 33.6% compared with RMB781.7 million in 2017. The growth was mostly attributed to the growing demand for the probiotic supplements and the Group's comprehensive branding and marketing campaigns.

Other pediatric products

Revenue from other pediatric products segment increased by 83.6% to RMB335.1 million for the year ended 31 December 2018 from RMB182.5 million in last year. This rapid growth was mostly attributed to the sale of Dodie branded products in its home French market, as well as in China, which was further supported by the appointment of a Chinese Olympic medal-winning diver as a brand ambassador, as well as comprehensive marketing campaigns on Chinese online and offline platforms. Sales of Dodie branded diaper, which was launched in the Chinese market in late September 2017, increased by 702.7% to RMB131.9 million for the year ended 31 December 2018 as compared with last year.

RESULTS OF OPERATION (CONTINUED)

Revenue (continued)

Adult nutrition and care products

On currency adjusted basis[1], revenue from the adult nutrition and care products segment amounted to AUD859.0 million for the year ended 31 December 2018, representing an increase of 30.3% from AUD659.4 million for the year ended 31 December 2017. In 2018, Swisse continued to invest in its core markets, while launching new product categories and expanding into new markets. The growth was mainly attributable to robust growth in the Chinese market, which contributed 35.6% of total Swisse sales in 2018, while sales in Swisse's Australian home market continued to outperform the industry, resulting in market share gain. Revenue from Australia and New Zealand market and China active sales increased by 13.7% and 63.2% to AUD507.8 million and AUD306.2 million, respectively, for the year ended 31 December 2018 as compared with last year. Revenue from the markets of Hong Kong, Singapore, Italy and Netherlands which have been consolidated into the Group's revenue since the completion of the transfer of Swisse's distribution rights from PGT Healthcare LLP ("PGT") reached AUD25.2 million.

Gross profit and gross profit margin

In 2018, the Group recorded gross profit of RMB6,739.7 million, an increase of 28.0% compared with the prior year. The Group's gross profit margin increased from 65.0% in 2017 to 66.5% in 2018.

The gross profit of the baby nutrition and care segment increased by 25.4% to RMB4,001.5 million in 2018 compared with the last year. The gross profit margin of the baby nutrition and care segment maintained stable at 68.0% in 2018, compared with 68.2% in 2017. Despite the pressure from rising raw material prices and higher packaging and logistics costs, the gross profit margin remained stable thanks to the lower slow-moving stocks provision and write-offs resulting from the optimization of inventory management, and a more favorable product mix towards higher-margin super premium IMF series and probiotic supplements.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 38.4% to AUD554.2 million in 2018, compared with AUD400.5 million in 2017. The gross profit margin of the adult nutrition and care segment increased to 64.5% in 2018, as compared with 60.7% in 2017, which was mainly driven by the increase of sales prices of certain stock keeping units ("SKUs"), an improved product mix towards higher proportion of sales from the higher-margin SKUs, as well as the enhancement of inventory management efficiencies.

Other income and gains

Other income and gains amounted to RMB75.4 million for the year ended 31 December 2018. Other income and gains primarily consisted of regular government grant of RMB26.6 million, interest income of RMB24.1 million, gain on deemed disposal of partial interest in an associate of RMB9.5 million, fair value gains from forward currency contract of RMB6.0 million and others. In 2018, other income and gains decreased by RMB68.1 million as compared with last year. The decrease was mainly led by the combining effect of: i) a decrease in net foreign exchange gain of RMB53.9 million; and ii) a decrease in non-cash fair value gain on the early redemption option embedded in the senior notes of RMB26.4 million mainly due to the early redemption of part of the senior notes in October 2018. In 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 were booked under other expenses.

[1]Note: The exchange rates of AUD1=RMB4.9407 and AUD1=RMB5.1775 have been used for the year ended 31 December 2018 and 2017, respectively.

RESULTS OF OPERATION (CONTINUED)

Selling and distribution costs

Selling and distribution costs amounted to RMB3,703.4 million in 2018, an increase by RMB991.7 million, or 36.6% as compared with 2017. Selling and distribution costs as a percentage of the Group's revenue was 36.5% in 2018, increased by 3.0 percentage point as compared with 33.5% in 2017.

As the Group recognizes the growth of both business segments is becoming more brand-driven, the Group has voluntarily shifted the investment focus from channels to advertising and marketing in order to sustain and strengthen our leading position. The Group undertook innovative advertising campaigns and added new celebrity endorsements that positively conveyed the premium and aspirational image of the Group's brands on both local and global scales. Expenses for advertising and marketing activities thus rose by 76.0% from RMB843.9 million in 2017 to RMB1,485.6 million for this year.

Advertising and marketing expense as percentage to the Group's revenue increased from 10.4% in 2017 to 14.7% in 2018. These expenses were budgeted and incurred according to the Group's strategic growth plan. The Group considered the expenses were critical especially because 2018 is the first year when the Chinese new IMF registration rules became effective, at the same time with the completion of the transition of the global distribution rights for Swisse. These investment activities proved effective with positive feedback received from consumers worldwide and market share gain achieved in all key markets where the Group operates.

Meanwhile, the selling and distribution costs other than advertising and marketing as percentage to the Group's revenue improved to 21.8% in 2018, compared with 23.1% in 2017, thanks to optimization of the selling and distribution management efficiency.

Administrative expenses

Administrative expenses increased by 27.5% from RMB486.0 million in 2017 to RMB619.6 million in 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, as well as the one-off transaction costs related to the attempted refinancing of the senior notes and mergers and acquisitions ("M&A") projects.

Administrative expenses as a percentage of the Group's revenue was 6.1% in 2018, slightly increased by 0.1 percentage point as compared with 6.0% in 2017.

RESULTS OF OPERATION (CONTINUED)

Other expenses

Other expenses for 2018 increased to RMB486.1 million from RMB356.3 million in 2017. Other expenses mainly included R&D expenditure of RMB151.2 million, net foreign exchange loss of RMB275.9 million, non-cash fair value losses on the Group's derivative financial instruments of RMB27.5 million, and partial derecognition of early redemption option of RMB9.5 million and others.

During 2018, R&D expenditure increased by 53.3% as compared with last year. The increase in R&D expenditure was mainly due to the investment in new product development, as one of the main revenue growth driver, to meet the ever-changing consumer demand. 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 RMB275.9 million mainly consisted of: 1) unrealized loss of RMB64.7 million from the revaluation on the Group's term loan post refinancing on 27 June 2018 till late September 2018 upon completion of syndication and entrance into hedge agreements, and 2) unrealized loss of RMB153.4 million due to the revaluation on intra-group loans between the Company and its subsidiaries resulting from historical intra-group transaction.

The non-cash fair value loss on derivative financial instruments of RMB27.5 million was mainly caused by the fair value loss on the early redemption option embedded in the Group's senior notes.

EBITDA and EBITDA margin

Adjusted EBITDA increased by 10.5% from RMB2,245.5 million in 2017 to RMB2,480.7 million in 2018. Adjusted EBITDA margin for 2018 was 24.5%, decreasing by 3.2 percentage points as compared with that of 2017. The lower adjusted EBITDA margin was mainly due to the Group's planned additional investments in its brands, sales channels as well as new product development, among which included: 1) higher marketing and channel investment during the critical period after the Chinese new IMF registration rules became officially effective at the beginning of 2018, and 2) investment in brand building and channel expansion activities along with the completion of the transition of the global distribution rights for Swisse.

EBITDA for the year ended 31 December 2018 amounted to RMB2,158.6 million, increased by 4.8% from RMB2,060.4 million for the year ended 31 December 2017, which was a high base including a large amount of non-cash foreign exchange gain. EBITDA margin was 21.3% during the year 2018.

RESULTS OF OPERATION (CONTINUED)

EBITDA and EBITDA margin (continued)

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

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
EBITDA	**2,158.6**	2,060.4
Reconciled by:		
Non-recurring items*:		
(1) Non-recurring transaction costs in relation to attempted refinancing of senior notes and M&A	**16.2**	–
(2) Non-recurring integration costs	**–**	29.9
(3) One-time restructuring costs related to early childhood education business	**–**	30.0
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**–**	34.8
Non-cash items*:		
(5) Net foreign exchange losses/(gains)	**275.9**	(53.9)
(6) Net fair value losses on the financial instruments and partial derecognition of early redemption option embedded in the senior notes	**30.0**	144.3
Adjusted EBITDA	**2,480.7**	2,245.5

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

Finance costs

During the year ended 31 December 2018, the Group incurred finance costs of RMB479.4 million, including interests for the term loan and senior notes of RMB415.4 million, premium of RMB30.0 million paid for early redemption of part of the senior notes and write-off of previously capitalized transaction costs of RMB34.0 million after the successful refinancing of the term loan in June 2018.

Income tax expense

Income tax expense increased from RMB440.2 million in 2017 to RMB684.8 million in 2018.

The effective tax rate increased from 32.2% in 2017 to 44.8% in 2018. The Group's normalized effective tax rate in 2018 was 33.7%, excluding (i) the one-off net capital tax gain raised from the intellectual property ("IP") transferred within the Group's subsidiaries as part of the Group-wide integration initiatives to streamline the global supply chain and accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back, which accounted for 6.1% of the current period effective tax rate; and (ii) the non-recurring foreign exchange losses and net fair value losses on the financial instruments, which accounted for 5.0% of the current period effective tax rate.

RESULTS OF OPERATION (CONTINUED)

Net profit and adjusted net profit

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

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Net profit	**843.1**	928.5
Reconciled by:		
EBITDA adjusted items as listed above	**322.1**	185.1
Non-recurring items*:		
(1) One-time net capital gain tax in relation to IP transferred within the Group's subsidiaries and accelerated amortization of intangible assets of PGT royalty agreement	**93.8**	–
(2) Premium paid for early redemption of part of the senior notes and loss on redemption of the convertible bonds	**30.0**	13.1
(3) Bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse	**–**	15.2
Non-cash items*:		
(4) Write-off of transaction costs upon refinancing for the term loan	**34.0**	–
(5) One-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back	**–**	66.5
Adjusted net profit	**1,323.0**	1,208.4

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2018, the Group recorded net cash generated from operating activities of RMB1,697.2 million, resulting from pre-tax cash from operations of RMB2,409.7 million, minus income tax paid of RMB712.5 million.

Investing activities

For the year ended 31 December 2018, net cash flows used in investing activities amounted to RMB748.6 million, primarily related to the payments for acquisition of subsidiaries.

Financing activities

For the year ended 31 December 2018, net cash flows used in financing activities amounted to RMB1,118.9 million. The cash outflows were primarily related to the repayment of term loans of RMB2,333.6 million, early redemption of part of the senior notes of RMB896.8 million and interest paid for term loans and senior notes of RMB522.7 million. The cash outflows were partially offset by the net proceeds from the successful refinancing of new term loan of RMB2,657.7 million.

Cash and bank balances

As of 31 December 2018, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,912.4 million.

Term loan and senior notes

In mid-June 2018, the Group successfully refinanced its existing term loan by a new three-year term loan of USD300 million with significant improvement on the terms and conditions. In September 2018, the new term loan was further upsized to USD400 million due to the oversubscription by lenders during the syndication process. As of 31 December 2018, the Group's outstanding term loans amounted to RMB2,692.3 million, all are payable after one year.

In October 2018, in order to reduce finance cost and optimize capital structure, the Company redeemed USD125 million in principle amount of its USD600 million 7.25% senior notes due 2021. As of 31 December 2018, the total carrying amount of the senior notes was RMB3,274.7 million.

For the year ended 31 December 2018, net leverage ratio decreased to 1.6 from 1.9 for the year ended 31 December 2017, calculated by dividing the net debts[Note] by adjusted EBITDA. Gearing ratio decreased to 40.2% from 44.5% for the year ended 31 December 2017, calculated by dividing the sum of the carrying amount of senior notes and interest bearing term loan by total assets.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 increased slightly by 1 day from 27 days for the year ended 31 December 2017 to 28 days for the year ended 31 December 2018. The average turnover days of trade payables were 78 days for the year ended 31 December 2018, representing an increase of 4 days from 74 days as compared with that of 2017.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 137 days for the year ended 31 December 2018, representing an increase of 23 days from 114 days in 2017 mainly because the IMF inventory at end of 2017 was kept at a low base before the switch from old products to newly registered series with upgraded formulas and new packages.

DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board of Directors is pleased to recommend the payment of a final dividend of HKD0.48 per ordinary share for the year ended 31 December 2018, accounting for approximately 20.0% of adjusted net profit and approximately 31.4% of net profit for the year ended 31 December 2018.

Subject to approval at the forthcoming annual general meeting on Friday, 10 May 2019, the said final dividend will be payable on or about 10 July 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 21 May 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

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

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

On 4 January 2019, the Group acquired 100% equity interest in Aurelia Probiotic Skincare, an ultra-premium skincare brand that combines Bio-Organic botanical ingredients sustainably sourced and probiotics. The total purchase consideration for the acquisition was GBP21.0 million.

To the best of the knowledge of the Directors having made all reasonable enquiries, the subject company and the vendors in this acquisition are parties independent of the Company and its connected persons. The Directors confirm that as all the applicable percentage ratios under Chapter 14 of the Listing Rules in respect of this acquisition were less than 5% and did not involve the issue of any securities by the Company, the acquisition did not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2018 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

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

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

Relationship with Employees

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

Relationship with Customers

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

Relationship with Suppliers

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 55, is the chairman and an executive Director of the Company. Mr. Luo was formerly the Chief Executive Officer of the Company until 18 March 2019. Mr. Luo was appointed as an executive Director on 30 April 2010, and is also a director of a variety of subsidiaries of the Company. The major subsidiaries are Health and Happiness (H&H) China Limited ("**Health and Happiness China**", formerly known as BiosTime, Inc. (Guangzhou)), Biostime (Guangzhou) Health Products Limited ("**Biostime Health**"), Health and Happiness (H&H) Hong Kong Limited ("**Health and Happiness Hong Kong**", formerly known as Biostime Hong Kong Limited) and Swisse Wellness Group Pty Ltd ("**Swisse**"). Mr. Luo is also a director of Guangzhou Mama100 E-commerce Co., Limited (廣州市媽媽一百電子商務有限公司, "**Mama100 E-commerce**"), a company controlled by the Group through a series of structure contracts. Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("**Biostime Pharmaceuticals**") with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "**SFO**"). For further details, please refer to page 68 of this Annual Report. Mr. Luo leads the Board and supervises the Group's strategy, risk management and corporate governance. Mr. Luo has approximately 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("**Guangzhou Biohope**"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established Health and Happiness China and has served as its general manager since then. Mr. Luo is the chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

Mr. Luo Fei has been informed that the Securities and Futures Commission of Hong Kong (the "**SFC**") has instituted disclosure proceedings in the Market Misconduct Tribunal of Hong Kong relating to the Company and himself. It appears to SFC that, in the year 2015, the Company and Mr. Luo Fei, have or may have breached the relevant disclosure requirement within the meaning of sections 307B and 307G (as the case may be) of Part XIVA of the SFO in relation to certain financial information of the Group. The Market Misconduct Tribunal will hear and determine (i) whether a breach of a disclosure requirement has taken place; and (ii) the identity of any person who is in breach of the disclosure requirement.

EXECUTIVE DIRECTORS (CONTINUED)

Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER, aged 38, is an executive Director and Chief Executive Officer of the Company. She was appointed as an executive Director on 26 March 2018 and the Chief Executive Officer of the Company on 19 March 2019. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER is primarily responsible for the Company's overall strategies, planning and business development. She joined the Group in July 2010. She was the General Manager of Group strategy and international business department of the Group. Since October 2016, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER also assumes the role of Managing Director of Swisse China. She is also a director of a variety of subsidiaries of the Company. The major subsidiaries are Biostime Healthy Australia Pty Ltd., Swisse and Swisse China Limited. From December 2003 to August 2010, she worked for French Trade Commission in South China and was mainly responsible for providing lobbying and support to French companies partnering, exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January to June 2001, the Banque Populaire Group in Paris from July to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from Institute of Political Studies in Paris.

Mr. Wang Yidong (王亦東), aged 45, is an executive Director of the Company. Mr. Wang was appointed as an executive Director on 26 March 2018. He joined the Group in May 2016. Mr. Wang is the Chief Financial Officer of the Group and is in charge of the overall financial management, accounting and investor relations affairs of the Group. He has near 20 years of experience in financial management, accounting and corporate finance. Prior to joining the Group, Mr. Wang was the Corporate Vice President and Asia Pacific Chief Financial Officer of Henkel AG & Co. KGaA, a German consumer goods giant ("**Henkel**"), responsible for Henkel's financial management, business and operation controlling as well as M&A-related tasks in 14 countries of Asia Pacific. Before that, he worked at Henkel's headquarters in Germany as Global Director of Business Development and M&A for Adhesive business unit, and also worked as Henkel's Greater China Chief Financial Officer and Asia Pacific Treasurer in preceding years. Mr. Wang had also taken various management and banking roles with LG.Philips, JPMorgan Investment Bank and China's Ministry of Commerce in Hong Kong, New York and Beijing. Mr. Wang holds a Master of Business Administration degree from New York University Stern School of Business and a Bachelor of Arts degree from China Foreign Affairs University. He is a member of the American Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants (the "**ACCA**"). He is also a member of ACCA China Expert Forum.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Zhang Wenhui (張文會), aged 54, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 68 of this Annual Report. Dr. Zhang has also been an independent director of Stoltze Specialty Processing, LLC in the United States since September 2012. Dr. Zhang has almost 18 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Health and Happiness China and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Health and Happiness China, Biostime Health and Dodie Baby Products Inc. (Guangzhou) ("**Dodie Guangzhou**", formerly known as BMcare Baby Products Inc. (Guangzhou)) until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. In September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University (大阪大學). Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000. He also received a master's degree in Business Administration from University of Chicago in March 2017.

Mr. Luo Yun (羅雲), aged 58, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Health and Happiness China, Biostime Health, Dodie Guangzhou, Biostime (Guangzhou) Education Management Inc. ("**Biostime Education**"), Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**") and Adimil (Changsha) Nutrition Products Limited ("**Changsha Adimil**"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with disclosable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 68 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Health and Happiness China including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 57, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. Dr. Ngai is the group chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited, formerly known as SW Corporate Services Group Limited, a specialty company secretarial, corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. He had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities.

Dr. Ngai was an independent non-executive director of China Coal Energy Company Limited from December 2010 to June 2017 and an independent non-executive director of China Railway Group Limited from June 2014 to June 2017 and an independent non-executive director of China HKBridge Holdings Limited from March 2016 to April 2018. In addition, Dr. Ngai is currently an independent non-executive director or independent director of the below companies:

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際(集團)控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
Beijing Capital Grand Limited	首創鉅大有限公司	Main Board	1329	December 2013
China Communications Construction Company Limited	中國交通建設股份有限公司	Main Board	1800	November 2017
LDK Solar Co., Ltd.	不適用	Listed on OTC Pink Limited Information	LDKYQ	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010
Yangtze Optical Fibre and Cabe Joint Stock Limited Company	長飛光纖光纜股份有限公司	Main Board	6869	September 2014
BBMG Corporation	北京金隅集團股份有限公司（前稱為：北京金隅股份有限公司）	Main Board	2009	November 2015
TravelSky Technology Limited	中國民航信息網絡股份有限公司	Main Board	696	January 2016
SPI Energy Co., Ltd	不適用	Listed on Nasdaq	SPI	May 2016

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

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

Dr. Ngai is a fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the HKICS, a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. Dr. Ngai obtained a doctoral degree in finance at Shanghai University of Finance and Economics, a master's degree in corporate finance from Hong Kong Polytechnic University, a master's degree in business administration from Andrews University of Michigan in the United States and a bachelor honor degree in laws from University of Wolverhampton in the United Kingdom.

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

Mr. Tan Wee Seng (陳偉成), aged 63, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Company's Remuneration Committee. Mr. Tan is also an independent non-executive director and chairman of audit committee of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited (Stock Code: 178), an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), an independent non-executive director and chairman of the audit committee of Sinopharm Group Company Limited (Stock Code: 1099), an independent non-executive director, the chairman of the audit committee and remuneration committee and a member of the nomination committee of Shineroad International Holdings Limited (Stock Code: 1587), the shares of all of which are listed on the Main Board of the Stock Exchange. In addition, Mr. Tan is an independent director and chairman of audit committee of Renesola Ltd (Stock Code: SOL), the shares of which are listed on the NYSE. Mr. Tan is also a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been appointed as an independent director and chairman of the audit committee of 7 Days Group Holdings Limited listed on the NYSE between November 2009 and July 2013 until it was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Professor Xiao Baichun (蕭柏春), aged 71, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to the business operations of the Company in matters relating to corporate governance practices. From September 1990, he was with Seton Hall University as an assistant professor and was promoted to associate professor with tenure in April 1994 and to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 2003. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010 and a distinguished professor of EMBA program in Fudan University (復旦大學) since 2005. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006, and "Teaching Excellence Award" from Peking University (北京大學) in 2012. Professor Xiao was named as Fulbright Senior Scholar by US Fulbright Foundation in 2012. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

SENIOR MANAGEMENT

Dr. Patrice Malard, aged 65, joined the Group as our chief scientific officer and General Manager of Biostime Pharma (a subsidiary of the Company in France) in October 2010 and was appointed as the chief technology officer of the Company as well as the general manager of the technology center of Biostime Health in June 2012. He is responsible for research and development, product quality control and regulatory compliance. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice has approximately 30 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agro-consulting group, as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer Hi-Bred in agro-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division for the period from February 1999 to October 2007. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

SENIOR MANAGEMENT (CONTINUED)

Mr. Abel Benzakour, aged 55, joined the Group as our chief operating officer in April 2017. He is responsible for overall procurement, logistics, production, supply chain, as well as global information technology and business intelligence, global compliance and control. Mr. Benzakour has approximately 30 years of experience in the Fashion industry, Chemical and textile manufacturing. From November 1990 to August 1991, he worked for Algotex S.A as a contracting manager in the field of the Fashion Industry. From August 1991 to February 1995, he was employed by Tecnox S.A of Wittock Van Landeghem group, leader in technical military items, as a technical and production director and plant director. From February 1995 to December 2011, he worked for Levi Strauss & Co Europe. During this period, he served as various positions, including the head of sourcing & product developments, the senior director of product and technical development, the vice president of global product development and sourcing, manufacturing & operations. He also has worked as group chief supply chain officer and EVP for Vivarte group S.A, French leader in Fashion industry, with 20 brands & banners for the period from October 2012 to December 2015. From April 2016 till March 2017, he worked as Freelance consultant in the raw material optimization and raw material strategy for Gap inc., large American fashion group with four global brands, was responsible for Tunisian Federation of the industry and Tunisia 2020, Trans Pacific Partnership projects. He obtained his Bachelor Degree in Experimental Sciences from University of Sciences in 1984 and graduated in Textile Chemical Engineering in 1987 from ESITT (Ecole Superieure Industrielle du Textile de Tournai – Belgium).

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

Mr. Oliver Horn, 47, is the Managing Director of H&H Group ANZ & North America since January 2017. He is also a Director of a variety of subsidiaries of the Company. The major subsidiary is Swisse Wellness Group Pty Ltd. He is a proud family man, speaks five languages and is a passionate ambassador for a healthy and happy lifestyle. Mr. Horn has 20 years of expertise in the FMCG, beauty care and luxury goods sectors, and is experienced in global marketing and regional business management. Before joining H&H Group, Mr. Horn held numerous senior leadership positions with Treasury Wine Estates in ANZ and Central Europe, Middle East and Africa ("**EMEA**"). As EMEA Integration Director, he successfully led the integration of the Diageo wine business into the EMEA business. Preceding this, he was General Manager for the Nordics, EMEA and Latin America, General Manager for New Zealand and Global Marketing Director. Prior to Treasury Wine Estates, Mr. Horn was Brand Manager and Direct Marketing Manager of L'Oreal Paris (UK), and a Corporate Accounts Manager at Deutsche Bank (Germany). Mr. Horn holds a Bachelor of Business Administration (with Honours) from Arnhem Business School (The Netherlands).

SENIOR MANAGEMENT (CONTINUED)

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

Mr. Zhang Qizhang (張琦章), aged 34, joined the Group in June 2014. He has been appointed the general manager of the new business development department of the Group in May 2017. He is also the acting chief people officer of the Group since June 2017. He was the director of integrated marketing center of the Group from April 2015 to May 2017. Before that, he was the director in charge of the marketing, Biostime Business Unit and assumed additional responsibility as Director of Corporate Innovation Marketing Center. Mr. Zhang obtained his bachelor's degree in public management in Renmin University of China (中國人民大學) in June 2007. After graduation, he was employed by Procter & Gamble (China) Co., Ltd. (寶潔(中國)有限公司) as a brand manager at the marketing department until May 2014.

Ms. Yang Wenyun (楊文筠), aged 35, joined the Group in August 2005 and has appointed as one of the joint company secretaries of the Company since 12 July 2010. Ms. Yang works as the Director of the Listing Affairs and Risk Management Department, mainly in charge of overall listed corporation affairs, risk management and internal audit of the Group. She is also the supervisor of the Company's subsidiary Swisse Wellness (Guangzhou) Limited. Ms. Yang started her professional career with the Group and has obtained substantial experience through corporate governance, risk management, administration, legal affairs, information security management, internal audit, public relations and human resources management over the past twelve years with the Group. From August 2005 to December 2008, she worked as an assistant of public affairs and was mainly responsible for the legal affairs and public relations of the Group. Concurrently, being an assistant to the general manager since November 2006, responsible for part of administrative affairs of the Group. From December 2008 to February 2010, she was promoted to be the legal manager of the Group and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. In January 2014, she was promoted from a senior manager to become the director of the department. From October 2015 to February 2017, Ms. Yang was concurrently responsible for human resources management as the director of Corporate Affairs and Human Resources Department. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), is a director, Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specializing in integrated business, corporate and investor services. Ms. Wong has over 25 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong is a Chartered Secretary and a Fellow of both the HKICS and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong is a holder of the Practitioner's Endorsement from the HKICS. (Note: The Company has engaged Tricor as external service provider and appointed Ms. Wong as the Company's joint company secretary and authorised representative since 12 July 2010.)

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

As disclosed in the Company's prospectus dated 3 December 2010, as Ms. Yang did not possess the qualifications required under the then Rule 8.17 of the Listing Rules, the Group had applied to the Stock Exchange for, and had been granted, a waiver from the listing date (17 December 2010). Upon expiration of such waiver on 17 December 2013, the Company had re-evaluated the relevant experience Ms. Yang had obtained during the above mentioned three-year period, and had demonstrated to the Stock Exchange that Ms. Yang is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules, which was agreed by the Stock Exchange on 17 March 2014.

CHANGES IN INFORMATION OF DIRECTOR

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). Throughout the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

THE BOARD

Responsibilities

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

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

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

Board Composition

The Board currently comprises eight members, consisting of three executive Directors, two non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "**Nomination Committee**"), the audit committee (the "**Audit Committee**") and the remuneration committee (the "**Remuneration Committee**"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 23 to 31 of this Annual Report. The Board currently comprises the following members:

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

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

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

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

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

THE BOARD (CONTINUED)

Delegation by the Board

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

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

Chairman and Chief Executive Officer

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

During the year ended 31 December 2018, Mr. Luo Fei, the Chairman of the Company, was also the Chief Executive Officer of the Company. The Board believed that vesting the roles of both Chairman and Chief Executive Officer in the same person could ensure consistent leadership within the Group, as well as effective and efficient overall strategic planning for the Group. The Board was also of the view that such arrangement did not impair the balance of power and authority in the Group, which had been adequately ensured by the Board comprising experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

THE BOARD (CONTINUED)

Chairman and Chief Executive Officer (continued)

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

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee of Tricor Services Limited, an external service provider, and Ms. Yang Wenyun who is also the primary contact person of the Company. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 23 to 31 of the Annual Report.

Each of the joint company secretaries has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2018.

Board Practices of Meetings

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

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

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

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

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

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

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

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

THE BOARD (CONTINUED)

Board Practices of Meetings (continued)

During the year ended 31 December 2018, the Board held 11 meetings. During the meetings of the Board held in 2018, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2018.

Apart from the 11 Board meetings, the Chairman also held one meeting with non-executive Directors and independent non-executive Directors without the presence of other executive Directors during the year.

Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2018

Name of Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Luo Fei *(Note 1)*	11/11	N/A	1/1	1/1	1/1
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER *(Note 2)*	10/10	N/A	N/A	N/A	1/1
Mr. Wang Yidong *(Note 2)*	10/10	N/A	N/A	N/A	1/1
Non-executive Directors					
Dr. Zhang Wenhui	11/11	N/A	N/A	N/A	1/1
Mr. Luo Yun	11/11	2/2	N/A	N/A	1/1
Mr. Wu Xiong *(Note 3)*	1/1	N/A	N/A	N/A	N/A
Mr. Chen Fufang *(Note 3)*	1/1	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Dr. Ngai Wai Fung *(Note 4)*	11/11	2/2	1/1	1/1	1/1
Mr. Tan Wee Seng *(Note 5)*	11/11	2/2	1/1	1/1	1/1
Professor Xiao Baichun	11/11	N/A	N/A	N/A	1/1
Date of Meeting *(DD/MM/YYYY)*	25/03/2018 20/04/2018 27/06/2018 26/07/2018 17/08/2018 27/08/2018 26/09/2018 28/09/2018 01/11/2018 16/11/2018 19/12/2018	25/03/2018 27/08/2018	25/03/2018	16/11/2018	11/05/2018

Notes:

1: Chairman of the Board and the Nomination Committee
2: Appointed with effect from 26 March 2018
3: Resigned with effect from 26 March 2018
4: Chairman of the Audit Committee
5: Chairman of the Remuneration Committee

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

THE BOARD (CONTINUED)

Independence of Independent Non-executive Directors

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

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 58 of this Annual Report.

Term of Appointment of Non-executive Directors

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

Appointment, Re-election and Removal of Directors

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

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

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

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

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

THE BOARD (CONTINUED)

Remuneration of Directors and Senior Management

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

The remuneration of each member of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

Remuneration Bands	Number of Persons
HKD5,000,001 to HKD6,000,000	2
HKD7,000,001 to HKD8,000,000	3
HKD12,000,001 to HKD13,000,000	1
HKD14,000,001 to HKD15,000,000	1

Further particulars regarding Directors' and chief executive's remuneration and five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 8 and note 45 to the financial statements.

Continuous Professional Development

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

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

THE BOARD (CONTINUED)

Continuous Professional Development (continued)

During the year ended 31 December 2018, the Directors participated in the following trainings:

Directors	Type of Training *Note*
Executive Directors	
Mr. Luo Fei	B
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER *(appointed w.e.f. 26 March 2018)*	B
Mr. Wang Yidong *(appointed w.e.f. 26 March 2018)*	B
Non-executive Directors	
Dr. Zhang Wenhui	B
Mr. Luo Yun	B
Mr. Wu Xiong *(resigned w.e.f. 26 March 2018)*	B
Mr. Chen Fufang *(resigned w.e.f. 26 March 2018)*	B
Independent non-executive Directors	
Dr. Ngai Wai Fung	A, B
Mr. Tan Wee Seng	A, B
Professor Xiao Baichun	B

Note:

Types of Training

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

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

Corporate Governance Function

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

During the year ended 31 December 2018, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosures in this Corporate Governance Report.

THE BOARD (CONTINUED)

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018 are set out in the Directors' Report on page 81 of the Annual Report.

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

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was renewed on 18 August 2018.

NOMINATION COMMITTEE

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

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

Pursuant to the Corporate Governance Code, the Board adopted a board diversity policy on 20 August 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments continue to be made on a merit basis, the Company ensures that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on the Company's Board nomination policy and a range of diversity perspectives, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience, skills and knowledge. The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group's core businesses and markets. The Nomination Committee discusses and agrees on measurable objectives for achieving diversity on the Board, where necessary, and recommends them to the Board for adoption.

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

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

NOMINATION COMMITTEE (CONTINUED)

The Nomination Committee held a meeting during the year ended 31 December 2018 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election of Directors and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2018" on page 36 of this Annual Report. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board was maintained.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association, Mr. Luo Fei, the executive Director, Mr. Tan Wee Seng and Professor Xiao Baichun, the independent non-executive Directors, shall retire from office by rotation at the forthcoming AGM to be held on 10 May 2019 (the "**2019 AGM**"). All the above Directors, being eligible, will offer themselves for re-election at the 2019 AGM.

The Company's circular dated 29 March 2019 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

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

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

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

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditors or external auditors before submission to the Board;
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management systems and associated procedures; and
- To review the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

AUDIT COMMITTEE (CONTINUED)

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2018 and the annual results for the year ended 31 December 2018, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and the Annual Report for the year ended 31 December 2018, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2018 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2018" on page 36 of this Annual Report.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2018.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditors' Report on pages 82 to 87 of the Annual Report.

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

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2018 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the 2019 AGM.

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

Type of Services	RMB'000
Annual audit services	6,894
Non-audit services	
– Assurance services related to bond offering	3,802
– Tax advisory & global compliance services	4,384
– Transaction advisory services	768
– Other advisory services	1,464
Total	17,312

REMUNERATION COMMITTEE

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

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

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

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

The Remuneration Committee held a meeting during the year ended 31 December 2018 and the attendance records are set out in the section headed "Directors Attendances at Board Meetings, Board Committee Meetings and Shareholders' Meeting during the Year Ended 31 December 2018" on the page 36 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

The Company organizes corporate governance functions including Group Internal Audit & Risk Management Department and Global Information Security Department, in the guidance of risk, focusing on key review and governance on scopes to which the Audit Committee and the management of the Group attach importance. These departments are fully authorized in their day-to-day work and relevant projects to inspect all business information and data of the Company and its subsidiaries.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Group Internal Audit & Risk Management Department organizes, coordinates and directs on the risk management and internal control system construction of the Group and its subsidiaries from all regions over the world through establishing the risk management and internal control system, including risk identification and assessment methods, risk response follow-up procedures, internal control checking procedures, and compliance management procedures. Global Information Security Department organizes the global information security system construction for the Group, through establishing information security management and personal data compliance management framework, performing regular check on information security risk areas, providing periodic training and sending reminders to the employees to build awareness of important data and information protection. Group Internal Audit & Risk Management Department and Global Information Security Department regularly report their work to the Audit Committee.

Group Internal Audit & Risk Management Department and Global Information Security Department are independent of the operational management, and would independently assess the effectiveness of the management's execution of action plans to mitigate risks, and determine rectification plans with relevant responsible departments in the companies under the Group and its subsidiaries in respect of the problems or insufficiency discovered, provide recommendations on improvement, track the implementation in order to ensure that the rectifications conform to our expectation of risks mitigation.

The Group has been accelerating its globalized integration. It is necessary for the Group to swiftly catch up with the requirement of the global integration in respect of risk management and the internal control system. While fulfilling the governance requirements under the CG Code, the Group should also be able to identify, monitor and timely respond to the significant risks encountered in the process of operation in a comprehensive, precise, quick and thorough manner, as well as to continue our self-enhancement in order to provide risk alert and protection for the rapid business development of the Group on a global basis.

Accordingly, the Group's enterprise risk management ("**ERM**") has been running since the end of 2018, under the structure of COSO ERM. Meanwhile, Group Internal Audit & Risk Management Department completed the construction of the risk framework and a comprehensive risk universe and the construction of the Group's risk management training system, so as to improve the risk management philosophy and consciousness, from the management to all other team members, and to enhance the cooperation in key business departments and Group Internal Audit & Risk Management Department. Furthermore, we integrated the work of risk management and internal control organically, so as to identify risk responses regarding internal control more efficiently, and to perform specific audit based on risks identified which is more value-added to the Group.

In 2018, the Company established a new whistleblowing system, to facilitate employees and business partners of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. Group Internal Audit & Risk Management Department received whistleblowing reports and thereby investigated cases of misconduct with final disposition carried out and announced to all employees. Having such system in place helps regulate the employees and the business partners' behavior, as well as minimizing the negative impact on the Group.

In regards to information security, Global Information Security Department has integrated the Group's information security management system, by releasing the Group Information Security Policy and Principle to all subsidiaries, cooperating the information system project establishment and development, collecting information from all over the world regarding information security issues and solving the problems within. Meanwhile as the introduction of General Data Protection Regulation ("**GDPR**"), Global Information Security Department established the baseline for managing personal data in our business, and performed assessment on risks regarding GDPR compliance and helped the teams to make improvement.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. In addition, Group Internal Audit & Risk Management Department in conjunction with Global Information Security Department perform periodic checking on the data and information access control.

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

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

During the twelve months ended 31 December 2018, the Company attended 31 investors' conferences and roadshows and approximately 700 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the twelve months ended 31 December 2018 are summarized as follows:

Date	Event	Organizer	Location
January 2018	Citi Consumer Corporate Day	Citi	Hong Kong
January 2018	dbAccess China Conference	Deutsche Bank	Beijing
January 2018	Goldman Sachs Consumer Corporate Day	Goldman Sachs	Hong Kong
March 2018	Hong Kong Non-Deal Roadshow	Citi	Hong Kong
March 2018	Hong Kong Non-Deal Roadshow	CLSA	Hong Kong
April 2018	European 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 Non-Deal Roadshow	Citi	Taipei
May 2018	HSBC China Conference	HSBC	Shenzhen
May 2018	CLSA/CITIC China Investors' Forum	CLSA/CITIC	Hangzhou
June 2018	Daiwa Hong Kong China Investment Seminar	Daiwa	Tokyo
June 2018	Investor Day	The Group	Melbourne
June 2018	Australia Non-Deal Roadshow	Macquarie	Melbourne, Sydney
July 2018	dbAccess China Consumer & Media Corporate Day	Deutsche Bank	Hong Kong
August 2018	Hong Kong Non-Deal Roadshow	Citi	Hong Kong
August 2018	Hong Kong Non-Deal Roadshow	CLSA	Hong Kong
September 2018	Singapore Non-Deal Roadshow	CLSA	Singapore
September 2018	CLSA Investors' Forum	CLSA	Hong Kong
September 2018	Europe Non-Deal Roadshow	Daiwa	London/Frankfurt
October 2018	CLSA London Conference	CLSA	London
November 2018	Goldman Sachs China Conference	Goldman Sachs	Shenzhen
November 2018	Jefferies Annual Greater China Summit	Jefferies	Hong Kong
November 2018	HSBC China Conference	HSBC	New York
November 2018	US Non-Deal Roadshow	Goldman Sachs	San Francisco
November 2018	Daiwa Investment Conference Hong Kong	Daiwa	Hong Kong
November 2018	Citi Greater China Conference	Citi	Hong Kong
November 2018	Taipei Non-Deal Roadshow	Citi	Taipei
November 2018	Morgan Stanley Annual Asia Pacific Summit	Morgan Stanley	Singapore
December 2018	Macquarie Northeast Asia Corp Day	Macquarie	London
December 2018	Citi Global Consumer Conference	Citi	London

For the twelve months ended 31 December 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 Asia received votes 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. Furthermore, the Group has been awarded the first time by IR magazine for the "Best Overall Investor Relations (Large-cap)" and "Best Investor Relations Officer (Large-cap)".

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

The last shareholders' meeting was the AGM held on 11 May 2018 at Marina Room II, 2/F., The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong for approval of, among other items, the general mandates to issue and repurchase shares of the Company and the re-election of retiring Directors. Particulars of the major items considered at the AGM are set out in the circular dated 10 April 2018. All the proposed ordinary resolutions were passed by way of poll at the AGM.

The 2019 AGM will be held on 10 May 2019. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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

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

DIVIDEND POLICY

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

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

SHAREHOLDER RIGHTS

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

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

Procedures by Which Enquiries may be Put to the Board

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

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2018 are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 13 and pages 14 to 22, respectively, of this Annual Report.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements on pages 88 to 94 of the Annual Report. No interim dividend in respect of the six months ended 30 June 2018 was declared. The Directors recommended the payment of a final dividend of HK$0.48 per ordinary share for the year ended 31 December 2018 to be paid on or about Wednesday, 10 July 2019 to the shareholders whose names appear on the register of members of the Company on Tuesday, 21 May 2019. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the equity section of the statement of financial position.

The final dividend of HK$0.48 per ordinary share is subject to approval by the shareholders at 2019 AGM. Such dividends will be distributed from the retained profits of the Company. Details of the dividend for the year ended 31 December 2018 are set out in note 10 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

(a) Entitlement to attend and vote at the 2019 AGM

The register of members of the Company will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2019 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 6 May 2019.

CLOSURE OF REGISTER OF MEMBERS (CONTINUED)

(b) Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 17 May 2019 to Tuesday, 21 May 2019, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 May 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2018 are set out in note 34 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 50 and note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves, including the share premium account, contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB6,849.2 million, of which approximately RMB264.6 million have been proposed as a final dividend for the year. Details of the reserves of the Company as at 31 December 2018 are set out in note 50 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 for each box or can of any of the Group's products sold to Biostime China Foundation for Mother and Child established by the Group in cooperation with the Chinese Red Cross Foundation since 2007. For each of the years ended 31 December 2016, 2017 and 2018, the Group's donations to charity were RMB2.5 million, RMB3.4 million and RMB3.8 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on pages 204 of this Annual Report. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

For the year ended 31 December 2018, the largest supplier of the Group is Cooperative Isigny Sainte-Mère ("**ISM**"). ISM is a renowned French dairy company with advanced production technology and world presence, established in Normandy, a region with abundant natural resources (recognized milk source used in Isigny AOP products), in 1932.

Purchases by the Group from ISM accounted for 29.4% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers accounted for 57.6% of the total purchases of the Group for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2018 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. LUO Fei
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER (appointed w.e.f. 26 March 2018)
Mr. WANG Yidong (appointed w.e.f. 26 March 2018)

Non-executive Directors

Dr. ZHANG Wenhui
Mr. LUO Yun
Mr. WU Xiong (resigned w.e.f. 26 March 2018)
Mr. CHEN Fufang (resigned on w.e.f. 26 March 2018)

Independent non-executive Directors

Dr. NGAI Wai Fung
Mr. TAN Wee Seng
Professor XIAO Baichun

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association (the "**Articles**"), Mr. Luo Fei, Mr. Tan Wee Seng, and Professor Xiao Baichun shall retire from office by rotation and being eligible, offer themselves for re-election at the 2019 AGM.

DIRECTORS' SERVICE CONTRACTS

Mr. Luo Fei, an executive Director, had entered into a service contract with the Company for an initial fixed term of three years from 17 December 2010 to 16 December 2013, and automatically renewed for a term of three years commencing on 17 December 2013 and on 17 December 2016, until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the service contracts. Each of Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER and Mr. WANG Yidong, executive Directors, entered into a service contract with the Company for an initial term of three years commencing on 26 March 2018, automatically renewable upon expiration, until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the provisions set out in the service contract. Each of the executive Directors is entitled to a director's fee pursuant to their respective letters of appointment with the Company. Each of the executive Directors may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him/her.

On 7 November 2013, Mr. Luo Yun, a non-executive Director, entered into a letter of appointment with the Company for a term of three years commencing on 17 December 2013, and automatically renewed for a term of three years commencing on 17 December 2016, until terminated by not less than one month's notice in writing served by either party on the other. Dr. Zhang Wenhui had entered into a letter of appointment with the Company as a non-executive Director for an initial term of three years from 25 June 2012 to 24 June 2015, and automatically renewed for a term of three years commencing on 25 June 2015, until terminated by not less than one month's notice in writing served by either party on the other. Each of the non-executive Directors is entitled to a director's fee pursuant to their respective letters of appointment and/or supplementary agreements with the Company dated 29 November 2012.

Each of the independent non-executive Directors had entered into a letter of appointment for a term of three years from 17 December 2012 to 16 December 2015, and automatically renewed for a term of three years commencing on 17 December 2015, until terminated by not less than one month's notice in writing served by the independent non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. Each of the independent non-executive Directors is entitled to a director's fee.

None of the Directors who are proposed for re-election at the 2019 AGM has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISIONS

The Articles of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the financial year ended 31 December 2018 and remained in force as of the date of this Annual Report. The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2018 are set out in note 8 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 23 to 31 of the Annual Report.

EMOLUMENT POLICY

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

None of the Directors waived any emoluments during the year ended 31 December 2018.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 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 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 13)*
Luo Fei	Beneficial owner	Long position	372,744 *(Note 1)*	0.058%
	Beneficial owner	Long position	1,630,346 *(Note 2)*	0.255%
	Beneficial owner	Long position	398,359 *(Note 3)*	0.062%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 4)*	67.467%
Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	Beneficial owner	Long position	293,346 *(Note 5)*	0.046%
	Beneficial owner	Long position	1,410,425 *(Note 6)*	0.220%
	Beneficial owner	Long position	56,613 *(Note 7)*	0.001%
Wang Yidong	Beneficial owner	Long position	107,551 *(Note 8)*	0.017%
	Beneficial owner	Long position	1,282,600 *(Note 9)*	0.200%
	Beneficial owner	Long position	56,613 *(Note 7)*	0.001%
Luo Yun	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 *(Note 4)*	67.467%
Ngai Wai Fung	Beneficial owner	Long position	210,000 *(Note 10)*	0.033%
Tan Wee Seng	Beneficial owner	Long position	210,000 *(Note 10)*	0.033%
Xiao Baichun	Beneficial owner	Long position	210,000 *(Note 11)*	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" below.

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, 616,253 Share Options granted on 24 August 2017 and 600,000 Share Options granted on 16 November 2018. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 3: These are the ordinary shares held by Mr. Luo Fei directly.

Note 4: As at 31 December 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 5: These are the ordinary shares held by Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER directly.

Note 6: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 308,982 Share Options granted on 29 December 2015, 472,907 Share Options granted on 24 August 2017 and 628,536 Share Options granted on 16 November 2018. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

Note 7: These are the Awarded Shares granted by the Company under the 2011 Share Award Scheme.

Note 8: These are the ordinary shares held by Mr. Wang Yidong directly.

Note 9: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 181,157 Share Options granted on 3 May 2016, 472,907 Share Options granted on 24 August 2017 and 628,536 Share Options granted on 16 November 2018. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" above.

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

Note 10: 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" below.

Note 11: 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 12: As at 31 December 2018, the total number of the issued shares of the Company was 640,310,819.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2018.

PRE-EMPTIVE RIGHTS

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

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

In October 2018, the Company redeemed USD125 million in principle amount of its USD600 million 7.25% senior notes due 2021.

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

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's Directors (including independent non-executive Directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholders in the Company's subsidiaries. The Share Option Scheme became effective on 25 November 2010 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. As at 31 December 2018, the remaining life of the Share Option Scheme was approximately 1 year and 11 months.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

During the year ended 31 December 2018, a total of 7,087,284 Share Options to subscribe for 7,087,284 ordinary shares of HK$0.01 each in the share capital of the Company were granted to grantees (the "**Grantees**") under the Share Option Scheme, of which, 801,283 Share Options were granted on 20 April 2018 ("**Date of Grant 1**") at an exercise price of HK$60.02 per share, 555,375 Share Options were granted on 26 July 2018 ("**Date of Grant 2**") at an exercise price of HK$59.05 per share, 137,277 Share Options were granted on 28 September 2018 ("**Date of Grant 3**") at an exercise price of HK$47.27 per share, and 5,593,349 Share Options were granted on 16 November 2018 ("**Date of Grant 4**") at an exercise price of HK$50.05 per share. The closing prices of the shares of the company immediately before Date of Grant 1, Date of Grant 2, Date of Grant 3 and Date of Grant 4 were HK$61.4, HK$58.35, HK$46.15 and HK$50.95, respectively.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 2018 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Number of Share Options: Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 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
	16/11/2018	HK$50.05	–	600,000	–	–	600,000
Mrs. Laetitia Marie Edmee Jehanne ALBERTINI ep. GARNIER	29/12/2015	HK$15.58	308,982	–	–	–	308,982
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
	16/11/2018	HK$50.05	–	628,536	–	–	628,536
Mr. WANG Yidong	03/05/2016	HK$21.05	181,157	–	–	–	181,157
	24/08/2017	HK$29.25	472,907	–	–	–	472,907
	16/11/2018	HK$50.05	–	628,536	–	–	628,536
Sub-total			3,036,299	1,857,072	–	–	4,893,371
Other employees	09/06/2011	HK$15.312	22,054	–	(14,151)[1]	–	7,903
	29/11/2011	HK$11.52	39,091	–	(17,467)[2]	(66)	21,558
	01/06/2012	HK$19.64	42,262	–	(22,221)[3]	–	20,041
	07/12/2012	HK$24.70	107,735	–	(56,907)[4]	(254)	50,574
	29/12/2015	HK$15.58	6,502,618	–	(2,547,864)[5]	(292,670)	3,662,084
	03/05/2016	HK$21.05	18,542	–	–	–	18,542
	30/09/2016	HK$20.92	336,110	–	(34,459)[6]	(8,371)	293,280
	23/12/2016	HK$23.30	254,503	–	(66,553)[7]	(23,746)	164,204
	19/04/2017	HK$25.75	1,045,285	–	(134,529)[8]	(216,044)	694,712
	07/07/2017	HK$22.15	277,752	–	(81,436)[9]	(15,759)	180,557
	24/08/2017	HK$29.25	11,510,005	–	–	(1,666,628)	9,843,377
	05/12/2017	HK$47.10	774,497	–	–	(151,565)	622,932
	20/4/2018	HK$60.02	–	801,283	–	(169,311)	631,972
	26/7/2018	HK$59.05	–	555,375	–	(59,075)	496,300
	28/9/2018	HK$47.27	–	137,277	–	(49,895)	87,382
	16/11/2018	HK$50.05	–	3,736,277	–	–	3,736,277
Total			23,966,753	7,087,284	(2,975,587)	(2,653,384)	25,425,066

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$59.92.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$53.41.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.79.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$55.26.

Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$58.03.

Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.63.

Note 7: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$57.81.

Note 8: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$58.58.

Note 9: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$56.07.

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

DIRECTORS' REPORT

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

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

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

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

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

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

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

All 5,593,349 Shares Options granted on 16 November 2018 shall vest in accordance with the timetable below with a 6-year exercise period:

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

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

No Share Options granted under the Share Option Scheme were cancelled during the year ended 31 December 2018.

As at 31 December 2018, the total number of shares available for issue under the Share Option Scheme was 35,788,971, representing approximately 5.59% of the Company's issued share capital as at the date of this Annual Report.

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 those whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

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

(b) the total number of shares which may be issued upon the exercise of all options granted under the Pre – IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

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

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

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

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1.00 paid by each grantee. During the year ended 31 December 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 year ended 31 December 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 year ended 31 December 2018**	**Lapsed during the year ended 31 December 2018**	**Outstanding as at 31 December 2018**
Directors				
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	(31,163)	–	26,465
Business partners	60,000	–	–	60,000
Sub-total	367,016	(31,163)	–	335,853
Total	**739,760**	**(31,163)**	**–**	**708,597**

DIRECTORS' REPORT

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme was cancelled during the year ended 31 December 2018.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 708,597, representing approximately 0.11% of the Company's issued share capital as at the date of this Annual Report.

2011 SHARE AWARD SCHEME

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

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

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

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 year ended 31 December 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 year ended 31 December 2018.

2011 SHARE AWARD SCHEME (CONTINUED)

Below is a summary of the particulars of the shares awarded under the 2011 Share Award Scheme which were outstanding during the year ended 31 December 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 31 December 2018	Forfeited/ lapsed as at 31 December 2018	Outstanding (held by the trustee for the grantees) as at 31 December 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 180,245 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.

Further details in relation to the 2011 Share Award Scheme are set out in note 36 to the financial statements of this Annual Report.

2013 SHARE AWARD SCHEME

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

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

DIRECTORS' REPORT

2013 SHARE AWARD SCHEME (CONTINUED)

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

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

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

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

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

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 year ended 31 December 2018, the Board did not grant any awarded shares to Selected Participants under the 2013 Share Award Scheme.

2013 SHARE AWARD SCHEME (CONTINUED)

Below is a summary of the particulars of the shares awarded under the 2013 Share Award Scheme which were outstanding during the year ended 31 December 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 of the 2013 Share Award Scheme**	**Vesting date**	**Vested as at 31 December 2018**	**Forfeited as at 31 December 2018**	**Outstanding (held by the trustee for the Selected Employees) as at 31 December 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	–	(194,642)	837,268
5 December 2017	26,949	0.004%	1 April 2019	–	–	26,949
Total	**2,558,322**	**0.425%**		**(958,944)**	**(217,985)**	**864,217**

Note 1: Among these Awarded Shares granted, 62,262 Awarded Shares were granted to Mr. Wang Yidong who is an executive Director of the Company with effective from 26 March 2018.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

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

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 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	67.47%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.47%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.47%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	432,000,000	67.47%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	432,000,000	67.47%

Note 1: As at 31 December 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 31 December 2018, the total number of the issued shares of the Company was 640,310,819.

Save as mentioned above, as at 31 December 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

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

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "**Prospectus**")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of the Annual Report, none of the Directors had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, below transactions of the Group constituted connected transactions (including continuing connected transactions) under Chapter 14A of the Listing Rules.

1. Renewed Framework Purchase Agreement

On 1 January 2016, BMcare Baby Products Inc. (Guangzhou) (廣州葆艾嬰幼兒護理用品有限公司, now known as Dodie Bady Products Inc. (Guangzhou) (廣州杜迪嬰幼兒護理用品有限公司)), the Company's directly wholly-owned subsidiary, renewed the then existing framework purchase agreement (the "**Renewed Framework Purchase Agreement**") with Guangzhou Biohope (廣州市百好博有限公司), a connected person of the Company, in relation to the purchase of certain raw materials from Guangzhou Biohope for the production of a series of baby care products by Dodie Guangzhou for a term of 3 years. As the transactions contemplated under the Renewed Framework Purchase Agreement were conducted on normal commercial terms or better, and all the percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules are less than 5% and the total consideration was less than HK$3,000,000, the transactions contemplated under the Renewed Framework Purchase Agreement were fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. On 12 April 2018, the Renewed Framework Purchase Agreement was terminated by Dodie Guangzhou and Guangzhou Biohope because the Group no longer needed to purchase the relevant raw materials from Guangzhou Biohope as in view of the category planning, the Company decided to suspend the domestic raw materials procurement for personal care products of baby in China. Accordingly, no transactions have been conducted under the Renewed Framework Purchase Agreement since its termination.

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement

Background

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

In contemplation of developing a uniform e-commerce platform to be utilized by the specialty stores for the sale of the Group’s products, on 8 November 2013, Mama100 E-commerce was established in the PRC with limited liability with a registered capital of RMB10,000,000, and is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan (the “**Mama100 Shareholders**”).

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

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

Accordingly, on 30 December 2016, the Group entered into an exclusive management and consultancy service agreement (the “**Exclusive Management and Consultancy Service Agreement**”), an equity interests pledge agreement (the “**Equity Interests Pledge Agreement**”), an exclusive call option agreement (the “**Exclusive Call Option Agreement**”), a business management agreement (the “**Business Management Agreement**”) (including the power of attorneys (the “**Power of Attorneys**”) and undertakings (the “**Undertakings**”)), a trademark license agreement (the “**Trademark License Agreement**”), and certain ancillary agreements (collectively, the “**Structure Contracts**”), as a renewal of the relevant transactions under the 2014 Structure Contracts, in order to continue to conduct the e-commerce business through Mama100 E-commerce.

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Background (continued)

Pursuant to the Structure Contracts:

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

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

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

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

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

(vi) none of the shareholders of Mama100 E-commerce, namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Chen Fufang and Ms. Kong Qingjuan, obtains or receives any financial or commercial benefits from his/her respective interest in Mama100 E-commerce under the Structure Contracts despite holding direct or indirect equity interests in Mama100 E-commerce.

In association with the Structure Contracts, the Group also entered into a platform service agreement (the "**Platform Service Agreement**") on 30 December 2016 a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

The Structure Contracts

The Company entered into each of the Structure Contracts on 30 December 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019. Under the applicable Structure Contracts, the Company has the right to renew such Structure Contracts before the expiration of the relevant Structure Contracts unilaterally under the existing terms or at terms to be further agreed between the relevant parties.

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Major provisions of the key Structure Contracts

(1) Exclusive Management and Consultancy Service Agreement

Pursuant to the Exclusive Management and Consultancy Service Agreement entered into by and among Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**", 廣州市合愛信息技術有限公司), an indirect wholly-owned subsidiary of the Company, and Mama100 E-commerce, Guangzhou Hapai has the exclusive right to provide management and consultancy services to Mama100 E-commerce. Guangzhou Hapai is also entitled to deal with the assets of Mama100 E-commerce. Such services include but are not limited to technical service, network support, business consulting and other services as required by Mama100 E-commerce and allowed under the PRC law. The Exclusive Management and Consultancy Service Agreement also entitles Guangzhou Hapai to charge Mama100 E-commerce quarterly for service fees at a range of 90% to 100% of the total amount of net profit of Mama100 E-commerce for the corresponding period in accordance with the volume of the services provided because it is commercially agreed by both parties that the net profit of Mama100 E-commerce is generated as a result of the management and consultancy services provided by Guangzhou Hapai, and therefore not less than 90% of the total amount of net profit of Mama100 E-commerce should be paid to Guangzhou Hapai. The reason for leaving a maximum of 10% of the total amount of net profit in the reserve of Mama100 E-commerce is to meet the general working capital of Mama100 E-commerce for daily operation.

(2) Equity Interests Pledge Agreement

Pursuant to the Equity Interests Pledge Agreement entered into by and among Guangzhou Hapai and the Mama100 Shareholders, the Mama100 Shareholders agreed to pledge the entire equity interests in Mama100 E-commerce to Guangzhou Hapai as security for the performance of the obligations under the relevant Structure Contracts.

(3) Exclusive Call Option Agreement

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

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Major provisions of the key Structure Contracts (continued)

(4) Business Management Agreement

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

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

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

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

(5) Power of Attorneys and Undertakings

Pursuant to the Power of Attorney executed by each of the Mama100 Shareholders in relation to the Business Management Agreement, each Mama100 Shareholder irrevocably authorized Guangzhou Hapai to, among other things:

(i) attend shareholder meetings of Mama100 E-commerce on his/her behalf;

(ii) exercise all his/her rights of shareholders and voting rights in Mama100 E-commerce, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Mama100 E-commerce; and

(iii) appoint the directors, general manager, chief financial officer and other management level personnel of Mama100 E-commerce.

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Major provisions of the key Structure Contracts (continued)

(5) Power of Attorneys and Undertakings (continued)

Pursuant to the respective Undertaking executed by each of the Mama100 Shareholders, each Mama100 Shareholder irrevocably undertakes, among other things, that:

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

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

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

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

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

Pursuant to the respective Undertaking executed by each of the spouses of the Mama100 Shareholders, the spouse of each Mama100 Shareholder irrevocably undertakes, among other things, that:

(i) the respective equity interest in Mama100 E-commerce held by his/her spouse does not form part of the community property; and

(ii) any income arising in relation to such equity interest in Mama100 E-commerce shall be solely owned and disposed by his/her spouse and he/she will neither claim any rights to such income, nor participate in the management of the business operation of Mama100 E-commerce.

(6) Trademark License Agreement

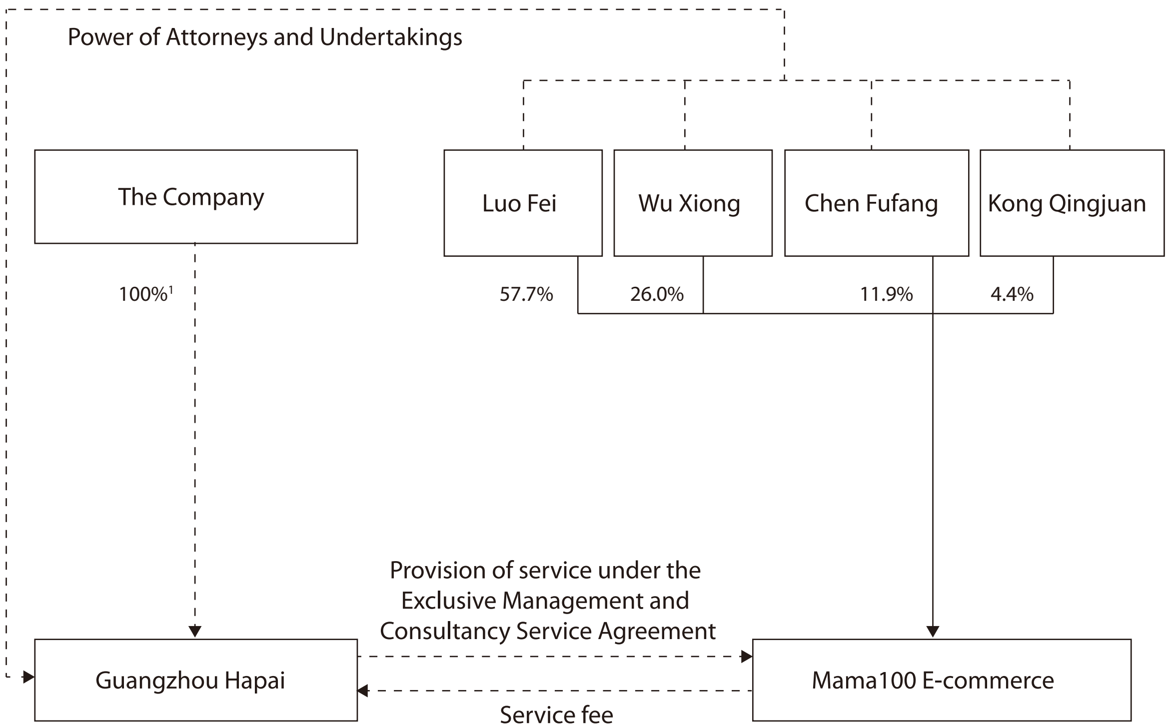
Pursuant to the Trademark License Agreement entered into by and between Mama100 Hong Kong Limited ("**Mama100 Hong Kong**"), an indirect wholly-owned subsidiary of the Company and Mama100 E-commerce, Mama100 Hong Kong licenses certain registered trademarks to Mama100 E-commerce at nil consideration.

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Corporate Structure

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



Note:

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

DIRECTORS' REPORT

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Dispute resolution

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

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

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

Risks involved in the Structure Contracts

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

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

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Risks involved in the Structure Contracts (continued)

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

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

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

Internal control

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

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

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Platform Service Agreement

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

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

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

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

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

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

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

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

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

Annual caps

The annual caps (the "**Annual Caps**") for the transactions (the "**Transactions**") under the Structure Contracts and the Platform Service Agreement for each of the years ended/ending 31 December 2017, 2018 and 2019 were as follows:

	2017 (in RMB)	**2018 (in RMB)**	**2019 (in RMB)**
Exclusive Management and Consultancy Service Agreement	600,000	1,330,000	2,020,000
Platform Service Agreement	12,480,000	16,810,000	22,250,000
Total (on an aggregated basis)	13,080,000	18,140,000	24,270,000

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Reasons and benefits for the Transactions

Mama100 E-commerce becomes the Company's subsidiary and the Group obtains financial and operational control of Mama100 E-commerce upon the execution of the Structure Contracts. Further, upon the execution of the Structure Contracts and the Platform Service Agreement, it allowed the Group to enhance the sales efficiency of the Group's products by specialty stores via the Internet at a low cost and accordingly substantially increase the sales volume of the Group's products to its distributors.

Through co-operation with Mama100 E-commerce pursuant to the terms of the Structure Contracts, the Group is able to explore the global e-commerce markets and make its distribution network more effective, thus strengthening the Group's market position in the premium pediatric nutritional and baby care product industry.

Listing Rules implications

Mama100 E-commerce is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan. Mr. Luo Fei is an executive Director and each of Mr. Wu Xiong and Mr. Chen Fufang is a non-executive Director. Ms. Kong Qingjuan was a former executive Director until her resignation on 21 January 2016. Mama100 E-commerce, an associate of Mr. Luo Fei, is therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, each of the transactions under the Structure Contracts and the Platform Service Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Having considered that each of the Transactions has been entered into by the Group with the same party, namely, Mama100 E-commerce and/or the Mama100 Shareholders, and are for the same purpose of enabling the Group to conduct e-commerce activities for the Group's products, the Directors consider that each of the Transactions shall be aggregated pursuant to Rule14A.81 of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in relation to the largest Annual Caps for the Transactions in aggregate is more than 0.1% but less than 5%, each of the Transactions fall within Rule 14A.76(2) of the Listing Rules and is subject to the reporting, announcement and annual review requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended 31 December 2018, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

CONNECTED TRANSACTIONS (CONTINUED)

2. Structure Contracts and Platform Service Agreement (continued)

Annual review of the continuing connected transactions (continued)

Details of the consideration paid in respect of all the continuing connected transactions during the year ended 31 December 2018 are set out as follows:

	Annual Caps for the year (in RMB)	Consideration paid during the year (in RMB)
Exclusive Management and Consultancy Service Agreement	1,330,000	Nil
Platform Service Agreement	16,810,000	10,901,161

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2018 and the annual results for the year ended 31 December 2018, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and the Annual Report for the year ended 31 December 2018, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2018.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The details of events after the end of the reporting period of the Group are set out in note 49 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 32 to 48 of this Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018.

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Ernst & Young who shall retire at the 2019 AGM. A resolution will be proposed at the 2019 AGM to re-appoint Ernst & Young as external auditor of the Company.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 19 March 2019

INDEPENDENT AUDITOR'S REPORT

安永

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

OPINION

We have audited the consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 88 to 203, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets with indefinite lives	
As at 31 December 2018, the Group recorded goodwill and intangible assets with indefinite lives of RMB5,295,242,000 and RMB2,498,218,000 respectively, which represented 36% and 17% of the total assets of the Group. The Group is required to perform annual impairment testing for goodwill and intangible assets with indefinite lives. Management performed impairment tests on these assets by using discounted cash flow models as at 31 December 2018. This area was important to our audit due to significant judgement and estimates involved in the assessment of the recoverable amounts of these assets. This assessment required management to make assumptions to be used in the discounted cash flow models. The most critical assumptions were growth rates and discount rates. The disclosures about impairment testing of goodwill and intangible assets with indefinite lives are included in note 16 to the financial statements.	The audit procedures we have performed, among others, included the following: • involved our valuation specialists to assist us in evaluating the methodologies, discount rates and long-term growth rates used by management, as appropriate, to estimate the recoverable amounts of goodwill and intangible assets; • reviewed the assumptions used by management and assessed the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective cash-generating units to which the goodwill or the intangible assets with indefinite lives are assigned to and their business development plans; • assessed the growth rates in sales by comparing them to the industry trend; • considered the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount; and • considered the adequacy of the relevant disclosures in the Group's financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Hedge accounting The Group has entered into a series of interest rate swaps, cross currency swaps and cross currency interest rate swaps to hedge the Group's exposure to interest rate and foreign currency risks relating to its bank borrowings denominated in United States dollars or to hedge the Company's exposure to foreign currency risks relating to the investments in foreign operations. For accounting purposes, the Group has applied cash flow hedge or hedges of net investments. In order to apply these hedge accountings, the Group has to comply with a number of strict requirements in IFRSs, including: • Designating and documenting both the hedging relationship and its management objective and strategy for undertaking the hedge at the inception of the hedge; • Performing prospective hedge effectiveness testing; and • Recording any resulting effectiveness in other comprehensive income and ineffectiveness in profit or loss. The accounting standards governing the criteria and application of hedge accounting are complex, and require significant judgement in their applications. The disclosures about hedge accounting are included in note 29 to the financial statements.	The audit procedures we have performed included the following: • involved our valuation specialists to assist us in assessing the fair value of the aforesaid swaps; • reviewed the Group's hedging policies in respect of its interest rate and foreign currency risk exposures; • evaluated the hedge documentation prepared by management and assessed the hedge effectiveness test prepared by management with the help of our valuation specialists in reviewing the inputs and methodology used by management in the test; and • considered the adequacy of the disclosures relating to these swaps in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**10,132,498**	8,095,345
Cost of sales		**(3,392,778)**	(2,829,731)
Gross profit		**6,739,720**	5,265,614
Other income and gains	5	**75,375**	143,460
Selling and distribution expenses		**(3,703,414)**	(2,711,707)
Administrative expenses		**(619,577)**	(486,019)
Other expenses		**(486,103)**	(356,339)
Finance costs	6	**(479,377)**	(492,173)
Share of profit of an associate	20	**1,300**	5,902
PROFIT BEFORE TAX	7	**1,527,924**	1,368,738
Income tax expense	9	**(684,776)**	(440,240)
PROFIT FOR THE YEAR		**843,148**	928,498
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 year		**118,609**	(119,692)
Reclassification adjustments for (losses)/gains included in profit or loss		**(142,993)**	130,880
Income tax effect		**4,649**	8,741
Exchange realignment		**(932)**	(109)
		(20,667)	19,820
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year		**(3,182)**	(171,865)
Exchange differences on translation of foreign operations		**21,526**	(80,864)
Exchange differences on net investment in a foreign operation		**(309,655)**	321,644
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(311,978)**	88,735
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**531,170**	1,017,233
Profit attributable to:			
Owners of the parent		**843,148**	932,846
Non-controlling interests		**–**	(4,348)
		843,148	928,498
Total comprehensive income attributable to:			
Owners of the parent		**531,170**	1,007,363
Non-controlling interests		**–**	9,870
		531,170	1,017,233
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**1.32**	1.48
Diluted		**1.30**	1.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	480,288	503,587
Prepaid land lease payments	13	57,331	58,809
Goodwill	14	5,295,242	5,376,818
Intangible assets	15	3,588,823	3,564,964
Bonds receivable	17	137,148	136,361
Loans receivable	18	–	44,910
Deposits	19	191,232	14,965
Investment in an associate	20	51,882	41,095
Held-to-maturity investment	2.2	–	22,259
Deferred tax assets	32	362,559	296,907
Derivative financial instruments	29	95,388	79,529
Pledged deposits	25	3,924	–
Other non-current financial assets	21	58,205	–
Total non-current assets		10,322,022	10,140,204
CURRENT ASSETS			
Inventories	22	1,565,152	1,012,619
Trade and bills receivables	23	861,862	694,696
Prepayments, other receivables and other assets	24	159,230	117,394
Loan to an associate	20	–	40,000
Loans receivable	18	13,678	21,748
Derivative financial instruments	29	4,301	3,247
Pledged deposits	25	15,948	11,082
Cash and cash equivalents	25	1,912,394	2,090,280
Total current assets		4,532,565	3,991,066
CURRENT LIABILITIES			
Trade and bills payables	26	829,607	644,690
Other payables and accruals	27	1,736,521	1,563,339
Contract liabilities	28	100,880	–
Derivative financial instruments	29	–	5,968
Interest-bearing bank loans	30	–	508,467
Senior notes	31	236,351	284,235
Tax payable		298,333	291,150
Total current liabilities		3,201,692	3,297,849
NET CURRENT ASSETS		1,330,873	693,217

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		**1,330,873**	693,217
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,652,895**	10,833,421
NON-CURRENT LIABILITIES			
Senior notes	31	**3,038,335**	3,646,428
Interest-bearing bank loans	30	**2,692,250**	1,844,277
Other payables and accruals	27	**7,423**	32,997
Derivative financial instruments	29	**77,042**	186,195
Deferred tax liabilities	32	**988,298**	910,432
Total non-current liabilities		**6,803,348**	6,620,329
Net assets		**4,849,547**	4,213,092
EQUITY			
Issued capital	34	**5,473**	5,447
Other reserves	37	**4,579,488**	4,207,645
Proposed dividend	10	**264,586**	–
Total equity		**4,849,547**	4,213,092

Luo Fei
Director

Wang Yidong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
At 31 December 2017		5,447	540,608	(26,408)	26,992	95	382,651	47,538	29,122	124,016	(1,217,025)	8,264	4,291,792	-	4,213,092
Effect of adoption of IFRS 9	2.2	-	-	-	-	-	-	-	-	-	-	-	(5,928)	-	(5,928)
At 1 January 2018 (restated)		5,447	540,608	(26,408)	26,992	95	382,651	47,538	29,122	124,016	(1,217,025)	8,264	4,285,864	-	4,207,164
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	843,148	-	843,148
Other comprehensive income/(loss) for the year:															
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	(20,667)	-	-	(20,667)
Hedge of net investments		-	-	-	-	-	-	-	-	(3,182)	-	-	-	-	(3,182)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	21,526	-	-	-	-	21,526
Exchange differences on net investment in a foreign operation		-	-	-	-	-	-	-	-	(309,655)	-	-	-	-	(309,655)
Total comprehensive income/(loss) for the year		-	-	-	-	-	-	-	-	(291,311)	-	(20,667)	843,148	-	531,170
Equity-settled share option arrangements	35	24	49,054	-	-	-	-	39,057	-	-	-	-	-	-	88,135
Shares issued for 2013 Share Award Scheme (as defined in note 36)	36	2	-	(2)	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share award schemes	36	-	-	13,329	-	-	-	-	(3,434)	-	-	-	13,183	-	23,078
Proposed final 2018 dividend		-	-	-	-	-	-	-	-	-	-	-	(264,586)	264,586	-
At 31 December 2018		5,473	589,662*	(13,081)*	26,992*	95*	382,651*	86,595*	25,688*	(167,295)*	(1,217,025)*	(12,403)*	4,877,609*	264,586	4,849,547

* These reserve accounts comprise the consolidated other reserves of RMB4,579,488,000 (2017: RMB4,207,645,000) in the consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 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	Cash flow hedge reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		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 year		-	-	-	-	-	-	-	-	-	-	-	-	-	932,846	932,846	(4,348)	928,498
Other comprehensive income for the year:																		
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	-	-	7,513	-	7,513	12,307	19,820
Hedge of net investments		-	-	-	-	-	-	-	-	-	(171,865)	-	-	-	-	(171,865)	-	(171,865)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	(82,775)	-	-	-	-	(82,775)	1,911	(80,864)
Exchange difference on net investment in a foreign operation		-	-	-	-	-	-	-	-	-	321,644	-	-	-	-	321,644	-	321,644
Total comprehensive income for the year		-	-	-	-	-	-	-	-	-	67,004	-	-	7,513	932,846	1,007,363	9,870	1,017,233
Transfer to statutory reserve funds		-	-	-	-	-	-	22,412	-	-	-	-	-	-	(22,412)	-	-	-
Equity-settle share option arrangements		47	89,935	-	-	-	-	-	9,890	-	-	-	-	-	-	99,872	-	99,872
Shares issued for 2013 Share Award Scheme (as defined in note 36)	36	10	-	-	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares purchased for Share Award Scheme (as defined in note 36)		-	-	-	(7,415)	-	-	-	-	-	-	-	-	-	-	(7,415)	-	(7,415)
Equity-settled share award schemes	36	-	-	-	288	-	-	-	-	21,441	-	-	-	-	8,364	30,093	-	30,093
Redemption of convertible bonds		-	-	(9,932)	-	-	-	-	-	-	-	-	-	-	-	(9,932)	-	(9,932)
Transfer to retained profits upon repurchase of convertible bonds		-	-	(14,557)	-	-	-	-	-	-	-	-	-	-	14,557	-	-	-
Derecognition of holdco put options#		-	-	-	-	-	-	-	-	-	-	28,274	1,529,893	-	-	1,558,167	-	1,558,167
Arising from the 17% Acquisition (as defined in note 1)	38(a)	-	-	-	-	-	-	-	-	-	-	(1,593,783)	-	-	-	(1,593,783)	(39,577)	(1,633,360)
Arising from the acquisition of non-controlling interests	38(b)	-	-	-	-	-	-	-	-	-	-	(32,779)	-	-	-	(32,779)	2,237	(30,542)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,128)	(7,128)
At 31 December 2017		5,447	540,608*	-	(26,408)*	26,992*	95*	382,651*	47,538*	29,122*	124,016*	(1,217,025)*	-*	8,264*	4,291,792*	4,213,092	-	4,213,092

Holdco put options represent 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,527,924**	1,368,738
Adjustments for:			
Bank interest income	5	**(15,787)**	(26,634)
Interest income from loans and bonds receivables	5	**(8,329)**	(11,665)
Finance costs	6	**479,377**	492,173
Share of profit of an associate		**(1,300)**	(5,902)
Gain on deemed disposal of partial interest in an associate	5	**(9,487)**	–
Depreciation	7	**74,302**	71,526
Amortisation of intangible assets	7	**99,601**	164,796
Amortisation of prepaid land lease payments	7	**1,478**	1,478
Loss on disposal of items of property, plant and equipment	7	**4,408**	2,081
Impairment of intangible assets	7	**–**	24,323
Partial derecognition of early redemption option	7	**9,498**	–
Equity–settled share option expense	7	**48,776**	27,879
Equity–settled share award expense	7	**23,078**	30,093
Fair value losses on derivative financial instruments, net	7	**21,580**	144,272
Fair value gains on financial assets	5	**(1,103)**	–
Impairment/(write back of impairment) of trade receivables	7	**230**	(4,720)
Write–down of inventories to net realisable value	7	**80,535**	95,430
Foreign exchange differences, net	7	**275,854**	(53,887)
		2,610,635	2,319,981
Increase in inventories		**(640,226)**	(340,008)
Increase in trade and bills receivables		**(184,339)**	(184,971)
Increase in prepayments, other receivables and other assets		**(34,188)**	(44,646)
Increase in rental deposits		**(3,467)**	(1,101)
Increase in trade and bills payables		**182,748**	116,460
Increase in other payables and accruals		**478,507**	539,647
Cash generated from operations		**2,409,670**	2,405,362
Corporate income tax paid		**(712,458)**	(454,548)
Net cash flows from operating activities		**1,697,212**	1,950,814

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		**1,697,212**	1,950,814
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(63,194)**	(73,556)
Proceeds from disposal of items of property, plant and equipment		**4,623**	28,950
Additions to intangible assets		**(18,920)**	(510,479)
Addition to held–to–maturity investment		**–**	(2,569)
Residual payment for the acquisition of intangible assets in the prior year		**(180,219)**	–
Addition to other non–current financial assets		**(385)**	–
Acquisition of subsidiaries	39	**(389,332)**	–
Deposit paid for acquisition of a subsidiary		**(169,824)**	–
Repayment of loans receivable		**12,893**	20,880
Repayment of loan from an associate	20	**40,000**	–
Interest received		**15,759**	58,555
Decrease in time deposits with original maturity of three months or more when acquired	25	**–**	214,033
Net cash flows used in investing activities		**(748,599)**	(264,186)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	34	**39,359**	71,993
New bank loans		**2,657,738**	–
Repayment of bank loans		**(2,333,551)**	(426,203)
Purchase of shares for the share award		**–**	(7,415)
Payment for the 17% Acquisition (as defined in note 1)		**–**	(1,108,670)
Payment for the acquisition of non–controlling interests	38	**(5,503)**	(21,376)
Redemption of senior notes	31	**(896,823)**	–
Redemption of convertible bonds		**–**	(1,240,880)
Issuance of senior notes, net of transaction costs		**–**	1,413,479
Decrease in pledged deposits for senior notes		**–**	987,674
Increase in restricted deposits	25	**(8,790)**	(3,258)
Interest paid		**(522,712)**	(443,903)
Proceeds from the termination of the Swaps (as defined in note 29)	29	**13,297**	–
Payment for the CCSs (as defined in note 29)	29	**(61,874)**	(62,921)
Dividends paid to non–controlling interests		**–**	(7,128)
Net cash flows used in financing activities		**(1,118,859)**	(848,608)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(170,246)**	838,020
Cash and cash equivalents at beginning of year		**2,090,280**	1,292,170
Effect of foreign exchange rate changes, net		**(7,640)**	(39,910)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,912,394**	2,090,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**1,912,394**	2,090,280

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 of 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 ("**AUD**") (equivalent to approximately 1,633,360,000 in Renminbi ("**RMB**")). Since then, Swisse became a wholly-owned subsidiary of the Group.

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.

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Health and Happiness (H&H) China Limited (formerly known as BiosTime, Inc. (Guangzhou))*	The People's Republic of China ("**PRC**")/ Mainland China	USD73,010,000	100%	–	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("**Biostime Health**")*	PRC/Mainland China	USD34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
Dodie Baby Products Inc. (Guangzhou) ("**Dodie Guangzhou**")*	PRC/Mainland China	USD1,000,000	100%	–	Wholesale, retail and import and export of personal care products for infants
Health and Happiness (H&H) Hong Kong Limited ("**H&H HK**")	Hong Kong	HKD126,534,300	–	100%	Investment holding, international investment, trading and sales
Health and Happiness (H&H) Singapore PTE. Limited	Singapore	SGD100	–	100%	Retail sale of health supplements
Biostime France	France	EUR100,000	–	100%	Overseas investments, financing and other business cooperation
Adimil (Changsha) Nutrition Products Limited ("**Changsha Adimil**")	PRC/Mainland China	RMB301,664,588	–	100%	Manufacture of infant formula products
Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**")*	PRC/Mainland China	USD10,000,000	–	100%	Software and information technology services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Mama100 E-commerce Co., Limited ("**Mama100 E-commence**")**	PRC/Mainland China	RMB10,000,000	–	100%	Online sales, software and information technology services
Healthy Times. Inc. ("**Healthy Times**")	America	USD1,000	–	100%	Manufacture of organic baby foods and baby care products
Biostime Healthy Hong Kong Limited	Hong Kong	AUD1	–	100%	Overseas investments, financing and other business cooperation
Biostime Healthy Australia	Australia	AUD773,602,362	–	100%	Overseas investments, financing and other business cooperation
Biostime Pharma	France	EUR10,000	100%	–	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("**Biostime Education**")*	PRC/Mainland China	USD2,000,000	–	100%	Early childhood education advisory business and trading of related baby suppliers
Biostime Health Australia Holdings	Australia	AUD996,073,215	–	100%	Overseas investments, financing and other business cooperation
Biostime Healthy Australia Investment Pty Ltd. ("**Biostime Health Australia Investment**")	Australia	AUD996,400,776	–	100%	Investment holding, financing and other business cooperation
Swisse	Australia	AUD144,589,450	–	100%	Investment holding, financing and other business cooperation

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Swisse Wellness Pty Ltd.	Australia	AUD100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
S W International Pty Ltd.	Australia	AUD100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness Pty Ltd. (NZ)	New Zealand	NZD990,100	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) UK Limited (formerly known as "**Swisse Wellness (UK) Limited**")	United Kingdom	GBP1	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse China Limited	Hong Kong	HKD1	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness (Guangzhou) Limited*	PRC/Mainland China	RMB1,500,000	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
S W Productions Holdings Pty Ltd.	Australia	AUD1	–	100%	Packaging service
S W Translink Packaging Pty Ltd.	Australia	AUD1	–	100%	Packaging service
Noisy Beast Pty Ltd.	Australia	AUD5,000	–	100%	Digital media and advertising
Noisy Beast UK Limited	United Kingdom	GBP100	–	100%	Digital media and advertising

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Noisy Beast (Guangzhou) Limited.*	PRC/Mainland China	AUD200,000	–	100%	Digital media and advertising
AB Pharma SAS ("**AB Pharma**")	France	EUR17,395,719	–	100%	Marketing and distribution of baby products
Laboratoires Polivé SAS	France	EUR3,817,660	–	100%	Research of baby products
Health and Happiness (H&H) Italy S.R.L	Italy	EUR10,000	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Health and Happiness (H&H) Netherlands B.V.	Netherlands	EUR100	–	100%	Trading and sales of vitamins, health supplements, skin care and sports nutrition products for adults
Farmland Dairy Pty Ltd ("**Farmland**")	Australia	AUD100	–	100%	Manufacturing and distribution of infant formulas
MA&CO	France	EUR40,000	–	100%	Investment holding, financing and other business cooperation
BBB SAS ("**BBB**")	France	EUR125,000	–	100%	Marketing and distribution of organic baby food

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

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

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

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

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 4, Amendments to IAS 40 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Amendments to IFRS 2

Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement				IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classi-fication RMB'000	Others RMB'000	Amount RMB'000	Category
Financial assets							
Bonds receivable		L&R[1]	136,361	–	–	136,361	AC[4]
Loans receivable		L&R	66,658	(35,942)	–	30,716	AC
To: Other non-current financial assets	(i)			(35,942)			
Held-to-maturity investment		HTM[2]	22,259	(22,259)	–	–	N/A
To: Other non-current financial assets	(ii)			(22,259)			
Other non-current financial assets		N/A	–	60,946	(5,928)	55,018	FVPL[3]
From: Loan receivable	(i)			35,942	(5,928)		
Derivative financial instruments	(i)			2,745	–		
Held-to-maturity investment	(ii)			22,259	–		
Trade and bills receivables		L&R	694,696	–	–	694,696	AC
Financial assets included in prepayments, other receivables and other assets		L&R	83,446	–	–	83,446	AC
Loan to an associate		L&R	40,000	–	–	40,000	AC
Derivative financial instruments		FVPL	82,776	(2,745)	–	80,031	FVPL
To: Other non-current financial assets	(i)			(2,745)	–		
Pledged deposits		L&R	11,082	–	–	11,082	AC
Cash and cash equivalents		L&R	2,090,280	–	–	2,090,280	AC
			3,227,558	–	(5,928)	3,221,630	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 9 (continued)

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

1 L&R: Loans and receivables
2 HTM: Held-to-maturity investment
3 FVPL: financial assets/liabilities at fair value through profit or loss
4 AC: Financial assets/liabilities at amortised cost

Notes:

(i) The Group has classified the loan receivable with a conversion option into other non-current financial assets at FVPL, as embedded derivatives are no longer required to be separated from their host contracts under IFRS 9.

(ii) The Group has also reclassified its held-to-maturity investment as financial asset at FVPL as the investment did not pass the contractual cash flow characteristics test in IFRS 9.

Impairment

Although 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, it does not have a significant impact on the Group's impairment allowance.

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 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 consolidated financial statements.

Impact on retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Retained profits RMB'000
Balance as at 31 December 2017 under IAS 39	4,291,792
Reclassification of a loan receivable to other non-current financial assets	(5,928)
Balance as at 1 January 2018 under IFRS 9	4,285,864

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract liabilities account balance between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	Increase/ (decrease) RMB'000
Assets		
Prepayments, other receivables and other assets	(i)	3,771
Liabilities		
Other payables and accruals		
– Refund liabilities	(i)	459,972
– Accruals	(i)	(456,201)
– Deferred revenue	(ii)	(77,070)
– Advances from customers	(iii)	(21,665)
Contract liabilities	(ii)/(iii)	98,735
Total liabilities		3,771

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 (continued)

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Prepayments, other receivables and other assets	(i)	159,230	157,184	2,046
Total assets		14,854,587	14,852,541	2,046
Other payables and accruals	(i)/(ii)/(iii)	1,743,944	1,842,778	(98,834)
– Refund liabilities	(i)	645,835	–	645,835
– Accruals	(i)	609,572	1,253,361	(643,789)
– Deferred revenue	(ii)	–	77,889	(77,889)
– Advances from customers	(iii)	–	22,991	(22,991)
Contract liabilities	(ii)/(iii)	100,880	–	100,880
Total liabilities		10,005,040	10,002,994	2,046
Net assets and total equity		4,849,547	4,849,547	–

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 are described 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

For a contract that provides a customer with a right to return the goods within a specified period, the Group previously estimated expected returns based on the average historical return rate. Before the adoption of IFRS 15, the amount of revenue related to the expected returns was reversed and the cost of the goods expected to be returned was adjusted in cost of sales, with the difference recognised as accruals which were included in other payables and accruals in the statement of financial position.

Upon adoption of IFRS 15, the Group recognised a right-of-return asset which is included in prepayments, other receivables and other assets and is measured at the former carrying amount of the goods to be returned less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. In addition, a refund liability was recognised based on the amount that the Group expects to return to the customers using the expected value method. Accordingly, the Group reclassified accruals of RMB21,857,000 to refund liabilities as included in other payables and accruals and right-of-return assets as included in prepayments, other receivables and other assets, amounting to RMB25,628,000 and RMB3,771,000, respectively, as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in prepayments, other receivables and other assets of RMB2,046,000, and an increase in refund liabilities and a decrease in accruals of RMB22,853,000 and RMB20,807,000, respectively, both included in other payables and accruals.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 (continued)

(i) Variable consideration (continued)

Sales Rebate

Before the adoption of IFRS 15, the Group estimated the expected sales rebates using the probability-weighted average amount of rebates approach and included an allowance for rebates in accruals as included in other payables and accruals.

Upon the adoption of IFRS 15, the Group has applied either the most likely amount method or the expected value method for the estimation of the variable consideration for expected sales rebates which are recorded as refund liabilities. The Group determined the amount recognised under the most likely amount method or the expected value method should approximate to the amount recognised according to the previous accounting policy. Accordingly, as at 1 January 2018, the Group reclassified accruals of RMB434,344,000 to refund liabilities for the expected future rebates, both included in other payables and accruals.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in refund liabilities and a decrease in accruals of RMB622,982,000.

(ii) Customer loyalty program

The Group operates a customer loyalty program which allows 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 customer loyalty program should approximate to the amount recognised according to the previous accounting policy.

Before the adoption of IFRS 15, the amount of revenue related to the customer loyalty program was deferred and recognised as deferred revenue which was included in other payables and accruals in the statement of financial position. Upon the adoption of IFRS 15, it was recognised as contract liabilities. Accordingly, the Group reclassified deferred revenue of RMB77,070,000 related to the customer loyalty program as included in other payables and accruals to contract liabilities as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in contract liabilities and a decrease in deferred revenue of RMB77,889,000 included in other payables and accruals.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

IFRS 15 (continued)

(iii) Advances from customers

Advance payment is normally required for the sales to customers in Mainland China except in limited circumstances for credit sales. Before the adoption of IFRS 15, the amount of revenue related to the advance payment was deferred and recognised in advances from customers included in other payables and accruals in the statement of financial position. Upon the adoption of IFRS 15, the Group reclassified the deferred revenue of RMB21,665,000 related to advance payments to contract liabilities from advances from customers as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in an increase in contract liabilities and a decrease in advances from customers of RMB22,991,000 included in other payables and accruals.

IFRIC 22

IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendment to IFRS 3	*Definition of a Business*[2]
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*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[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 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

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

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

IFRS 16, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two 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 will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate for each portfolio of lease at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB160,381,000 and lease liabilities of RMB160,381,000 will be recognised at 1 January 2019 with no adjustment to the opening balance of retained earnings.

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

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as *"uncertain tax positions"*). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Investment in an associate

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

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

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

Business combinations and goodwill

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

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

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

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

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

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

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

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

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

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Impairment of non-financial assets (continued)

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

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

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

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

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

	Years
License	14.5-18
Customer relationships	5-14
Royalty agreement	3
Unpatented product formula	15
Products registration	14
Computer software and others	5

Research and development costs

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

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

Leases

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments) (continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, or as held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (continued)

Simplified approach

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

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists individually for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

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

- hedges of a net investment in a foreign operation.

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

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.

- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

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

Cash flow hedges

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

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

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

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

Hedges of a net investment

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification

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

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

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer loyalty program

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

Government grants

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

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

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

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

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

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

(i) Rights of return

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

(ii) Sales rebates

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Other income

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

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Right-of-return assets (applicable from 1 January 2018)

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

Refund liabilities (applicable from 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

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

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 35 and 36 to these financial statements.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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

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

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

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

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

An inter-company loan provided by the Company to a foreign operation has been designated as the Company's net investment in a foreign operation as the directors consider that the Company will not demand for repayment of this inter-company loan from the foreign operation in the foreseeable future.

If the inter-company loan is considered to be repaid in the foreseeable future and is not designated as the Company's net investment in a foreign operation, the foreign exchange difference included in other expenses for the year would have been increased by RMB309,655,000 while the exchange differences on net investment in a foreign operation recognised in other comprehensive income would be reduced by the same amount.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Tax provisions

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

Deferred tax assets

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

Estimation uncertainties

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

Variable consideration for returns and sales rebates

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Variable consideration for returns and sales rebates (continued)

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

Impairment of goodwill

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

Impairment of intangible assets with indefinite useful lives

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

Provision for expected credit losses on trade receivables

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Provision for obsolete and slow-moving inventories

Management reviews the aging analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2018, the carrying amount of inventories was approximately RMB1,565,152,000 (2017: RMB1,012,619,000) after netting off the allowance for inventories of approximately RMB98,045,000 (2017: RMB104,777,000).

Customer loyalty program

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Operating segment information for the year ended 31 December 2018:

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the year ended 31 December 2017:

	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	3,717,214	781,741	3,413,878	182,512	–	8,095,345
Segment results	2,499,425	592,873	2,073,786	99,530	–	5,265,614
Reconciliations:						
Interest income						38,299
Other income and unallocated gains						105,161
Share of profit of an associate						5,902
Corporate and other unallocated expenses						(3,554,065)
Finance costs						(492,173)
Profit before tax						1,368,738
Other segment information:						
Depreciation and amortisation	168	1,226	166,992	9,441	59,973	237,800
Impairment/(write-back of impairment) of trade receivables	216	–	(6,142)	1,206	–	(4,720)
Write-down of inventories to net realisable value	70,217	176	18,492	6,545	–	95,430
Capital expenditure*	4,547	19,484	725,516	5,483	10,132	765,162

* 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

	2018 RMB'000	2017 RMB'000
Mainland China	**7,176,707**	5,482,301
Australia and New Zealand	**2,508,751**	2,312,634
Other locations*	**447,040**	300,410
	10,132,498	8,095,345

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	**543,504**	583,829
Australia and New Zealand	**2,695,995**	3,468,705
Other locations*	**1,130,057**	130,886
	4,369,556	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 PRC.

Information about a major customer

During the year ended 31 December 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of goods	10,132,498	8,095,345

(i) Disaggregated revenue information

For the year ended 31 December 2018

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

* Including the special administrative regions of the PRC.

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

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(ii) Performance obligations

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

Other income and gains

	2018 RMB'000	2017 RMB'000
Bank interest income	15,787	26,634
Interest income from loans and bonds receivables	8,329	11,665
Foreign exchange gains	–	53,887
Fair value gains on derivative financial instruments	5,968	32,372
Fair value gains on financial assets	1,103	–
Government subsidies*	26,615	18,433
Gain on deemed disposal of partial interest in an associate	9,487	–
Others	8,086	469
	75,375	143,460

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

6. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans, senior notes and convertible bonds	415,399	463,896
Write off of unamortised transaction costs upon refinancing of interest-bearing bank loans	33,992	–
Bank charges	–	15,216
Premium paid for early redemption of part of the senior notes	29,986	–
Loss on redemption of convertible bonds	–	13,061
	479,377	492,173

7. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		3,312,243	2,734,301
Depreciation	12	74,302	71,526
Amortisation of intangible assets	15	99,601	164,796
Amortisation of prepaid land lease payments	13	1,478	1,478
Auditor's remuneration		6,894	6,378
Research and development costs**		151,179	98,630
Minimum lease payments under operating leases		68,725	65,877
Loss on disposal of items of property, plant and equipment**		4,408	2,081
Employee benefit expenses (including directors' and chief executive's remuneration) (note 8(a)):			
Wages and salaries		1,039,010	851,112
Pension scheme contributions (defined contribution schemes)		124,185	103,386
Staff welfare and other expenses		75,949	50,288
Equity-settled share option expense	35	48,776	27,879
Equity-settled share award expense	36	23,078	30,093
		1,310,998	1,062,758
Foreign exchange differences, net		275,854**	(53,887)*
Fair value losses on derivative financial instruments, net		21,580	144,272
Fair value gains on financial assets*		(1,103)	–
Impairment/(write-back of impairment) of trade receivables**	23	230	(4,720)
Write-down of inventories to net realisable value#		80,535	95,430
Loss on redemption of convertible bonds		–	13,061
Premium paid for early redemption of part of the senior notes	31	29,986	–
Partial derecognition of early redemption option**	31	9,498	–
Impairment of intangible assets**		–	24,323

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

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

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

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

(a) Directors' and chief executive's remuneration

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

	2018 RMB'000	2017 RMB'000
Fees	1,740	1,680
Other emoluments:		
Salaries, allowances and benefits in kind	14,305	5,792
Performance-related bonuses	6,882	1,519
Equity-settled share option expense	7,158	932
Equity-settled share award expense	3,028	1,236
Pension scheme contributions	356	73
	31,729	9,552
	33,469	11,232

During the year and in prior years, share options and share awards were granted to certain directors and chief executive in respect of their services to the Group, further details of which are set out in notes 35 and 36 to these financial statements, respectively. The fair values of these options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

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

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

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

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

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

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

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2017 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017							
Executive director:							
Mr. Luo Fei *(Chief executive)*	–	5,792	1,519	932	1,236	73	9,552
	–	5,792	1,519	932	1,236	73	9,552
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Mr. Wu Xiong*	120	–	–	–	–	–	120
Mr. Chen Fufang*	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	480	–	–	–	–	–	480
Independent non-executive directors:							
Mr. Ngai Wai Fung	400	–	–	–	–	–	400
Mr. Tan Wee Seng	400	–	–	–	–	–	400
Professor Xiao Baichun	400	–	–	–	–	–	400
	1,200	–	–	–	–	–	1,200
	1,680	5,792	1,519	932	1,236	73	11,232

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

* Pursuant to board resolution on 25 March 2018, Mr. Wu Xiong and Mr. Chen Fufang have resigned as non-executive directors of the Company with effect from 26 March 2018.

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

(b) Five highest paid employees

The five highest paid employees during the year included three (2017: one) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining two (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	9,018	12,464
Performance-related bonuses	6,136	7,370
Equity-settled share option expense	4,097	3,178
Equity-settled share award expense	3,674	6,107
Pension scheme contributions	180	92
	23,105	29,211

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

	Number of employees	
	2018	2017
HKD7,500,001 to HKD8,000,000	–	2
HKD8,000,001 to HKD8,500,000	–	–
HKD8,500,001 to HKD9,000,000	–	1
HKD9,000,001 to HKD10,000,000	–	1
HKD10,000,001 to HKD11,000,000	–	–
HKD11,000,001 to HKD12,000,000	–	–
HKD12,000,001 to HKD13,000,000	1	–
HKD13,000,001 to HKD14,000,000	–	–
HKD14,000,001 to HKD15,000,000	1	–
	2	4

During the year and in prior years, share options and share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in notes 35 and 36 to these financial statements, respectively. The fair values of these share options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amount included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

	2018 RMB'000	2017 RMB'000
Current		
– Charge for the year		
Mainland China	**506,341**	370,652
Hong Kong	**17,371**	5,086
Australia	**228,822**	81,667
Elsewhere	**4,601**	(8,327)
– Overprovision in the prior year	**(41,207)**	(10,995)
Deferred (note 32)	**(31,152)**	2,157
Total tax charge for the year	**684,776**	440,240

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

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Australia corporate income tax

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

Tax consolidation legislation

Biostime Healthy Australia and its wholly owned Australian subsidiaries have elected to form an income tax consolidated group, for Australian income tax purposes.

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

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

9. INCOME TAX (CONTINUED)

Australia corporate income tax (continued)

Tax consolidation legislation (continued)

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 income tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

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

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

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

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

	2018 RMB'000	2017 RMB'000
Profit before tax	1,527,924	1,368,738
Tax at the applicable PRC enterprise income tax rate	381,981	342,185
Overseas tax differences	41,816	31,259
Tax effects on preferential tax rates	(33,144)	-
Expenses not deductible for tax	129,096	108,479
Effect of lower enacted tax rate used for the recognition of deferred tax	(57)	-
Tax losses utilised from previous periods	(24,300)	(90,103)
Income not subject to tax	(26,268)	(36,527)
Tax losses not recognised	55,018	36,112
Adjustment in respect of current tax of previous periods	(41,207)	(10,995)
Tax on internal transfer of assets	113,446	-
Effect of withholding tax at 5% or 10% (2017: 5% or 10%) on the distributable profits of the Group's subsidiaries in Mainland China	88,395	59,830
Tax charge at the Group's effective rate	684,776	440,240

10. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposal final – HKD0.48 (2017: Nil) per ordinary share	**264,586**	–

No interim dividend was proposed during the year ended 31 December 2018 (2017: Nil).

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 637,645,122 (2017: 632,354,043) in issue during the year.

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

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**843,148**	932,846

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**639,181,952**	633,667,133
Weighted average number of shares held for the share award schemes	**(1,536,830)**	(1,313,090)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**637,645,122**	632,354,043
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**12,573,245**	7,101,930
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**650,218,367**	639,455,973

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2018	275,568	253,969	126,745	21,346	76,757	19,227	773,612
Additions	–	1,209	22,065	–	18,619	12,629	54,522
Acquisition of subsidiaries (note 39)	–	2,557	13,659	8	–	–	16,224
Disposals	–	(3,950)	(37,845)	(4,596)	–	(3,594)	(49,985)
Transfers	–	13,970	457	–	1,030	(15,457)	–
Exchange realignment	–	(2,191)	(830)	(21)	(1,444)	5	(4,481)
At 31 December 2018	275,568	265,564	124,251	16,737	94,962	12,810	789,892
Accumulated depreciation:							
At 1 January 2018	37,462	86,765	103,746	15,185	26,867	–	270,025
Depreciation provided during the year	13,342	31,608	11,082	1,907	16,363	–	74,302
Acquisition of subsidiaries (note 39)	–	1,154	7,226	–	–	–	8,380
Disposals	–	(3,534)	(33,423)	(3,997)	–	–	(40,954)
Exchange realignment	–	(771)	(722)	(12)	(644)	–	(2,149)
At 31 December 2018	50,804	115,222	87,909	13,083	42,586	–	309,604
Net carrying amount:							
At 31 December 2018	224,764	150,342	36,342	3,654	52,376	12,810	480,288

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2017	275,568	244,287	119,948	21,740	75,350	22,951	759,844
Additions	–	36,935	9,865	159	3,564	21,754	72,277
Disposals	–	(28,639)	(3,309)	(561)	(2,603)	(25,782)	(60,894)
Exchange realignment	–	1,386	241	8	446	304	2,385
At 31 December 2017	275,568	253,969	126,745	21,346	76,757	19,227	773,612
Accumulated depreciation:							
At 1 January 2017	24,120	84,008	93,791	13,269	13,459	–	228,647
Depreciation provided during the year	13,342	29,262	12,680	2,262	13,980	–	71,526
Disposals	–	(27,319)	(2,828)	(345)	(535)	–	(31,027)
Exchange realignment	–	814	103	(1)	(37)	–	879
At 31 December 2017	37,462	86,765	103,746	15,185	26,867	–	270,025
Net carrying amount:							
At 31 December 2017	238,106	167,204	22,999	6,161	49,890	19,227	503,587

13. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	60,287	61,765
Recognised during the year (note 7)	(1,478)	(1,478)
Carrying amount at 31 December	58,809	60,287
Current portion included in prepayments, other receivables and other assets (note 24)	(1,478)	(1,478)
Non-current portion	57,331	58,809

14. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost and carrying amount:		
At 1 January	5,376,818	5,296,618
Acquisition of subsidiaries (note 39)	190,326	–
Exchange realignment	(271,902)	80,200
At 31 December	5,295,242	5,376,818

Impairment testing of goodwill

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

15. INTANGIBLE ASSETS

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Distribution rights* RMB'000	Products registration RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2018	1,953,658	105,815	1,048,133	91,146	56,497	578,953	3,226	23,951	3,861,379
Additions	1,072	–	–	–	–	–	–	14,895	15,967
Acquisition of subsidiaries (note 39)	85,456	129,523	59,244	–	–	–	–	4,448	278,671
Disposal	–	–	–	(86,353)	–	–	–	–	(86,353)
Exchange realignment	(98,480)	(3,587)	(50,521)	(4,793)	(2,971)	(22,441)	(125)	(578)	(183,496)
At 31 December 2018	1,941,706	231,751	1,056,856	–	53,526	556,512	3,101	42,716	3,886,168
Accumulated amortisation:									
At 1 January 2018	–	23,747	156,269	91,146	9,489	–	–	15,764	296,415
Amortisation provided during the year	–	6,161	84,366	–	4,453	–	111	4,510	99,601
Acquisition of subsidiaries (note 39)	–	–	–	–	–	–	–	2,329	2,329
Disposal	–	–	–	(86,353)	–	–	–	–	(86,353)
Exchange realignment	–	(45)	(8,668)	(4,793)	(603)	–	–	(538)	(14,647)
At 31 December 2018	–	29,863	231,967	–	13,339	–	111	22,065	297,345
Net carrying amount:									
At 31 December 2018	1,941,706	201,888	824,889	–	40,187	556,512	2,990	20,651	3,588,823

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	Royalty agreement# RMB'000	Unpatented product formula RMB'000	Distribution rights*# RMB'000	Products registration# RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2017	1,921,246	105,786	927,501	89,766	55,642	–	–	51,642	3,151,583
Additions	3,743	–	105,896	–	–	576,850	3,214	3,182	692,885
Disposals	–	–	–	–	–	–	–	(31,050)	(31,050)
Exchange realignment	28,669	29	14,736	1,380	855	2,103	12	177	47,961
At 31 December 2017	1,953,658	105,815	1,048,133	91,146	56,497	578,953	3,226	23,951	3,861,379
Accumulated amortisation:									
At 1 January 2017	–	18,500	83,776	14,026	4,637	–	–	17,212	138,151
Amortisation provided during the year	–	5,224	72,563	78,183	4,857	–	–	3,969	164,796
Disposals	–	–	–	–	–	–	–	(5,563)	(5,563)
Exchange realignment	–	23	(70)	(1,063)	(5)	–	–	146	(969)
At 31 December 2017	–	23,747	156,269	91,146	9,489	–	–	15,764	296,415
Net carrying amount:									
At 31 December 2017	1,953,658	82,068	891,864	–	47,008	578,953	3,226	8,187	3,564,964

15. INTANGIBLE ASSETS (CONTINUED)

Notes:

* Trademark, brand name and distribution rights are regarded as having indefinite useful lives as they are expected to generate net cash inflows to the Group indefinitely. As at 31 December 2018 and 2017, these intangible assets with indefinite useful lives were tested for impairment (note 16).

In November 2017, the Group entered into an agreement to acquire the exclusive distribution rights to market and distribute Swisse branded products in certain regions from a commercial partner. The purchase price was USD103.5 million (approximately RMB686.7 million).

Based on the substance of the agreement, this transaction did not constitute a business combination because there were insufficient inputs, processes and outputs to qualify as a business as defined in IFRS 3. As a result, it was determined that the transaction was the acquisition of a group of assets and the following intangible assets were identified within the transaction:

- Distribution rights
- Customer relationships
- Product registration

The purchase consideration is allocated to the identified intangible assets acquired based on their relative fair values. The consideration allocated to distribution rights, customer relationships and product registration amounted to USD87 million (approximately RMB576.8 million), USD16 million (approximately RMB105.9 million) and USD0.5 million (approximately RMB3.2 million), respectively. The useful lives of distribution rights are assessed to be infinite, and are not amortised. Customer relationships and product registration are amortised on the straight-line basis over their estimated useful lives of 5 to 14 years.

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Goodwill and intangible assets with indefinite useful lives acquired through business combinations have been allocated to the following cash-generating units ("**CGUs**") for impairment testing:

– Infant formulas;

– Adult nutrition and care products;

– Dried baby food and nutrition supplements; and

– Baby care products.

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The respective carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to each of the above CGUs are set out below:

	2018		2017	
	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000
Infant formulas	151,394	6,336	76,000	–
Adult nutrition and care products	4,924,826	2,367,170	5,198,167	2,490,106
Dried baby food and nutrition supplements	156,080	108,386	40,070	26,272
Baby care products	62,942	16,326	62,581	16,233
	5,295,242	2,498,218	5,376,818	2,532,611

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projection based on financial budgets or forecasts approved by management covering a period of five to seven years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

The pre-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the five-to-seven year period are as follows:

	Discount rate		Growth rate	
	2018	2017	2018	2017
Infant formulas	18.1%/19.2%	18.1%	3.0%	3.0%
Adult nutrition and care products	16.4%/12.6%	11.6%	2.5%/4.1%	2.5%
Dried baby food and nutrition supplements	13.5%/15.2%	13.2%	3.0%	3.0%
Baby care products	14.4%	12.6%	3.0%	3.0%

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

Assumptions were used in the value in use calculation of each CGU as at 31 December 2018 and 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets with indefinite useful lives:

Forecast sales amounts – The forecast sales amounts are based on the historical sales data and market outlook perceived by management.

Forecast gross margins – The bases used to determine the values assigned to the forecast gross margins are the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant CGUs.

Forecast raw materials purchase prices – The bases used to determine the values assigned to forecast raw materials purchase prices are the forecasted price indices during the budget year for those countries where raw materials are sourced.

The values assigned to the key assumptions on market development of the CGUs, discount rates and raw materials purchase prices are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

17. BONDS RECEIVABLE

	2018 RMB'000	2017 RMB'000
Bonds receivable	137,148	136,361

The Group entered into a bond subscription agreement with Isigny Sainte Mère ("**ISM**") (the "**Bond Subscription Agreement**") on 30 July 2013, pursuant to which ISM issued, and the Group subscribed for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at a subscription price equivalent to the face value of the bond. As at 31 December 2018, the Group continued to hold the bonds it had subscribed for.

The bonds bear interest at a rate of 5% per annum. The bonds will mature on 30 July 2023, ten years from the date of the Bond Subscription Agreement. The carrying amount of bonds receivable approximates to their fair value.

The Group has applied the general approach to provide for expected credit losses for the bonds receivable and considered the historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the Group estimated the expected loss rate for bonds receivable is insignificant.

18. LOANS RECEIVABLE

	2018 RMB'000	2017 RMB'000
Current portion of loans receivable	**13,678**	21,748
Loans receivable due after one year	**–**	44,910
	13,678	66,658

	Effective interest rate	Maturity	2018 RMB'000	2017 RMB'000
Denominated in USD	3.00%	By instalments before December 2027	**–**	35,942
Denominated in Danish Krones (the "**DKK**")	DKK Cibor rate +1%	By instalments before January 2020	**13,678**	30,716
Total loans receivable			**13,678**	66,658

Cibor stands for the Copenhagen Interbank Offer Rate.

Loans receivable represent loans provided to certain suppliers for the purposes of financing their production capacity expansion to fulfil the purchase requirements of the Group and are repayable by instalments.

The USD denominated loan receivable is convertible at the option of the Company at any time before maturity into equity interest of the supplier, which may not exceed 49% of the outstanding equity interest of that supplier. The loan is redeemable under certain circumstances before maturity. Accordingly, under IAS 39, this loan was separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument before 1 January 2018, respectively. From 1 January 2018, the Group recorded the loan with the embedded derivative financial instrument as a whole and reclassified it to other non-current financial asset.

The carrying amounts of the current portion and non-current portion of the loans receivable approximate to their fair values.

The Group has applied the general approach to provide for expected credit losses for the loans receivable and considered the historical loss rate and adjusted for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the Group estimated the expected loss rate for loans receivable is insignificant.

19. DEPOSITS

	2018 RMB'000	2017 RMB'000
Deposits paid for purchase of items of property, plant and equipment	**5,108**	5,725
Deposits paid for purchase of intangible assets	**8,491**	3,702
Rental deposits	**7,809**	5,538
Deposit paid for acquisition of a subsidiary	**169,824**	–
	191,232	14,965

20. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Share of net assets	**51,882**	41,095
Loan to an associate	**–**	40,000

The trade payable balance with the associate is disclosed in note 26 to these financial statements.

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Hangzhou Coamie Personal Care Products Co., Ltd.	RMB200,000,000	PRC/Mainland China	20%	Manufacture, retail and import and export of baby diapers

The Group's shareholding in the associate represents equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material to the Group:

	2018 RMB'000	2017 RMB'000
Share of the associate's profit for the year	**1,300**	5,902
Share of the associate's total comprehensive income	**1,300**	5,902
Gain on deemed disposal of partial interest in an associate	**9,487**	–
Carrying amount of the Group's investment in the associate	**51,882**	41,095

21. OTHER NON-CURRENT FINANCIAL ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Financial assets at fair value through profit or loss			
– Investment in ISM	23,319	22,259	–
– USD denominated loan receivable	34,886	32,759	–
	58,205	55,018	–

The above investment in ISM at 31 December 2018 was classified as financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interests.

The above USD denominated loan receivable at 31 December 2018 was classified as financial asset at fair value through profit or loss as it is convertible at the option of the Company at any time before maturity into equity interest of the unlisted borrower, details of which are set out in note 18 to these financial statements.

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	585,998	579,325
Raw materials in transit	190,681	153,779
Work in progress	2,190	1,139
Finished goods	786,283	278,376
	1,565,152	1,012,619

23. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	756,876	636,494
Less: Impairment provision	(5,393)	(4,744)
	751,483	631,750
Bills receivable	110,379	62,946
	861,862	694,696

In Mainland China, advance payment is normally required, except in limited circumstances for credit sales. In other regions, credit sales were usually allowed with a term of 30 to 60 days from the invoice date. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

23. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
Within 1 month	532,291	394,479
1 to 3 months	307,943	290,573
Over 3 months	21,628	9,644
	861,862	694,696

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	4,744	17,522
Acquisition of subsidiaries	1,109	–
Impairment losses recognised (note 7)	2,241	1,492
Amount written off as uncollectible	(739)	(8,664)
Impairment losses reversed (note 7)	(2,011)	(6,212)
Exchange realignment	49	606
At end of year	5,393	4,744

Impairment under IFRS 9 for the year ended 31 December 2018

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

23. TRADE AND BILLS RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current RMB'000	Less than 1 month RMB'000	1 to 3 months RMB'000	Over 3 months RMB'000	Total RMB'000
Expected credit loss rate	0.23%	1.51%	3.48%	10.81%	0.71%
Gross carrying amount (RMB'000)	641,355	65,413	33,957	16,151	756,876
Expected credit losses (RMB'000)	1,476	988	1,183	1,746	5,393

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

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade and bills receivables of RMB4,744,000 with a carrying amount before provision of RMB4,744,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	559,524
Less than 1 month past due	113,432
1 to 3 months past due	15,947
Over 3 months past due	5,793
	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.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	70,120	17,314
Deposits	3,524	4,379
Other receivables	80,604	83,446
Prepaid expenses	1,458	10,777
Right-of-return assets	2,046	–
Current portion of prepaid land lease payments (note 13)	1,478	1,478
	159,230	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.

The Group has applied the general approach to provide for expected credit losses for the receivables and considered the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the Group estimated the expected loss rate for financial assets included in prepayments, other receivables and other assets is insignificant.

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

	2018 RMB'000	2017 RMB'000
Cash and bank balances	1,861,100	1,955,746
Time deposits	51,294	134,534
Pledged deposits	19,872	11,082
	1,932,266	2,101,362
Less:		
Restricted deposits for an operating lease	(3,924)	–
Restricted deposits for bills issue	(15,948)	(11,082)
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows	1,912,394	2,090,280
Denominated in RMB(note)	1,210,844	1,158,118
Denominated in other currencies	721,422	943,244
	1,932,266	2,101,362

25. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS (CONTINUED)

Note:

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

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

26. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	813,659	632,039
Bills payable	15,948	12,651
	829,607	644,690

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

	2018 RMB'000	2017 RMB'000
Within 1 month	499,252	417,060
1 to 3 months	287,672	219,238
Over 3 months	42,683	8,392
	829,607	644,690

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

As at 31 December 2018, included in the trade payables was an amount due to the Group's associate of RMB1,925,000 (2017: RMB4,391,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

27. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Advances from customers		–	21,665
Salaries and welfare payables		278,391	190,324
Accruals		609,572	844,186
Other tax payables		97,485	121,094
Deferred revenue (note 33)		–	77,070
Other payables	(a)	112,661	341,997
Refund liabilities	(b)	645,835	–
		1,743,944	1,596,336
Less: Current portion		(1,736,521)	(1,563,339)
Non-Current portion		7,423	32,997

Notes:

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

(b) Details of refund liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Sales rebate	622,982	434,344	–
Sales return	22,853	25,628	–
	645,835	459,972	–

28. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Advances from customers	22,991	21,665	–
Customer loyalty points	77,889	77,070	–
	100,880	98,735	–

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

29. DERIVATIVE FINANCIAL INSTRUMENTS

		2018		2017	
	Notes	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Current					
Conversion option embedded in a loan receivable	2.2	–	–	2,745	–
Forward currency contracts	(a)	4,301	–	502	5,968
		4,301	–	3,247	5,968
Non-current					
Early redemption option embedded in the senior notes	(b)	36,792	–	79,529	–
The Swaps (as defined below)	(c)	–	–	–	52,137
The CCIRSs (as defined below)	(c)	58,596	–	–	–
The CCSs (as defined below)	(d)	–	77,042	–	134,058
		95,388	77,042	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 31 December 2018 was RMB4,301,000 (2017: RMB5,466,000 (negative)). A fair value gain of RMB10,048,000 was recognised in profit or loss during the year (2017: a loss of RMB2,284,000).

(b) An early redemption option is embedded in the senior notes, details of which are set out in note 31 to these financial statements. As the Company redeemed the senior notes partially on the Redemption Date (as defined in note 31), RMB9,498,000 of an early redemption option was derecognised to profit or loss during the year. The fair value of the early redemption option as at 31 December 2018 was RMB36,792,000 (2017: RMB79,529,000). A fair value loss of RMB39,072,000 was recognised in profit or loss for the year (2017: a gain of RMB28,665,000).

(c) Cash flow hedge

As at 31 December 2017, a subsidiary of the Group, whose functional currency is AUD, had interest rate swap, cross currency swap and cross currency interest rate swap agreements (collectively the "**Swaps**") with financial institutions with an aggregate notional amount of USD239,500,000 for the purpose of hedging the foreign currency risk and interest rate risk in relation to a USD denominated floating rate bank borrowing with the principal of USD239,500,000 (the "**Old USD Loan**"). With the completion of the refinancing of the Old USD Loan during the year, the Swaps were terminated. Proceeds from the termination of the Swaps amounted to RMB13,297,000. Amounts previously recognised in other comprehensive income in relation to the Swaps have been reclassified to profit or loss.

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) Cash flow hedge (continued)

As at 31 December 2018, the aforementioned subsidiary had several new cross currency interest rate swaps agreements (collectively the "**CCIRSs**") with financial institutions with an aggregate notional amount of USD333,670,000 whereby it receives a floating rate of interest on the USD notional amount at the London InterBank Offered Rate ("**Libor**") +2% quarterly and pays a fixed rate of interest on the AUD notional amount. The CCIRSs are being used to hedge the foreign currency risk and interest rate risk in relation to a USD denominated floating rate bank borrowing with a principal of USD333,670,000 (the "**New USD Loan**").

There is an economic relationship between the hedged items and the hedging instruments as the terms of the Swaps and the CCIRSs match the interest payments and the principal payments of the USD Loans. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the Swaps and the CCIRSs are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2018				
The CCIRSs	333,670	58,596	Derivative financial instruments (assets)	60,001

The impacts of the hedged items on the statement of financial position are as follows:

	31 December 2018	
	Change in fair value used for measuring ineffectiveness RMB'000	Cash flow hedge reserve RMB'000
The New USD Loan	54,110	(12,403)

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) Cash flow hedge (continued)

The effects of the cash flow hedge on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income			Hedge ineffectiveness		Amount reclassified from other comprehensive income to profit or loss			Line item
	Gross amount	Tax effect	Total	recognised in profit or loss	Line item in profit or loss	Gross amount	Tax effect	Total	(gross amount) in profit or loss
Year ended 31 December 2018									
The New USD Loan	54,110	(16,233)	37,877	5,891	Other expenses	(71,864)	21,559	(50,305)	Finance costs/ other expenses
The Old USD Loan	64,499	(19,350)	45,149	(374)	Other expenses	(71,129)	18,673	(52,456)	Finance costs/ other expenses
Total	118,609	(35,583)	83,026	5,517		(142,993)	40,232	(102,761)	
Year ended 31 December 2017									
The Old USD Loan	(119,692)	35,907	(83,785)	(26,857)	Other expenses	130,880	(27,166)	103,714	Finance costs/ other expenses

(d) Hedge of net investments in foreign operations

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

During the years ended 31 December 2018 and 2017, the CCSs with aggregate notional amounts of USD225,000,000 and RMB1,512,085,000, together with the relevant interests based on a fixed rate on the notional amount, are designated as hedging instruments for hedges of net investments in Mainland China which are accounted for in a similar way to cash flow hedges. Gains or losses on those CCSs relating to the effective portion of the hedges are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. The remaining CCSs which did not qualify as hedging instruments are measured at fair value with any gains or losses arising from their changes in fair value taken directly to profit or loss.

The carrying amounts of the CCSs designated as hedging instrument and not as hedging instrument as at 31 December 2018 were RMB45,299,000 (negative) (2017: RMB85,936,000 (negative)) and RMB31,743,000 (negative) (2017: RMB48,122,000 (negative)), respectively. A net gain of RMB1,927,000 (2017: a loss of RMB143,818,000) 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 RMB3,182,000 (2017: a loss of RMB171,865,000) was included in exchange fluctuation reserve, respectively. During the year ended 31 December 2018, the Company has paid net cash of RMB61,874,000 (2017: RMB62,921,000) in respect of those CCSs.

There is an economic relationship between the hedge item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the CCSs. The Company has established a hedge ration of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investments in the foreign subsidiaries becomes lower than the amount of the CCSs.

29. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) Hedge of net investments in foreign operations (continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2018				
The CCSs designated as hedging instrument	225,000	(45,299)	Derivative financial instruments (liabilities)	(3,182)

The impacts of the hedged items on the statement of financial position are as follows:

	31 December 2018	
	Change in fair value used for measuring ineffectiveness RMB'000	Exchange fluctuation reserve RMB'000
Net investments in foreign subsidiaries	(11,586)	(175,047)

The hedging loss recognised in other comprehensive income before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

30. INTEREST-BEARING BANK LOANS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Secured bank loan	–	–	–	BBSY+margin	Apr-2018	242,759
Secured bank loan	–	–	–	Libor+margin	Apr-2018	265,708
			–			508,467
Non-current						
Secured bank loan	BBSY+margin	Jun-2021	439,360	BBSY+margin	Apr-2019	877,737
Secured bank loan	Libor+margin	Jun-2021	2,252,890	Libor+margin	Apr-2019	966,540
			2,692,250			1,844,277
			2,692,250			2,352,744

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable		
within one year or on demand	–	508,467
in the second year	–	1,844,277
in the third to fifth years, inclusive	2,692,250	–
	2,692,250	2,352,744

BBSY stands for the Australian Bank Bill Swap Bid Rate.

Notes:

(a) As at 31 December 2018 and 2017, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges (in respect of H&H Hong Kong, a floating charge only) over all present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.

(b) At 31 December 2018, the Group's bank loans were denominated in USD and AUD at aggregate amounts of RMB2,252,890,000 (2017: RMB1,232,248,000) and RMB439,360,000 (2017: RMB1,120,496,000), respectively.

31. SENIOR NOTES

On 21 June 2016, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of USD400,000,000. On 23 January 2017, the Company issued additional senior notes due 21 June 2021 with an aggregate principal amount of USD200,000,000, which were under the same indenture entered by the Company on 21 June 2016 and formed part of the same series as the aforesaid USD400,000,000 senior notes.

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

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

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

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

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

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

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

31. SENIOR NOTES (CONTINUED)

On 22 October 2018 (the "Redemption Date"), the Company partially redeemed the senior notes with a principal amount of USD125,000,000 at a total consideration of USD129,531,000 (approximately RMB896,823,000). The corresponding portion of the early redemption option embedded in the senior notes which was separately recognised amounting to RMB9,498,000 was derecognised upon the redemption.

As at 31 December 2018, the fair value of the remaining portion of the early redemption option amounted to RMB36,792,000 (31 December 2017: RMB79,529,000), details of which are set out in note 29(b) to these financial statements.

The movements of the senior notes during the years ended 31 December 2018 and 31 December 2017 are set out below:

	RMB'000
At 1 January 2017	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	3,930,663
Redemption of senior notes	(896,823)
Premium paid for early redemption of part of the senior notes (note 6)	29,986
Interest charged during the year	281,570
Interest paid during the year	(279,822)
Exchange realignment	209,112
At 31 December 2018	3,274,686
Less: Current portion	(236,351)
Non-current portion	3,038,335

32. DEFERRED TAX

The movements in deferred tax assets and liabilities during the years ended 31 December 2018 and 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 loss recognised RMB'000	Changes in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	15,951	217,094	14,556	8,804	9,274	31,228	–	296,907
(Charged)/credited to profit or loss for the year (note 9)	(7,019)	28,867	21,984	–	23,632	(34,942)	33,715	66,237
Reclassification	–	8,804	–	(8,804)	–	–	–	–
Charged to equity for the year	–	–	–	–	–	4,649	–	4,649
Exchange realignment	–	(3,207)	(1)	–	(301)	(935)	(790)	(5,234)
At 31 December 2018	8,932	251,558	36,539	–	32,605	–	32,925	362,559
At 1 January 2017	45,669	204,450	18,749	7,831	76,274	–	–	352,973
(Charged)/credited 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	15,951	217,094	14,556	8,804	9,274	31,228	–	296,907

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	Changes in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	288	65,277	839,487	–	5,380	910,432
(Credited)/charged to profit or loss for the year (note 9)	(31)	43,395#	(24,616)	18,000	(1,663)	35,085
Acquisition of subsidiaries (note 39)	–	–	87,112	–	–	87,112
Exchange alignment	(15)	(1,003)	(42,701)	(421)	(191)	(44,331)
At 31 December 2018	242	107,669	859,282	17,579	3,526	988,298
At 1 January 2017	(1,265)	69,667	877,953	20,687	–	967,042
(Credited)/charged to profit or loss for the year (note 9)	1,598	(4,184)#	(51,949)	(21,316)	5,469	(70,382)
Charged to equity for the year	–	–	–	(298)	–	(298)
Exchange alignment	(45)	(206)	13,483	927	(89)	14,070
At 31 December 2017	288	65,277	839,487	–	5,380	910,432

The amount represented a deferred tax provision of RMB88,395,000 (2017: RMB59,830,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB45,000,000 (2017: RMB64,014,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

32. DEFERRED TAX (CONTINUED)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	362,559	296,907
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	(988,298)	(910,432)
	(625,739)	(613,525)

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 5% or 10%.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Customer loyalty program		
At 1 January	77,070	31,324
Addition	–	444,012
Reclassified to contract liabilities	(77,070)	–
Recognised as revenue during the year	–	(398,266)
At 31 December	–	77,070

34. SHARE CAPITAL

Shares

	2018	2017
Authorised:		
10,000,000,000 (2017: 10,000,000,000) ordinary shares of HKD0.01 each	HKD100,000,000	HKD100,000,000
Issued and fully paid:		
640,310,819 (2017: 637,042,042) ordinary shares of HKD0.01 each	HKD6,403,108	HKD6,370,420
Equivalent to	RMB5,473,000	RMB5,447,000

34. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue	Share capital HKD000	Equivalent to RMB'000
At 1 January 2017	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 36)	1,181,908	12	10
At 31 December 2017 and 1 January 2018	637,042,042	6,370	5,447
Share options exercised (note (b))	3,006,750	30	24
Shares issued for 2013 Share Award Scheme (note 36)	262,027	3	2
At 31 December 2018	640,310,819	6,403	5,473

Notes:

(a) During the year ended 31 December 2017, the subscription rights attaching to 5,388,038 share options were exercised at the subscription prices ranging from HKD2.53 to HKD24.70, resulting in the issue of 5,388,038 ordinary shares for a total cash consideration, before expenses, of HKD82,725,000 (equivalent to approximately RMB71,993,000).

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

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 35 to these financial statements.

35. SHARE OPTION SCHEMES

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

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

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

35. SHARE OPTION SCHEMES

(i) Movements in share options

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

31 December 2018

	Pre-IPO Share Option Scheme Weighted average exercise price HKD per share	Pre-IPO Share Option Scheme Number of options '000	Share Option Scheme Weighted average exercise price HKD per share	Share Option Scheme Number of options '000	Total Number of options '000
At 1 January 2018	2.53	740	24.99	23,967	24,707
Granted during the year	2.53	–	51.83	7,087	7,087
Forfeited during the year	2.53	–	31.32	(2,653)	(2,653)
Exercised during the year	2.53	(31)	16.63	(2,976)	(3,007)
At 31 December 2018	2.53	709	32.79	25,425	26,134

31 December 2017

	Pre-IPO Share Option Scheme Weighted average exercise price HKD per share	Pre-IPO Share Option Scheme Number of options '000	Share Option Scheme Weighted average exercise price HKD per share	Share Option Scheme 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 year	2.53	–	29.48	17,470	17,470
Forfeited during the year	2.53	(3)	21.82	(4,274)	(4,277)
Exercised during the year	2.53	(180)	15.80	(5,208)	(5,388)
At 31 December 2017	2.53	740	24.99	23,967	24,707

35. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

The weighted average share prices at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the year were HKD57.67 per share (2017: HKD35.17 per share) and HKD58.62 per share (2017: HKD29.00 per share), respectively.

A total of 3,007,000 share options were exercised during the year under the two share option schemes, resulting in the issue of 3,007,000 ordinary shares of the Company and new share capital of HKD30,000 (equivalent to approximately RMB24,000) and share premium of HKD49,544,000 (equivalent to approximately RMB39,335,000) (before issue expenses). An amount of RMB9,719,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

No share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the year (2017: Nil).

(ii) Outstanding share options

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme and the Share Option Scheme as at 31 December 2018 and 2017 are as follows:

Pre-IPO Share Option Scheme

31 December 2018 Number of options ’000	31 December 2017 Number of options ‘000	**Exercise price* HKD per share**	**Exercise period**
709	740	2.53	17-12-14 to 17-12-20

*	The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company’s share capital.

35. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme

31 December 2018 Number of options '000	31 December 2017 Number of options '000	Exercise price* HKD per share	Exercise period
8	22	15.312	17-12-14 to 17-12-20
22	39	11.520	17-12-14 to 17-12-20
30	30	12.120	17-12-13 to 17-12-19
90	90	12.120	17-12-14 to 17-12-20
20	42	19.640	17-12-14 to 17-12-20
51	108	24.700	17-12-14 to 17-12-20
345	1,246	15.580	30-12-16 to 30-12-22
91	137	15.580	1-4–17 to 1-4–23
2,079	3,148	15.580	1-4–18 to 1-4–24
1,871	2,695	15.580	1-4–19 to 1-4–25
91	91	21.050	30-12-16 to 30-12-22
19	19	21.050	1-4–17 to 1-4–23
54	54	21.050	1-4–18 to 1-4–24
36	36	21.050	1-4–19 to 1-4–25
90	90	20.920	30-12-16 to 30-12-22
–	31	20.920	1-4–17 to 1-4–23
124	128	20.920	1-4–18 to 1-4–24
79	87	20.920	1-4–19 to 1-4–25
16	22	23.300	1-4–17 to 1-4–23
53	116	23.300	1-4–18 to 1-4–24
95	117	23.300	1-4–19 to 1-4–25
488	673	25.750	1-4–18 to 1-4–24
506	672	25.750	1-4–19 to 1-4–25
150	150	25.750	1-4–20 to 1-4–26
57	139	22.150	1-4–18 to 1-4–24
123	139	22.150	1-4–19 to 1-4–25
11,406	13,072	29.250	1-4–21 to 1-4–27
95	122	47.100	1-4–19 to 1-4–25
528	652	47.100	1-4–21 to 1-4–27
3	–	60.020	1-4–19 to 1-4–25
628	–	60.020	1-4–21 to 1-4–27
496	–	59.050	1-4–21 to 1-4–27
87	–	47.270	1-4–21 to 1-4–27
5,594	–	50.050	1-4–22 to 1-4–28
25,425	23,967		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

35. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme (continued)

At 31 December 2018, the share options outstanding under the Share Option Scheme were divided into two to three tranches at their respective grant dates. Generally, the first tranche vests one year after the grant date while the remaining tranches vest in the subsequent two to three years. There is a six-year exercise period for each share option granted under the Share Option Scheme.

The exercise in full of the outstanding share options under the two share option schemes would, under the present capital structure of the Company, result in the issue of 26,134,000 additional ordinary shares of the Company and additional share capital of HKD261,000 (equivalent to approximately RMB229,000) and share premium of HKD835,178,000 (equivalent to approximately RMB731,782,000) (before issue expenses).

Subsequent to the end of the reporting period, 85,000 and 44,000 share options were forfeited and exercised, respectively. At the date of approval of these financial statements, the Company had 26,005,000 share options outstanding under the two share option schemes, which represented approximately 4.1% of the Company's shares in issue as at that date.

(iii) Fair value of the share options

The directors of the Company used the Hull White model to determine the fair value of the share options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the year ended 31 December 2018 was HKD19.13 per share (equivalent to approximately RMB16.67 per share) (2017: HKD11.93 per share (equivalent to approximately RMB10.18 per share).

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

	2018	2017
Dividend yield (%)	0.54	–
Expected volatility (%)	29.22-41.58	35.95–42.29
Risk-free interest rate (%)	2.02-2.37	0.82–1.53

During the year, the Group has recognised a share option expense related to the two share option schemes of RMB48,776,000 (2017: RMB27,879,000) in total.

36. SHARE AWARD SCHEMES

Share Award Scheme

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

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

During the year ended 31 December 2018, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2017: 250,500).

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

					Number of Awarded Shares		
Date of grant	Number of outstanding Awarded Shares as at 31 December 2017	Shares newly granted during the year	Fair value RMB	Vesting date	Vested during the year	Forfeited during the year	Outstanding Awarded Shares as at 31 December 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 these Awarded Shares granted, 113,226 Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB6,999,000 during the year (2017: RMB7,703,000) in relation to the Share Award Scheme.

36. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme

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

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

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

Summary of particulars of the shares granted under the Share Award Scheme (the "**2013 Awarded Shares**") during the year 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 year	Fair value	Vesting date	Vested during the year	Forfeited during the year	Outstanding 2013 Awarded Shares at 31 December 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	–	(194,642)	837,268*
5 December 2017	26,949	–	1,073,000	1 April 2019	–	–	26,949*
Total	2,041,146	–	58,466,000		(958,944)	(217,985)	864,217

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

During the year ended 31 December 2018, 262,027 shares of HKD0.01 each were issued for the 2013 Share Award Scheme (2017: 1,181,908), resulting in an increase in share capital of HKD3,000 (equivalent to RMB2,000) (2017: HKD12,000, equivalent to RMB10,000).

The Group recognised a share award expense of RMB16,079,000 during the year (2017: RMB22,390,000) in relation to the 2013 Share Award Scheme.

37. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 91 and 92 of these financial statements.

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

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

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

38. ACQUISITION OF NON-CONTROLLING INTERESTS

(a) On 7 February 2017, the Group acquired the remaining 17% equity interest in Biostime Australia Holdings at a cash consideration of AUD311,300,000 (equivalent to approximately RMB1,633,360,000) from the non-controlling shareholders. Biostime Australia Holdings was an indirectly 83%-owned subsidiary of the Company right before the completion of the transaction and became an indirectly 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 Australia Holdings on the equity attributable to owners of the Company for the year ended 31 December 2017:

	RMB'000
Total consideration paid to the non-controlling interests	1,633,360
Less:	
Carrying amount of non-controlling interests acquired	(39,577)
Decrease in equity attributable to owners of the Company	1,593,783

38. ACQUISITION OF NON-CONTROLLING INTERESTS (CONTINUED)

(b) On 12 July 2017, the Group acquired the remaining 53% equity interest in Noisy Beast Pty Ltd. at a cash consideration of AUD5,890,000 (equivalent to approximately RMB30,542,000) from the non-controlling shareholders. Noisy Beast was an indirectly 47%-owned subsidiary of the Company right before the completion of the transaction and became an indirectly 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 Noisy Beast on the equity attributable to owners of the Company for the year ended 31 December 2017:

	RMB'000
Consideration for the acquisition of the non-controlling interests:	
Cash paid in 2017	21,376
Cash paid in 2018	5,503
Amount payable in the coming year	3,663
Total consideration to be paid to the non-controlling interests	30,542
Less:	
Carrying amount of non-controlling interests acquired (negative)	2,237
Decrease in equity attributable to owners of the Company	32,779

39. BUSINESS COMBINATIONS

During the year, the Group entered into sale and purchase agreements to acquire equity interests in the following companies:

Acquisition date	**Company name**	**Consideration**	**Acquired interests** (%)	**Principal activities**
11 July 2018	MA&CO and BBB (collectively "**Good Goût**")	EUR30,655,000 (Approximately RMB238,152,000)	100%	Marketing and distribution of baby food products
31 August 2018	Farmland	AUD35,891,000 (Approximately RMB177,956,000))	100%	Manufacturing and distribution of infant formulas

39. BUSINESS COMBINATIONS (CONTINUED)

The respective fair values of the identifiable assets and liabilities of the above companies acquired at the dates of acquisitions by the Group are shown below:

	Notes	Good Goût RMB'000	Farmland RMB'000	Total RMB'000
Property, plant and equipment	12	1,963	5,881	7,844
Intangible assets	15	146,744	129,598	276,342
Inventories		11,848	5,563	17,411
Trade receivables		15,402	–	15,402
Prepayments, other receivables and other assets		6,017	6,455	12,472
Cash and cash equivalents		12,059	2,321	14,380
Tax payable		(105)	–	(105)
Trade payables		(19,196)	(1,368)	(20,564)
Other payables and accruals		(1,198)	(9,090)	(10,288)
Deferred tax liabilities	32	(48,233)	(38,879)	(87,112)
Total identifiable net assets at fair value		125,301	100,481	225,782
Goodwill on acquisition	14	112,851	77,475	190,326
Total consideration		238,152	177,956	416,108
Satisfied by:				
Cash		238,152	118,124	356,276
Settlement of a loan		–	47,436	47,436
Other payable		–	12,396	12,396
		238,152	177,956	416,108

The purchase price allocations of the companies above are still preliminary, pending the finalisation of the valuation of certain intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB3,423,000 for these acquisitions. These transaction costs have been expensed and were included in administrative expenses in profit or loss. The Group has paid all the transaction costs by the end of 2018.

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

	RMB'000
Cash consideration	403,712
Cash and bank balances acquired	(14,380)
Net outflow of cash and cash equivalents included in cash flows from investing activities	389,332
Transaction costs of the acquisitions included in cash flows from operating activities	3,423
	392,755

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2018

	The CCSs RMB'000	Bank loans RMB'000	Senior notes RMB'000	The Swaps RMB'000
At 1 January 2018	134,058	2,352,744	3,930,663	52,137
Changes from financing cash flows	(61,874)	324,187	(896,823)	13,297
Total (gain)/loss recognised in profit or loss	(1,927)	–	–	374
Total loss/(gain) recognised in equity	3,182	–	–	(64,499)
Interest expense	–	133,829	281,570	–
Interest paid	–	(242,890)	(279,822)	–
Write-off of unamortised transaction costs upon refinancing of interest-bearing bank loans	–	33,992	–	–
Premium paid for early redemption of part of the senior notes	–	–	29,986	–
Foreign exchange movement	3,603	90,388	209,112	(1,309)
At 31 December 2018	77,042	2,692,250	3,274,686	–

2017

	The CCSs RMB'000	Bank loans RMB'000	Senior notes RMB'000	Convertible bonds RMB'000
At 1 January 2017	(122,285)	2,792,178	2,743,874	1,223,619
Changes from financing cash flows	(62,921)	(426,203)	1,413,479	(1,240,880)
Equity component of convertible bonds	–	–	–	24,489
Total loss recognised in profit or loss	143,818	–	–	–
Total loss recognised in equity	171,865	–	–	–
Interest expense	–	166,271	291,781	5,844
Interest paid	–	(89,363)	(354,540)	–
Loss on the early redemption of convertible bonds	–	–	–	13,061
Transfer to retained profits	–	–	–	(14,557)
Foreign exchange movement	3,581	(90,139)	(163,931)	(11,576)
At 31 December 2017	134,058	2,352,744	3,930,663	–

41. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

42. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 30 to these financial statements.

43. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	2018 RMB'000	2017 RMB'000
Within one year	61,907	36,682
In the second to fifth years, inclusive	101,255	115,813
After five years	7,548	13,069
	170,710	165,564

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43 above, the Group had the following capital commitments at the end of the reporting periods:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Intangible assets	–	155
Property, plant and equipment	10,735	11,915
	10,735	12,070

45. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

	Notes	2018 RMB'000	2017 RMB'000
Purchases of finished goods from an associate	(i)	89,532	9,481
Interest from a loan to an associate	(ii)	49	1,596
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) Material outstanding balances with related parties

(i) Details of the Group's trade payable balances with the associate as at the end of the reporting period are disclosed in note 26 to these financial statements.

(ii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 20 to these financial statements.

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	32,732	34,829
Pension scheme contributions	363	513
Equity-settled share option expense	9,849	5,591
Equity-settled share award expense	8,103	10,585
Total compensation paid to key management personnel	51,047	51,518

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

2018

Financial assets

	Notes	Financial assets at fair value through profit or loss			
		Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Bonds receivable	17	–	–	137,148	137,148
Loans receivable	18	–	–	13,678	13,678
Trade and bills receivables	23	–	–	861,862	861,862
Financial assets included in prepayments, and other receivables and other assets		–	–	80,604	80,604
Derivative financial instruments	29	–	99,689	–	99,689
Pledged deposits	25	–	–	19,872	19,872
Cash and cash equivalents	25	–	–	1,912,394	1,912,394
Other non-current financial assets	21	58,205	–	–	58,205
		58,205	99,689	3,025,558	3,183,452

2018

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	26	–	829,607	829,607
Financial liabilities included in other payables and accruals		–	722,233	722,233
Derivative financial instruments	29	77,042	–	77,042
Interest-bearing bank loans	30	–	2,692,250	2,692,250
Senior notes	31	–	3,274,686	3,274,686
		77,042	7,518,776	7,595,818

46. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2017

Financial assets

	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Bonds receivable	17	–	–	136,361	136,361
Loans receivable	18	–	–	66,658	66,658
Loan to an associate	20	–	–	40,000	40,000
Held-to-maturity investment		22,259	–	–	22,259
Trade and bills receivables	23	–	–	694,696	694,696
Financial assets included in prepayments, and other receivables and other assets		–	–	83,446	83,446
Derivative financial instruments	29	–	82,776	–	82,776
Pledged deposits	25	–	–	11,082	11,082
Cash and cash equivalents	25	–	–	2,090,280	2,090,280
		22,259	82,776	3,122,523	3,227,558

2017

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	26	–	644,690	644,690
Financial liabilities included in other payables and accruals		–	726,211	726,211
Derivative financial instruments	29	192,163	–	192,163
Interest-bearing bank loans	30	–	2,352,744	2,352,744
Senior notes	31	–	3,930,663	3,930,663
		192,163	7,654,308	7,846,471

47. 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	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	2,745	–	2,745
– Early redemption option embedded in the senior notes	36,792	79,529	36,792	79,529
– The CCIRSs	58,596	–	58,596	–
– Forward currency contracts	4,301	502	4,301	502
Other non-current financial assets	58,205	–	58,205	–
	157,894	82,776	157,894	82,776

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	–	(5,968)	–	(5,968)
– The Swaps	–	(52,137)	–	(52,137)
– The CCSs	(77,042)	(134,058)	(77,042)	(134,058)
Senior notes	(3,274,686)	(3,930,663)	(3,299,727)	(4,086,358)
	(3,351,728)	(4,122,826)	(3,376,769)	(4,278,521)

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

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

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

(a) The fair values of bonds receivable, loans receivable, the non-current pledged deposits, loan to an associate, held-to-maturity investment, and the non-current interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing loans, and the suppliers' non-performance risk for loans and bonds receivables as at 31 December 2018 were assessed to be insignificant.

(b) Other non-current financial assets are measured using the valuation techniques of discounted cash flow model, and using significant unobservable market inputs.

(c) The conversion option embedded in a loan receivable is measured using the valuation technique of Binomial tree model, and using significant unobservable market inputs.

(d) 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.

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

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

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

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

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets USD denominated loan receivable	Discounted cash flow model	Discount rate	2018: 15.19% to 15.50%	1% increase in discount rate would result in decrease in fair value by RMB65,000. 1% decrease in discount rate would result in increase in fair value by RMB65,000.
Other non-current financial assets-investment in ISM	Discounted cash flow model	Discount rate	2018: 3.72% to 3.79%	1% increase in discount rate would result in decrease in fair value by RMB71,000. 1% decrease in discount rate would result in increase in fair value by RMB71,000.
Derivative financial instrument – the CCSs	Discounted cash flow model	Discount rate – receive leg	2018: 2.57% to 2.81% (2017: 1.69% to 2.25%)	1% (2017:1%) increase in discount rate would result in decrease in fair value by RMB1,402,000 (2017: RMB2,149,000). 1% (2017:1%) decrease in discount rate would result in increase in fair value by RMB1,387,000 (2017: RMB1,022,000).
		Discount rate – pay leg	2018: 2.74% to 2.92% (2017: 3.40% to 4.07%)	1% (2017:1%) increase in discount rate would result in increase in fair value by RMB1,354,000 (2017: RMB2,333,000). 1% (2017:1%) decrease in discount rate would result in decrease in fair value by RMB1,371,000 (2017: RMB3,465,000).

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

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

	Valuation techniques	**Significant unobservable input**	**Range**	**Sensitivity of fair value to the input**
Derivative financial instrument – the CCIRSs	Discounted cash flow model	Discount rate – receive leg	1.63% to 1.67%	1% increase in discount rate would result in decrease in fair value by RMB6,898,000. 1% decrease in discount rate would result in increase in fair value by RMB6,936,000.
		Discount rate – pay leg	1.34% to 1.36%	1% increase in discount rate would result in decrease in fair value by RMB58,407,000. 1% decrease in discount rate would result in increase in fair value by RMB59,063,000.
Derivative financial instrument – early redemption option embedded in the senior notes	Hull-White model	Credit spread	2018: 6.08% to 6.20% (2017: 2.30% to 2.35%)	1% (2017:1%) increase in credit spread would result in increase in fair value by RMB2,981,000 (2017: RMB1,953,000). 1% (2017:1%) decrease in credit spread would result in decrease in fair value by RMB2,987,000 (2017: RMB1,955,000).

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

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2018				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	36,792	36,792
– The CCIRSs	–	–	58,596	58,596
– Forward Currency Contracts	–	4,301	–	4,301
Other non-current financial assets	–	–	58,205	58,205
	–	4,301	153,593	157,894
As at 31 December 2017				
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

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

	2018 RMB'000	2017 RMB'000
At 1 January	82,274	249,665
Addition	52,273	–
Derecognition	(9,498)	–
Total loss recognised in profit or loss	(32,078)	(94,957)
Total gain/(loss) recognised in equity	54,110	(62,313)
Exchange realignment	6,512	(10,121)
At 31 December	153,593	82,274

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

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2018				
Derivative financial instruments				
– The CCSs	–	–	77,042	77,042
As at 31 December 2017				
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

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

	2018 RMB'000	2017 RMB'000
At 1 January	186,195	–
Net cash settlement	(48,577)	(85,284)
Total (gain)/loss recognised in profit or loss	(1,553)	47,031
Total (gain)/loss recognised in equity	(61,317)	229,244
Exchange realignment	2,294	(4,796)
At 31 December	77,042	186,195

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, time deposits, bank loans, and senior notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and trade and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including the CCSs, the CCIRSs, the Swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to these financial statements.

Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

To manage the interest rate risk arising from the floating interest rate instruments, the Group has entered into the CCIRSs and the Swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2018, after taking into account the effect of the CCIRSs, approximately 84% (2017: 63%) of the Group's interest-bearing borrowing bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**
		RMB'000
Year ended 31 December 2018	50	(1,443)
Year ended 31 December 2018	(50)	1,443
Year ended 31 December 2017	50	(6,493)
Year ended 31 December 2017	(50)	6,493

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases or financing by operating units in currencies other than the units' functional currencies. Approximately 2% (2017: 1%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 52% (2017: 49%) of costs were denominated in currencies other than the units' functional currencies. Certain operating units of the Group used forward currency contracts to eliminate the foreign currency exposures. The Group also has certain bank balances denominated in AUD, HKD, USD and EUR. In addition, the Group has investments denominated in EUR, and provided loans to suppliers denominated in USD and DKK and issued senior notes in USD. Also, the Group has certain bank loans which are denominated in USD and AUD.

During the year, the Group had hedged 100% (2017: 100%) of its foreign currency exposure from its interest – bearing bank borrowings. The Group has used the CCIRSs and the Swaps to reduce the exposure to foreign currency risk arising from the borrowings.

It's the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate between RMB or AUD against each of the following currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/(decrease) in AUD/USD/EUR/ DKK/NZD/GBP rates %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2018			
If the RMB weakens against the USD	5	1,257	–
If the RMB strengthens against the USD	(5)	(1,257)	–
If the RMB weakens against the EUR	5	4,442	–
If the RMB strengthens against the EUR	(5)	(4,442)	–
If the RMB weakens against the DKK	5	669	–
If the RMB strengthens against the DKK	(5)	(669)	–
If the AUD weakens against the USD	5	3,174	(45,305)
If the AUD strengthens against the USD	(5)	(3,174)	45,305
If the AUD weakens against the EUR	5	1,364	–
If the AUD strengthens against the EUR	(5)	(1,364)	–
If the AUD weakens against the NZD	5	(42)	–
If the AUD strengthens against the NZD	(5)	42	–
If the AUD weakens against the GBP	5	(106)	–
If the AUD strengthens against the GBP	(5)	106	–

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/(decrease) in AUD/USD/EUR/ DKK/NZD/GBP rates %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000*
2017			
If the RMB weakens against the USD	5	1,498	–
If the RMB strengthens against the USD	(5)	(1,498)	–
If the RMB weakens against the EUR	5	1,184	–
If the RMB strengthens against the EUR	(5)	(1,184)	–
If the RMB weakens against the DKK	5	1,467	–
If the RMB strengthens against the DKK	(5)	(1,467)	–
If the AUD weakens against the USD	5	3,324	(43,133)
If the AUD strengthens against the USD	(5)	(3,324)	43,133
If the AUD weakens against the EUR	5	1,429	–
If the AUD strengthens against the EUR	(5)	(1,429)	–
If the AUD weakens against the NZD	5	(44)	–
If the AUD strengthens against the NZD	(5)	44	–
If the AUD weakens against the GBP	5	(111)	–
If the AUD strengthens against the GBP	(5)	111	–

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	
	RMB'000	RMB'000	RMB'000
Bonds receivable#	137,148	–	137,148
Loans receivable#	13,678	–	13,678
Trade and bills receivables*	–	751,483	751,483
Bills receivable#	110,379	–	110,379
Financial assets included in prepayments, other receivables and other assets#	80,604	–	80,604
Pledged deposits	19,872	–	19,872
Cash and cash equivalents	1,912,394	–	1,912,394
	2,274,075	751,483	3,025,558

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

\# The credit quality of bonds receivable, loans receivable, bill receivables and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise bond receivable, loans receivable, other receivables and deposits, cash and cash equivalents and pledged deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Except for items listed below and other payables and accruals of RMB7,423,000 (2017: RMB32,997,000) as at 31 December 2018 which are due beyond one year, the Group's financial liabilities as at 31 December 2018 and 2017 are due within 12 months.

	2018 RMB'000	2017 RMB'000	Due date
Senior notes	3,038,335	3,646,428	21 June 2021
Interest-bearing bank loans	2,692,250	1,844,277	28 June 2021

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	2018 RMB'000	2017 RMB'000
Total liabilities	10,005,040	9,918,178
Total assets	14,854,587	14,131,270
Liabilities to assets ratio	67%	70%

49. EVENT AFTER THE END OF THE REPORTING PERIOD

On 4 January 2019, the Group acquired 100% equity interests in Aurelia Skincare Limited and Aurelia Skincare (International) Limited (collectively "**Aurelia**"). Aurelia is principally engaged in the research, development and sale of probiotic skin care products. The total consideration for the acquisition was GBP21,000,000 (approximately RMB181,887,000).

The fair values of the identifiable assets and liabilities of Aurelia as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	800
Inventories	5,189
Trade receivables	2,083
Prepayment, other receivables and other assets	149
Cash and cash equivalents	796
Trade payable	(1,938)
Other payable and accruals	(2,060)
Total identifiable net assets at fair value	5,019
Goodwill on acquisition	176,868
Total consideration	181,887
Satisfied by cash	181,887

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

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	19	29
Loans receivable	–	44,910
Investments in subsidiaries	7,452,972	4,081,232
Due from subsidiaries	–	3,897,839
Deferred tax assets	372	354
Derivative financial instruments	36,792	79,529
Other non-current financial assets	34,886	–
Total non-current assets	7,525,041	8,103,893
CURRENT ASSETS		
Prepayments, other receivables and other assets	9,320	6,649
Due from subsidiaries	4,891,490	1,242,702
Loans to subsidiaries	375,717	2,258,817
Loans receivable	13,678	21,748
Derivative financial instruments	–	2,745
Cash and cash equivalents	258,170	164,613
Total current assets	5,548,375	3,697,274
CURRENT LIABILITIES		
Trade payables	26,354	8,378
Due to subsidiaries	2,742,712	1,254,893
Other payables and accruals	11,096	9,925
Tax payable	2,106	2,009
Senior notes	236,351	284,235
Total current liabilities	3,018,619	1,559,440
NET CURRENT ASSETS	2,529,756	2,137,834
TOTAL ASSETS LESS CURRENT LIABILITIES	10,054,797	10,241,727
NON-CURRENT LIABILITIES		
Derivative financial instruments	77,042	134,058
Senior notes	3,038,335	3,646,428
Total non-current liabilities	3,115,377	3,780,486
Net assets	6,939,420	6,461,241
EQUITY		
Issued capital	5,473	5,447
Reserves (note)	6,669,361	6,455,794
Proposed dividend	264,586	–
Total equity	6,939,420	6,461,241

Luo Fei
Director

Wang Yidong
Director

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	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	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	450,673	24,489	(19,271)	3,260,270	37,648	7,681	249,003	1,689,292	5,699,785
Total comprehensive income for the year	–	–	–	–	–	–	(579,698)	1,223,146	643,448
Equity-settled share option arrangements	89,935	–	–	–	9,890	–	–	–	99,825
Shares issued for 2013 share award scheme	–	–	(10)	–	–	–	–	–	(10)
Shares purchased for 2011 share award scheme	–	–	(7,415)	–	–	–	–	–	(7,415)
Equity-settled share award schemes	–	–	288	–	–	21,441	–	8,364	30,093
Repurchase of convertible bonds	–	(9,932)	–	–	–	–	–	–	(9,932)
Transfer to retained profits	–	(14,557)	–	–	–	–	–	14,557	–
At 31 December 2017	540,608	–	(26,408)	3,260,270	47,538	29,122	(330,695)	2,935,359	6,455,794
Effect of adoption of IFRS 9	–	–	–	–	–	–	–	(5,928)	(5,928)
At 1 January 2018 (Restated)	540,608	–	(26,408)	3,260,270	47,538	29,122	(330,695)	2,929,431	6,449,866
Total comprehensive income for the year	–	–	–	–	–	–	316,288	56,606	372,894
Equity-settled share option arrangements	49,054	–	–	–	39,057	–	–	–	88,111
Shares issued for 2013 share award scheme	–	–	(2)	–	–	–	–	–	(2)
Equity-settled share award schemes	–	–	13,329	–	–	(3,434)	–	13,183	23,078
Proposed final 2018 dividend	–	–	–	–	–	–		(264,586)	(264,586)
At 31 December 2018	589,662	–	(13,081)	3,260,270	86,595	25,688	(14,407)	2,734,634	6,669,361

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 19 March 2019.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
REVENUE	4,731,563	4,818,561	6,505,616	8,095,345	**10,132,498**
Gross profit	2,926,931	2,984,565	4,059,067	5,265,614	**6,739,720**
PROFIT BEFORE TAX	1,118,335	502,748	1,456,520	1,368,738	**1,527,924**
Income tax expense	(311,549)	(210,201)	(404,558)	(440,240)	**(684,776)**
PROFIT FOR THE YEAR	806,786	292,547	1,051,962	928,498	**843,148**
Attributable to:					
Owners of the parent	806,786	250,687	954,396	932,846	**843,148**
Non-controlling interests	–	41,860	97,566	(4,348)	**–**
PROFIT FOR THE YEAR	806,786	292,547	1,051,962	928,498	**843,148**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	1.34	0.41	1.52	1.48	**1.32**
– Diluted	1.31	0.40	1.50	1.46	**1.30**

	31 December				
	2014 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000 (Restated)	2017 RMB'000	**2018** **RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	2,295,440	9,206,410	9,777,038	10,140,204	**10,322,022**
Current assets	4,335,721	4,637,993	4,434,310	3,991,066	**4,532,565**
Current liabilities	(1,267,624)	(6,679,324)	(5,239,533)	(3,297,849)	**(3,201,692)**
Non-current liabilities	(2,446,450)	(3,562,836)	(5,775,711)	(6,620,329)	**(6,803,348)**
Net assets	2,917,087	3,602,243	3,196,104	4,213,092	**4,849,547**
Attributable to:					
Owners of the parent	2,917,087	3,293,152	3,161,506	4,213,092	**4,849,547**
Non-controlling interests	–	309,091	34,598	–	**–**
	2,917,087	3,602,243	3,196,104	4,213,092	**4,849,547**

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