

2021 INTERIM REPORT 中期報告

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)



TERRY
RECRUITMENT MANAGER, UK



ZYON
H&H FAMILY

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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

Mr. Tan Wee Seng
Mrs. Lok Lau Yin Ching
Mr. Wang Can

BOARD COMMITTEE

Audit Committee

Mr. Wang Can (*Chairman*)
Mr. Tan Wee Seng
Mr. Luo Yun

Nomination Committee

Mr. Luo Fei (*Chairman*)
Mr. Tan Wee Seng
Mrs. Lok Lau Yin Ching

Remuneration Committee

Mr. Tan Wee Seng (*Chairman*)
Mr. Luo Fei
Mrs. Lok Lau Yin Ching

COMPANY SECRETARY

Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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HEAD OFFICE

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Quarry Bay
Hong Kong

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18 Westlands Road
Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
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Hong Kong

CORPORATE INFORMATION

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
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Quarry Bay, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House – 3rd Floor
24 Shedden Road, Grand Cayman
KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

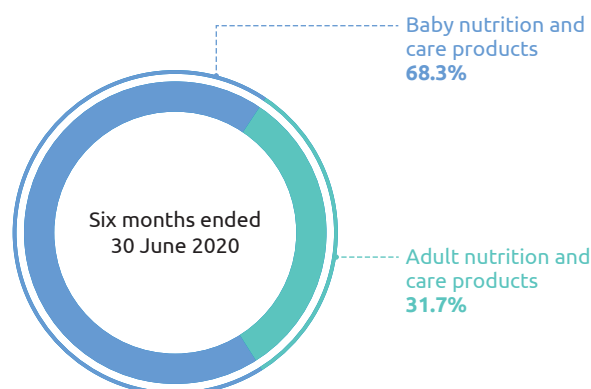
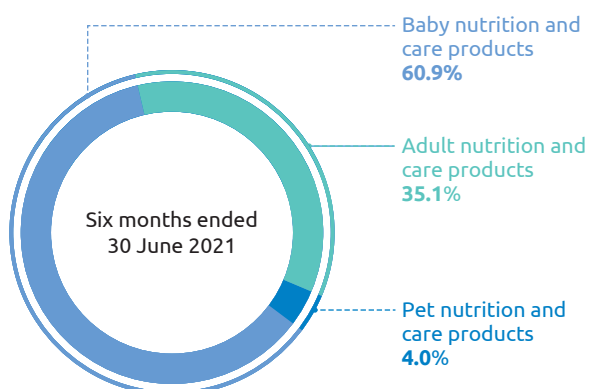
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change %
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	
Revenue	5,424,320	5,167,225	5.0%
Gross profit	3,422,749	3,430,433	-0.2%
EBITDA*	929,616	1,267,753	-26.7%
Adjusted EBITDA*	1,066,385	1,146,247	-7.0%
Net profit	501,354	718,005	-30.2%
Adjusted net profit**	660,171	617,009	7.0%

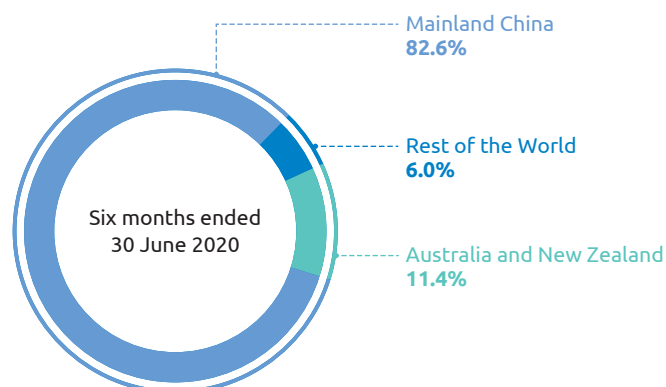
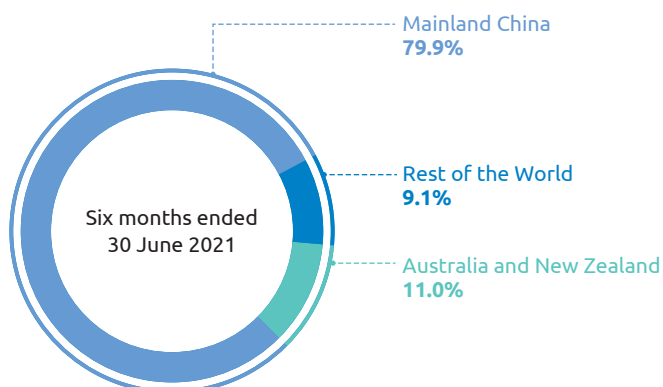
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA + Non-cash losses of RMB151.7 million for the six months ended 30 June 2021 (six months ended 30 June 2020: gains of RMB80.1 million) – Non-recurring gains of RMB14.9 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB41.3 million)

** Adjusted net profit = Net profit + EBITDA adjustment items of losses of RMB136.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: gains of RMB121.5 million) + Other non-cash losses of RMB22.0 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB20.5 million)

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHY



CHAIRMAN'S STATEMENT

To our 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 interim report for the six months ended 30 June 2021.

During the first half of 2021, we remained fully committed to delivering profitable growth, leveraging our high cash generation business model diversified across multiple product categories and territories. That said, we must also acknowledge the various challenges that we are encountering in this ongoing pandemic environment.

Our Baby Nutrition & Care ("**BNC**") segment faced pressure from intensifying competition in mainland China in both the infant milk formulas ("**IMF**") and probiotics categories, as well as from lower overall demand. However, we have no doubt that our distribution expansion strategy, which we launched in the latter part of 2020, is heading in the right direction. But it will take some more time to transform our entire distribution system.

Despite a high base in the same period last year and a much-diminished daigou business, our Adult Nutrition & Care ("**ANC**") segment returned to growth in the first half of the year, with mainland China being the main growth contributor. Meanwhile, we significantly narrowed our revenue decline in Australia and New Zealand ("**ANZ**") on a year-on-year basis compared with the same period of last year after a two-year-long adjustment effort brought about by the decline of our daigou business and COVID lockdown measures.

We are also highly satisfied with the development of our new Pet Nutrition & Care ("**PNC**") segment. Following our acquisition of Solid Gold Holdings, LLC ("**Solid Gold**") and its smooth integration into our business, it is delivering the growth we expected in both the United States of America ("**US**") and mainland China markets. We are very enthusiastic about the potential of the pet nutrition market globally and look forward to PNC becoming a new growth driver for the Group.

In light of our healthy cash position and net debt leverage year on year, we are pleased to announce that we have resolved to declare an interim dividend of 30% of the Adjusted net profit. We remain committed to maintaining a strong cash position and steady dividend policy in the long run.

CHAIRMAN'S STATEMENT

MAINLAND CHINA: STRONG GROWTH IN ANC OFFSETTING HEADWINDS FACED BY BNC DUE TO A HIGH BASE LAST YEAR AND INTENSIFYING COMPETITION DUE TO THE LOW BIRTH RATE

Sales in mainland China dropped by 2.5% year-on-year on a like-for-like^{Note} basis during the period under review due to a decline in BNC revenue, while our ANC segment saw double-digit growth momentum despite a slow start to the year. The weak performance of our BNC business was attributed to high-base pressures that stemmed from surging demand for immunity support products in the first half of last year and intensifying competition due to the low birth rate.

Despite these headwinds, which are affecting the entire industry, we made steady progress in implementing our new channel expansion strategy in mainland China. Our store network in the first half of 2021 grew by more than 10,000 sales points year-on-year as we entered more baby specialty stores and other offline channels in lower-tier cities. Following the implementation of a new bonus stock policy in the later part of 2020, gross sales of our IMF products (including the bonus stock granted) grew by double digits during the period under review. This enabled us to maintain a stable market share in the cow milk IMF market in mainland China at 6.1%.

Continued premiumization saw demand for goat milk – one of the most dynamic parts of mainland China's overall IMF market – further accelerate with sales of our goat milk IMF recording impressive growth of 71.8% during the period under review. This category now accounts for 9.4% of our total IMF revenue.

Other areas of our BNC business in mainland China were heavily challenged during the period under review. This was particularly true for our probiotics products segment, the performance of which was doubly impacted: firstly by a high base due to unprecedented demand for immunity support products in the first quarter of 2020 following the outbreak of COVID-19, and secondly by a substantial sell-in of our Biostime branded probiotics product range in the second quarter of 2020, during which sales grew by more than 50% year-on-year, ahead of a scheduled price increase in July 2020. Intensifying competition also placed extra pressure on probiotics sales across all channels.

Our other pediatric products segment, which mainly comprises of our Dodie diaper products, also faced pressure during the period under review following a conscious decision to shift focus from volume growth to profitability improvement in this category.

In the ANC segment, we continued to introduce new blue hat SKUs and localized products, which saw us deliver high double-digit growth in our normal trade business – the channel through which the majority of vitamin, herbal, and mineral supplements ("VHMS") sales in mainland China are made. We also overcame weakness in our cross-border e-commerce ("CBEC") channel in the beginning of the year to deliver overall growth in ANC sales in mainland China during the period under review.

Swisse's strong performance during the 618 shopping festival once again proved the brand's growth potential in the mainland China market, particularly in the normal trade e-commerce channel. In the twelve months ended 30 June 2021, Swisse continued to maintain its No. 1 position in mainland China's online VHMS market with a market share of 5.7%.

Note: Like-for-like ("LFL") basis is used to indicate change of this period compared with same period of previous year, excluding the impact from merger & acquisition and foreign exchange changes

CHAIRMAN'S STATEMENT

ANZ: GRADUAL RECOVERY IN THE FIRST HALF WITH A FOCUS ON THE DOMESTIC CONSUMER MARKET

Following the collapse of daigou activity in the ANZ market in 2020 resulting from border controls during the pandemic, we focused on developing our domestic business to capture the local consumer demand for wellness and immunity support products. This strategy is delivering, with sales returning to growth in the period under review. However, near-term uncertainties remain as population lockdowns of major cities in Australia continue.

Our drive to rapidly expand our presence in offline retail and pharmacies in ANZ is significantly increasing coverage. Our first nutraceutical range available in pharmacy-only-channels – Swisse Nutra+ – is now available in over 1,000 pharmacies. This allowed Swisse to gain further market share in the ANZ market – which remains a significant market for us – in the twelve months ended 30 June 2021.

Elsewhere, BNC revenue in the ANZ market benefited from positive sales development targeting the domestic market, which resulted particularly from our innovation strategy. Biostime recently became the first brand to launch IMF and infant supplements with advanced nutrient Human Milk Oligosaccharides (“HMO”) in the Australian market, another example of how we are better capturing local demand for baby nutrition and immunity.

OTHER TERRITORIES: STRONG GROWTH AMID PROLONGED COVID IMPACT IN THE FIRST HALF OF 2021

We continued to see encouraging double-digit growth and a higher contribution from other territories, including sustained growth momentum for our Swisse VHMS products and Biostime IMF series.

Growth in the France and United Kingdom (“UK”) markets was particularly strong with Biostime retaining its No.1 position in the organic IMF category within the French pharmacy channel. The India and Malaysia markets also contributed meaningful revenue despite our brands only entering these markets in 2020.

PNC: SOLID GROWTH OF SOLID GOLD IN BOTH THE US AND MAINLAND CHINA, PLUS THE RECENTLY ANNOUNCED ACQUISITION OF ZESTY PAWS, A LEADING ONLINE PREMIUM PET SUPPLEMENT BRAND IN THE US, PLACING NEW PNC SEGMENT IN GOOD STEAD FOR PROFITABLE GROWTH

We announced on 23 August 2021 the successful signing of the acquisition of Zesty Paws, LLC, a leading online premium pet supplement brand and highly disruptive category pioneer in the US. This modern, digital, and trusted brand provides a unique platform opportunity in the rapidly growing pet supplement category and will further strengthen our existing PNC product portfolio and accelerate the growth in this promising business segment both online and offline.

Solid Gold recorded double-digit growth of 18.1% in its home market the US, in the first half of 2021, performing strongly both online and offline thanks to tailwinds from high rates of pet adoption and growing consumer spending on premium pet nutrition. We also officially launched Solid Gold online and offline in the mainland China market during the period under review, transitioning the brand from a sole distributor model to one focused on active sales. Despite still being in the very early stage of marketing and branding in mainland China and recording no sales in this market until April 2021, the PNC segment grew 64.2% year-on-year on a LFL basis during the period under review, fuelled by a strong debut at the 618 shopping festival.

CHAIRMAN'S STATEMENT

CONTINUING TO GROW WITH OUR UNIQUE POSITIONING

The rest of 2021 will continue to be full of challenges. However, we are confident our unique brand positioning and diversification strategy across different territories and categories will ensure sustainable growth in the long run. We will strive to maintain overall revenue growth for the full 2021 financial year, with improved margins in the ANC segment alongside margin pressure in the BNC segment due to unfavourable product mix changes and raw material cost increases.

In mainland China, our largest market, our strategy of expanding the penetration of our diversified BNC and ANC products remains the lynchpin for achieving overall revenue growth in 2021, as well as our main source of profit. Our diversification is also a key differentiator from our peers: our position as a whole-family nutrition and care provider enables us to capture opportunities in the adult and premium pet-nutrition categories amid a declining birth rate. We expect to continue making great progress in both ANC and PNC to deliver sustained revenue growth in the Chinese market for the full year of 2021.

We aim to maintain a stable market share in the BNC segment in mainland China. It will, however, take some more time for our distribution expansion strategy to yield greater results under the current market dynamics. Our probiotics category will continue to face pressure in the second half of the year due to intensifying competition across the market. However, the overall probiotics market in mainland China still demonstrates great growth potential over the long term. We are confident that further sales points expansion will support long-term growth, alongside greater cross-selling opportunities with our IMF products and consumer education efforts that leverage Biostime's No. 1 positioning in the global pediatric probiotic and probiotics supplements market.

In the ANC segment, we will continue to capture more of the fast-growing normal trade e-commerce market channel in mainland China by introducing more new blue hat SKUs and localized products. We expect the sales contribution from the PNC segment to grow quickly as Solid Gold expands both online and offline in mainland China.

Another strategic priority is to reclaim Swisse's leadership in the domestic ANZ market, with the daigou channel unlikely to return in any significant form. We will continue to further expand our sales channels and invest in driving domestic demand in this market. We also expect to see more contribution from our other overseas markets as we continue to strategically globalize our Biostime and Swisse brands.

We will continue to leverage on synergies created with the rest of our business to rapidly scale up our PNC segment in mainland China to tap the premiumization of the pet nutrition space and the shift of pet-related purchases online. In the US market, we believe that product innovation and the rapid development of pet care e-commerce will further drive our business there.

By expanding the range and availability of our premium products and aspirational brands, we will continue to realize our vision of becoming a global leader in premium nutrition and wellness.

CHAIRMAN'S STATEMENT

SUSTAINABILITY: NOURISHING PEOPLE AND THE PLANET

In line with our philosophy of continuous improvement, in the first six months of 2021, we made further progress in building strong governance around our management across the Group. Sustainability is now a standing item at each of our Executive and Board meetings, monitoring our progress and maintaining accountability towards our sustainability goals.

Within our first impact area – 'Advancing the Story of Good Health' – we launched over 45 new products (focused on positive consumer health outcomes and community impact) and won 11 awards for our products in the first half of 2021. Additionally, we invested over US\$750,000 into community programs in the first half of 2021, including support to COVID-19 impacted communities around the world. We have actively Reduced our Footprint on the Planet – our second impact area – by introducing recycling heat technology and more energy-efficient refrigeration at our factories, introducing rail freight as an alternative to air freight from Europe to China (which will reduce transport-related emissions on these routes by nearly 90%), and placing environmental performance at the forefront of all our newly launched products, including raising our benchmarks for packaging and the use of sustainable raw materials. In our third impact area – Honouring Human Rights and Fairness – we expanded our 'Celebrate Life Every Way' initiative to promote diversity and inclusion, filling 40%-44% of vacant roles in China and ANZ with internal candidates. We now have the highest female representation in middle management than in any time of our history at 57%.

In the area of 'Governance' – our fourth impact area – we completed the 'Pre-Screen' phase for B-Corp certification and are now in the 'Scoping' phase, having commenced a fast-track process for two of our regions. We maintained our MSCI ESG Research rating of 'A' and HKQAA rating of 'A' for ESG performance. We are also very proud to share that our Biostime, Dodie and Good Goût brands have been recognized as an "Entreprise à Mission" (purpose-led company) in France.

ACKNOWLEDGEMENTS

As we continue to position the Group for profitable and sustainable growth, I would like to express my sincere thanks and gratitude for the continued support from our employees, business partners, creditors and investors. Despite the short-term external challenges, we are sticking to our mission and long-term strategy. We look forward to delivering on our promises and on our quest to make people around the world healthier and happier.

Luo Fei

Chairman

Hong Kong, 24 August 2021

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2021, the Group's revenue decreased by 2.0% on a LFL basis to RMB5,424.3 million as compared with the same period in 2020, mainly due to a high base in the first half of 2020 following the outbreak of COVID-19, and intensifying competition. While on reported basis, the Group's revenue increased by 5.0% comparing with the same period in 2020.

	Six months ended 30 June				% to revenue	
	2021 RMB'000	2020 RMB'000	Reported Change %	LFL Change %	2021 %	2020 %
Revenue by product segment						
Baby nutrition and care products	3,299,303	3,527,064	-6.5%	-6.5%	60.9%	68.3%
– Infant formulas	2,541,232	2,338,258	8.7%	8.7%	46.9%	45.3%
– Probiotic supplements	464,401	856,131	-45.8%	-45.8%	8.6%	16.6%
– Other pediatric products	293,670	332,675	-11.7%	-11.7%	5.4%	6.4%
Adult nutrition and care products	1,906,475	1,640,161	16.2%	7.5%	35.1%	31.7%
Pet nutrition and care products	218,542	–	N/A	N/A	4.0%	–
Revenue by geography						
Mainland China	4,333,248	4,268,938	1.5%	-2.5%	79.9%	82.6%
ANZ	597,910	587,334	1.8%	-5.5%	11.0%	11.4%
Other territories	493,162	310,953	58.6%	10.7%	9.1%	6.0%
Total	5,424,320	5,167,225	5.0%	-2.0%	100.0%	100.0%

Mainland China: Strong growth in ANC mitigating headwinds faced by BNC due to a high base in the first half of last year and intensifying competition due to the low birth rate

Revenue from mainland China amounted to RMB4,333.2 million for the six months ended 30 June 2021, which slightly decreased by 2.5% compared with the same period of last year on a LFL basis. The decrease was mainly due to a decline in BNC segment, while ANC segment saw double-digit growth momentum despite a slow start to the year. Revenue from the mainland China market now accounted for 81.7% of the Group's total revenue excluding PNC segment for the six months ended 30 June 2021, compared with 82.6% in the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

In BNC segment, total revenue was RMB3,066.9 million for the six months ended 30 June 2021, decreasing by 8.2% compared with the same period of last year mainly attributing to high-base pressures that stemmed from surging demand for immunity products in the first half of last year and intensifying competition due to the lower birth rate. For the six months ended 30 June 2021, the revenue from IMF in mainland China increased by 8.0% to RMB2,464.5 million, compared with same period of last year, which included 4.1% growth for cow milk IMF series and 71.8% growth for goat milk IMF series. This growth was driven by the successful implementation of the channel expansion strategy for the Group's multi-category product offering and the ongoing market segmentation trend in mainland China both online and offline. Following the implementation of a new bonus stock policy in the later part of 2020, gross sales of the IMF products being sold in the mainland China market (including the bonus stock granted) grew by double digits during the six months ended 30 June 2021.

For the six months ended 30 June 2021, the Group recorded revenue from probiotic supplements in mainland China of RMB460.1 million, decreasing by 46.1% compared with the six months ended 30 June 2020 due to intensifying competition and the high base in the first half of 2020 following COVID-19 outbreak and a substantial sell-in of the Group's Biostime branded probiotics product range, during which sales grew by more than 50% year-on-year, ahead of a price increase in July 2020.

Revenue from other pediatric products segment in mainland China decreased by 31.1% to RMB142.4 million for the six months ended 30 June 2021 compared with the six months ended 30 June 2020. Sales of Dodie branded diaper in mainland China decreased by 29.3% to RMB135.5 million for the six months ended 30 June 2021 compared with the same period of last year. The decrease was mainly due to the focus shift from volume growth to profitability improvement for this category.

In ANC segment, on a LFL basis, mainland China active sales achieved double-digit growth of 18.4% in the six months ended 30 June 2021 as compared with the same period of last year, with normal trade business recorded high double-digit growth. Revenue from mainland China, as the main growth contributor of ANC segment, accounted for 62.2% of total ANC revenue for the six months ended 30 June 2021, compared with 56.5% for the six months ended 30 June 2020. Revenue from normal trade business deliver year-on-year growth of 47.0% and accounted for 14.5% of ANC revenue in mainland China for the six months ended 30 June 2021.

ANZ: Gradual recovery achieved in the first half with a focus on the domestic consumer market

On a LFL basis, revenue from ANZ market segment amounted to AUD119.8 million for the six months ended 30 June 2021, decreasing 5.5% compared with the six months ended 30 June 2020. This year over year decline significantly narrowed after a two-year-long adjustment effort brought about by the reduction of daigou trading activities and COVID-relate lockdown measures. Revenue from the corporate daigou channel and retail channels decreased by 4.5% and 6.5% respectively, and accounted for 32.9% and 67.1% of the total ANZ business, respectively.

Note: The exchange rates of AUD1=RMB4.9922 and AUD1=RMB4.6183 were used for the six months ended 30 June 2021 and 2020, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Other territories: Strong growth amid prolonged COVID-19 impact in the first half of 2021

Revenue contributed from other territories increased by 10.7% on a LFL basis in the six months ended 30 June 2021. Growth in France, Italy and UK markets was particularly strong, contributing 23.8% of the Group's total revenue growth on reported basis. The India and Malaysia markets also contributed meaningful revenue despite our brands only entering these markets in 2020.

Solid Gold: solid growth in both the US and mainland China, placing new PNC segment in good stead for profitable growth

Revenue of Solid Gold achieved strong growth of 31.7% in the first half year of 2021 on a LFL basis thanks to tailwinds from high rates of pet adoption and growing spends on premium pet nutrition in both the US and mainland China. Revenue of PNC segment from mainland China market, which was transited from a sole distributor model to one focused on active sales, grew 64.2% year-on-year on a LFL basis in the six months ended 30 June 2021, fueled a strong debut on the 618 shopping festival. Revenue from US market increased by 18.1% year-on-year on a LFL basis in the six months ended 30 June 2021.

Gross profit and gross profit margin

In the first half of 2021, the Group recorded gross profit of RMB3,422.7 million, remained flat compared with the same period of last year. The Group's gross profit margin decreased to 63.1% in the first half of 2021 from 66.4% in the first half of 2020, mainly due to the product mix changes in BNC and increased stock provision in ANC.

The gross profit margin of the BNC segment decreased to 64.5% in the first half 2021 from 66.1% in the first half of 2020 mainly due to the lower revenue proportion from the high-margin probiotic supplements. The respective gross profit margin levels of IMF, probiotic supplements and other pediatric products remained stable.

The gross profit margin of the ANC segment decreased from 67.0% in the first half of 2020 to 63.2% in the first half of 2021, mainly due to the increased stock provision resulting from the lower than expected sales for immunity-focused ranges post the peak time of COVID-19 pandemic. If excluding the impact of increased stock provision, with the stock provision as a percentage of the gross stock balance remained the same at 10.9% with 30 June 2020, the gross profit margin of the ANC segment was 68.0%.

The gross profit margin of PNC segment was 41.7% in the first half of 2021, which was higher than 30.5% in the first half of 2020 mainly due to the higher gross profit margin from mainland China active sales.

Other income and gains

Other income and gains amounted to RMB87.4 million for the six months ended 30 June 2021. Other income and gains primarily consisted of gains on sales of raw materials of RMB25.8 million, government subsidies of RMB30.1 million, non-cash gains on early termination of leases of RMB19.2 million in relation to the early terminated lease of warehouse in Sydney, Australia and others.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

Excluding depreciation of property, plant and equipment and right-of-use assets, and amortization of intangible assets (“D&A”), selling and distribution costs increased by 4.9% to RMB2,097.1 million in the six months ended 30 June 2021, as compared with same period of 2020. Selling and distribution costs excluding D&A as a percentage of the Group’s revenue remained stable at 38.7% in the first half of 2021.

BNC

Selling and distribution costs of BNC business amounted to RMB1,278.6 million in the six months ended 30 June 2021, represented an increase of 1.2% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group’s revenue from BNC business increased by 3.0 percentage points from 35.8% in the first half of 2020 to 38.8% in the first half of 2021.

Advertising and marketing expense of BNC business as a percentage of its revenue decreased slightly from 11.8% in the first half of 2020 to 11.3% in the first half of 2021. But selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of revenue increased to 27.5% in the first half of 2021 from 24.0% of the same period of last year mainly due to a low base in the first half of last year when many selling activities in offline channels were paused or postponed during the peak time of COVID-19 pandemic and also owing to the implementation of the channel expansion strategy in mainland China which started from the second half of last year. BNC’s store network in mainland China in the first half of 2021 grew by more than 10,000 sales points year-on-year as the Group penetrated into more baby specialty stores and other offline channels in lower-tier cities.

ANC

Selling and distribution costs of ANC business amounted to RMB763.0 million in the six months ended 30 June 2021, represented an increase of 3.6% as compared with the same period of last year. Selling and distribution costs of ANC business as a percentage of the Group’s revenue from ANC business decreased by 4.9 percentage points from 44.9% in the first half of 2020 to 40.0% in the first half of 2021, thanks to the continued effective spending control in all markets and gradual recovery in ANZ market.

Advertising and marketing expense of ANC business as a percentage to the Group’s ANC revenue decreased from 31.4% in the first half of 2020 to 28.3% in the half of 2021. Advertising and marketing expense ratio in markets other than mainland China was improved. While advertising and marketing expense ratio in mainland China remained stable compared with the same period of last year, in order to further enhance brand awareness and build up scale both online and offline.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue decreased from 13.5% in the first half of 2020 to 11.7% in the first half of 2021 resulting from the effective measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

Administrative expenses

Administrative expenses increased by 9.4% from RMB284.3 million in the six months ended 30 June 2020 to RMB311.1 million for the six months ended 30 June 2021. Administrative expenses as a percentage of the Group’s revenue increased slightly by 0.2 percentage point to 5.7% in the first half of 2021, as compared with 5.5% in the first half of 2020. The increase was mainly due to the reclassification of business tax and surcharges from sales discount to administrative expenses. If without this one-time accounting treatment change, administrative expenses as a percentage of the Group’s revenue decreased slightly to 5.4% compared with the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses

Other expenses for the six months ended 30 June 2021 amounted to RMB229.8 million. Other expenses mainly included net foreign exchange losses of RMB98.8 million, research and development (“R&D”) expenditure of RMB59.7 million and net fair value losses on the financial instruments of RMB52.9 millions.

During the period under review, R&D expenditure increased by 2.2% as compared with the same period of last year.

The non-cash fair value losses on financial instruments of RMB52.9 million was mainly caused by the fair value loss on early redemption option embedded in the senior notes, the cross currency swap and cross currency interest rate swap agreements for the Group’s long-term debt, and the warrants issued by Else Nutrition Holdings Inc.. The net foreign exchange losses of RMB98.8 million mainly represented non-cash losses from the revaluation on intragroup loans.

EBITDA and EBITDA margin

Adjusted EBITDA achieved RMB1,066.4 million in the six months ended 30 June 2021, decreased by 7.0% compared with the six months ended 30 June 2020. Adjusted EBITDA margin for the first half of 2021 was 19.7%, decreased by 2.5 percentage points as compared with the same period of last year. The decrease in Adjusted EBITDA margin was mainly due to the decrease in gross profit margin resulting from the unfavorable product mix changes in BNC and increased stock provision in ANC.

EBITDA for the six months ended 30 June 2021 amounted to RMB929.6 million, decreased by 26.7% from RMB1,267.8 million in the six months ended 30 June 2020.

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

	Six months ended 30 June	
	2021	2020
	RMB million	RMB million
EBITDA	929.6	1,267.8
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange losses/(gains)	98.8	(31.0)
(2) Net fair value losses/(gains) on financial instruments	52.9	(49.1)
Non-recurring items*:		
(3) One-time restructuring costs including gains on early termination of leases	(14.9)	–
(4) One-time employment relief benefits received from government authorities following COVID-19 outbreak	–	(41.3)
Adjusted EBITDA	1,066.4	1,146.2

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

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the six months ended 30 June 2021, the Group incurred finance costs of RMB129.9 million, representing a decrease of 13.5% compared with the same period of 2020. The finance costs for the six months ended 30 June 2021 included interests for the term loan and senior notes of RMB104.1 million, which were reduced by 16.9% compared with the same period of last year mainly due to the depreciation of USD against RMB. The finance costs for the six months ended 30 June 2021 also included the one-off amortized loss of interest rate swap in relation to the previous term loan of RMB22.0 million, which was fully amortized by 30 June 2021.

Income tax expense

Income tax expense decreased from RMB278.1 million in the six months ended 30 June 2020 to RMB168.8 million in the six months ended 30 June 2021. Thanks to the continuing optimization of the Group's tax structure, the effective tax rate decreased from 27.9% in the first half of 2020 to 25.2% in the first half of 2021.

Net profit and adjusted net profit

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

	Six months ended 30 June	
	2021 RMB million	2020 RMB million
Net profit	501.4	718.0
Reconciled by:		
EBITDA adjusted items as listed above	136.8	(121.5)
Non-cash items*:		
One-off amortized loss of interest rate swap for previous term loan	22.0	20.5
Adjusted net profit	660.2	617.0

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2021, the Group recorded net cash generated from operating activities of RMB354.9 million, resulting from pre-tax cash from operations of RMB553.0 million, minus income tax paid of RMB198.0 million. The lower pre-tax cash from operations was mainly due to the reduction in other payables and accruals.

Investing activities

For the six months ended 30 June 2021, net cash flows used in investing activities amounted to RMB33.6 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB41.0 million, partially offsetting by proceeds from disposal of items of property, plant and equipment and intangible assets of RMB5.2 million.

Financing activities

For the six months ended 30 June 2021, net cash flows used in financing activities amounted to RMB148.2 million, primarily related to the interest paid for term loans and senior notes of RMB106.0 million and payment of lease liabilities of RMB32.8 million.

Cash and bank balances

As at 30 June 2021, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB1,971.3 million.

Term loan and senior notes

As at 30 June 2021, the Group's outstanding term loans amounted to RMB4,004.3 million, all are payable after one year. The total carrying amount of the senior notes was RMB1,964.7 million, including current portion of RMB19.6 million.

As at 30 June 2021, the net leverage ratio increased to 1.92 from 1.38 of the same period of last year, calculated by dividing the net debts^{Note} by accumulated adjusted EBITDA for the last twelve months ended 30 June 2021. Gearing ratio decreased to 35.5% from 37.7% as at 30 June 2020, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables decreased by 7 day from 31 days for the six months ended 30 June 2020 to 24 days for the six months ended 30 June 2021. The decrease in average turnover days for trade and bills receivables was mainly due to the stricter credit terms control post COVID-19 pandemic. The average turnover days of trade payables were 62 days for the six months ended 30 June 2021, representing a decrease of 31 days from 93 days for the six months ended 30 June 2020 mainly due to the different cut-off days and the trade payable balance reduction as compared with 30 June 2020 along with supply chain agility improvement. In comparison with the average turnover days of trade payables for the year ended 31 December 2020, there was only a slight decrease of 4 days.

The inventory turnover days were 179 days for the six months ended 30 June 2021, representing a decrease of 5 days from 184 days for the six months ended 30 June 2020. The inventory turnover days of BNC products increased 59 days from 132 days for the six months ended 30 June 2020 to 191 days for the six months ended 30 June 2021, mainly due to the store up of new packaged IMF under Biostime brand which will be launch in the second half of 2021 in mainland China market. The inventory turnover days of ANC products decreased 120 days from 298 days for the six months ended 30 June 2020 to 178 days for the six months ended 30 June 2021, mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic. The inventory turnover days of PNC products was 77 days for the six months ended 30 June 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) as its own code of corporate governance. The Company has complied with all the code provisions contained in the CG Code for the six months ended 30 June 2021.

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 directors of the Company (“**Directors**”) and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2021.

The Company has also established written guidelines (the “**Employees Written Guidelines**”) on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2021.

In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

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

The primary objectives of the Remuneration Committee include making recommendations on the Company's remuneration policy and structure for all Directors' and senior management's remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his/her close 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.

NOMINATION COMMITTEE

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

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the six months ended 30 June 2021, the Company attended 15 investors' conferences and roadshows and approximately 295 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2021 are summarized as follows:

Date	Event	Organizer	Location
Jan 2021	Jefferies China Consumer Virtual Corporate Access Days	Jefferies Asia	Virtual
Jan 2021	Citi Consumer Corporate Day	Citi	Virtual
Jan 2021	Goldman Sachs Greater China Corporate Day	Goldman Sachs	Virtual
Jan 2021	Morgan Stanley Virtual Asia ESG and Solar/Wind Seminar	Morgan Stanley	Virtual
Mar 2021	Post Annual Results Non-deal Roadshow	Citi/Goldman Sachs/CLSA	Virtual
Mar 2021	Morgan Stanley Hong Kong Summit	Morgan Stanley	Virtual
May 2021	Daiwa Consumer & Gaming Corporate Day	Daiwa	Virtual
May 2021	J.P. Morgan Asia Consumer 1x1 Forum	JP Morgan	Virtual
May 2021	Morgan Stanley Virtual China Summit	Morgan Stanley	Virtual
Jun 2021	BofA Merrill Lynch Innovative China Conference	Bank of America Merrill Lynch	Virtual
Jun 2021	Goldman Sachs Greater China Corp Day	Goldman Sachs	Virtual
Jun 2021	UBS Asian Consumer, Gaming & Leisure Virtual Conference	UBS	Virtual
Jun 2021	Citi's China Consumer Corporate Day	Citi	Virtual

The last shareholders' meeting was the annual general meeting (the "AGM") held on 13 May 2021 at 29/F, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC") for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, and the re-election of Directors. All proposed ordinary resolutions were passed by way of poll at the meeting.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021.

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "**Review of Interim Financial Information Performed by the Independent Auditor of the Entity**" by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

SHARE OPTION SCHEMES

The Company has adopted three 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 the three share option schemes of the Company are as follows:

2020 Share Option Scheme

A share option scheme (the "**2020 Share Option Scheme**") of the Company was conditionally approved by the shareholders of the Company at the AGM held on 8 May 2020 and the terms of such 2020 Share Option Scheme are disclosed in the circular of the Company dated 3 April 2020. No share option has been granted, exercised or cancelled under the 2020 Share Option Scheme during the six months ended 30 June 2021. Save as disclosed in the annual report of the Group for the year ended 31 December 2020, no other valuation on share options ("**Share Options**") granted under the 2020 Share Option Scheme was made for the six months ended 30 June 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2020 Share Option Scheme (continued)

Particulars and movements of Share Options under the 2020 Share Option Scheme during the six months ended 30 June 2021 by category of grantees were as follows:

Category of grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Number of Share Options					Outstanding as at 30 June 2021
			Outstanding as at 1 January 2021	Granted during the six months ended 30 June 2021	Exercised during the six months ended 30 June 2021	Lapsed during the six months ended 30 June 2021	Cancelled during the six months ended 30 June 2021	
Directors								
Mrs. Laetitia GARNIER	30/11/2020	31.88	2,350,234	-	-	-	-	2,350,234
Mr. Wang Yidong	30/11/2020	31.88	988,154	-	-	-	-	988,154
Sub-total			3,338,388	-	-	-	-	3,338,388
Other employees	30/11/2020	31.88	9,390,868	-	-	(1,154,977)	-	8,235,891
Total			12,729,256	-	-	(1,154,977)	-	11,574,279

All 12,729,256 Share Options granted on 30 November 2020 shall vest 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
1 April 2022	30% of the total number of Share Options granted
1 April 2023	30% of the total number of Share Options granted
1 April 2024	40% of the total number of Share Options granted

The total number of shares available for issue under the 2020 Share Option Scheme as at 30 June 2021 was 64,405,486, representing approximately 9.98% of the Company’s issued share capital as at 30 June 2021.

2010 Share Option Scheme

A share option scheme (the “2010 Share Option Scheme”) of the Company was conditionally approved by resolutions of the shareholders of the Company on 25 November 2010 and the terms of such 2010 Share Option Scheme are disclosed in the prospectus of the Company dated 3 December 2010. The 2010 Share Option Scheme was terminated with effect from 8 May 2020 upon the adoption of the 2020 Share Option Scheme and thus no share option has been granted under the 2010 Share Option Scheme since 8 May 2020. Save as disclosed in the annual report of the Group for the year ended 31 December 2020, no other valuation on share options granted under the 2010 Share Option Scheme was made.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

Particulars and movements of Share Options under the 2010 Share Option Scheme during the six months ended 30 June 2021 by category of grantees were as follows:

Category of grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Number of Share Options					Outstanding as at 30 June 2021
			Outstanding as at 1 January 2021	Granted during the six months ended 30 June 2021	Exercised during the six months ended 30 June 2021	Lapsed during the six months ended 30 June 2021	Cancelled during the six months ended 30 June 2021	
Directors								
Mr. Tan Wee Seng	19/04/2017	25.75	150,000	-	-	-	-	150,000
	25/03/2020	26.10	150,000	-	-	-	-	150,000
Mr. Wang Can	25/03/2020	26.10	100,000	-	-	-	-	100,000
Mrs. Lok Lau Yin Ching	25/03/2020	26.10	100,000	-	-	-	-	100,000
Mr. Luo Fei	24/08/2017	29.25	616,253	-	-	(123,251)	-	493,002
Mrs. Laetitia GARNIER	24/08/2017	29.25	472,907	-	-	(94,581)	-	378,326
	15/11/2019	32.65	2,110,742	-	-	-	-	2,110,742
Mr. Wang Yidong	03/05/2016	21.05	181,157	-	-	-	-	181,157
	24/08/2017	29.25	472,907	-	-	(94,581)	-	378,326
	15/11/2019	32.65	628,536	-	-	-	-	628,536
Sub-total			4,982,502	-	-	(312,413)	-	4,670,089
Employees and others								
	09/06/2011	15.312	298	-	-	(298)	-	-
	29/11/2011	11.52	400	-	(400) ⁽¹⁾	-	-	-
	01/06/2012	19.64	2,570	-	(1,363) ⁽²⁾	(1,207)	-	-
	07/12/2012	24.70	7,973	-	(5,232) ⁽³⁾	(2,741)	-	-
	29/12/2015	15.58	1,917,232	-	(527,248) ⁽⁴⁾	-	-	1,389,984
	30/09/2016	20.92	110,156	-	(3,500) ⁽⁵⁾	(17)	-	106,639
	23/12/2016	23.30	98,857	-	(8,178) ⁽⁶⁾	(460)	-	90,219
	19/04/2017	25.75	354,388	-	(3,000) ⁽⁷⁾	-	-	351,388
	07/07/2017	22.15	82,562	-	(1,682) ⁽⁸⁾	-	-	80,880
	24/08/2017	29.25	6,242,563	-	(111,938) ⁽⁹⁾	(1,328,412)	-	4,802,213
	05/12/2017	47.10	304,088	-	-	(132,334)	-	171,754
	20/04/2018	60.02	461,072	-	-	(177,924)	-	283,148
	26/07/2018	59.05	284,573	-	-	(94,640)	-	189,933
	28/09/2018	47.27	48,825	-	-	(9,764)	-	39,061
	29/03/2019	49.15	603,824	-	-	(155,073)	-	448,751
	09/07/2019	45.79	208,837	-	-	(55,966)	-	152,871
15/11/2019	32.65	3,186,230	-	-	(605,316)	-	2,580,914	
Sub-total			13,914,448	-	(662,541)	(2,564,152)	-	10,687,755
Total			18,896,950	-	(662,541)	(2,876,565)	-	15,357,844

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

Notes:

- 1 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD33.60.
- 2 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD31.20.
- 3 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD33.34.
- 4 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD30.51.
- 5 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD36.10.
- 6 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD31.64.
- 7 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD30.45.
- 8 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD34.89.
- 9 The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HKD30.82.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

All Share Options granted since the adoption of the 2010 Share Option Scheme until 7 July 2017 have vested in accordance with the timetable with a 6-year exercise period.

All 14,318,647 Share Options granted on 24 August 2017 (including Share Options granted to Mr. Luo Fei, Mrs. Laetitia 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 Share Options granted on 5 December 2017, 125,359 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

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

Among the 777,607 Share 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 Share 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 Share 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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

All 555,375 Share 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 Share 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

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

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

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

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

All 251,718 Share Options granted on 9 July 2019 shall vest in accordance with the timetable below with a 6-year exercise period:

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

Among the 6,842,506 Share Options granted on 15 November 2019, 306,712 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

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

Among the 6,842,506 Share Options granted on 15 November 2019, 3,796,516 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

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

Among the 6,842,506 Share Options granted on 15 November 2019, 2,739,278 Share Options granted to granted to Mrs. Laetitia GARNIER and Mr. Wang Yidong shall vest in accordance with the timetable below with a 6-year exercise period:

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

Among the 704,647 Share Options granted on 25 March 2020, 354,647 of the Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Number of Share Options to vest
1 April 2021	114,886 Share Options
1 April 2022	239,761 Share Options

Among the 704,647 Share Options granted on 25 March 2020, 350,000 of the Share Options granted to Mr. Tan Wee Seng, Mrs. Lok Lau Yin Ching and Mr. Wang Can 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 2010 Share Option Scheme were cancelled during the six months ended 30 June 2021.

Since the 2010 Share Option Scheme was terminated with effect from 8 May 2020, the total number of shares available for issue under the 2010 Share Option Scheme as at 30 June 2021 was the same as the number of outstanding Share Options, i.e. 15,357,844, representing approximately 2.38% of the Company's issued share capital as at 30 June 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme

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

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme (the “**Pre-IPO Share Options**”) is HKD2.53;
- (b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after 7 December 2010, the date of the listing of the shares of the Company on the Main Board of the Stock Exchange (the “**Listing Date**”);
- (c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HKD1.00 paid by each grantee. During the six months ended 30 June 2021, 3 participants was no longer eligible for the Pre-IPO Share Options due to expiry of the exercise period, and as a result, a total of 30,512 Pre-IPO Share Options lapsed. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the six months ended 30 June 2021 by category of grantees are set out below:

Category of grantees	Number of Pre-IPO Share Options			Outstanding as at 30 June 2021
	Outstanding as at 1 January 2021	Exercised during the six months ended 30 June 2021	Lapsed during the six months ended 30 June 2021	
Senior management members	2,350	(1,838)	(512)	–
Other employees	24,467	(24,467)	–	–
Business partners	30,000	–	(30,000)	–
Total	56,817	(26,305)	(30,512)	–

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the six months ended 30 June 2021.

No share available for issue under the Pre-IPO Share Option Scheme as at 30 June 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2021, the interests and short positions of the Directors and the chief executive of the Company and their respective close associates in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company (Note 4)
Luo Fei	Beneficial owner	Long position	1,185,196 (Note 1)	0.18%
	Beneficial owner	Long position	493,002 (Note 2)	0.08%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 (Note 3)	66.96%
Laetitia GARNIER	Beneficial owner	Long position	658,941 (Note 1)	0.10%
	Beneficial owner	Long position	4,839,302 (Note 2)	0.75%
Wang Yidong	Beneficial owner	Long position	164,164 (Note 1)	0.03%
	Beneficial owner	Long position	2,176,173 (Note 2)	0.34%
Luo Yun	Founder of a discretionary trust who can influence how the trustee exercises his discretion	Long position	432,000,000 (Note 3)	66.96%
Tan Wee Seng	Beneficial owner	Long position	60,000 (Note 1)	0.01%
	Beneficial owner	Long position	300,000 (Note 2)	0.05%
Wang Can	Beneficial owner	Long position	100,000 (Note 2)	0.02%
Lok Lau Yin Ching	Beneficial owner	Long position	100,000 (Note 2)	0.02%

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

Note 2: These are the shares subject to the exercise of the Share Options granted by the Company under the 2020 Share Options Scheme and the 2010 Share Option Scheme.

Note 3: As at 30 June 2021, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

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

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

Note 4: As at 30 June 2021, the total number of the issued shares of the Company was 645,121,948.

Save as disclosed herein, none of the Directors and chief executives of the Company, or any of their spouses, or children under eighteen years of age, had any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2021.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2021, 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	66.96%
Flying Company Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.96%
Sailing Group Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.96%
Coliving Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.96%
UBS Trustees (BVI) Limited (Note 1)	Trustees	Long position	432,000,000	66.96%

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Note 1: As at 30 June 2021, Biostime Pharmaceuticals (China) Limited was owned as to 57.25% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

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

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

Note 2: As at 30 June 2021, the total number of the issued shares of the Company was 645,121,948

Save as mentioned above, as at 30 June 2021, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CHANGES IN INFORMATION OF DIRECTORS

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

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS

References are made to the announcements issued by the Company on 21 June 2018 and 13 September 2018, regarding the entering into of a facility agreement (the "**2018 Facility Agreement**") among Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrower, the Company and certain subsidiaries as guarantors, and affiliates of The Goldman Sachs Group, Inc., as amended by an amendment agreement (the "**Amendment Agreement**") entered into on 13 September 2018, to provide for a senior secured US dollar term loan facility and a senior secured Australian dollar term loan facility (the "**Refinancing Term Loan Facilities**") in an aggregate amount of up to USD400.0 million and a senior secured multi-currency revolving credit facility (the "**Revolving Credit Facility**") in an aggregate amount of up to USD50.0 million. Pursuant to the 2018 Facility Agreement as amended by the Amendment Agreement, if Mr. Luo Fei, Mr. Luo Yun and the family members of each of them (collectively) cease to (i) hold (directly or indirectly) beneficially 23% or more of the issued voting share capital of the Company, or (ii) be the persons who hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, the Refinancing Term Loan Facilities and the Revolving Credit Facility will be cancelled and all outstanding principal, together with accrued interest, and all other amounts accrued under the finance documents, shall become immediately due and payable.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

After taking full consideration of the Group's financial position, net cash flow and capital expenditures, the Board has resolved to declare an interim dividend of HKD0.37 per ordinary share, representing approximately 30% of the Group's Adjusted net profit for the period of six months ended 30 June 2021. The interim dividend will be paid on or about Tuesday, 12 October 2021 to the shareholders whose names appear on the register of members of the Company on Monday, 13 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 9 September 2021 to Monday, 13 September 2021, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 8 September 2021.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 36 to 80, which comprise the interim condensed consolidated statement of financial position as at 30 June 2021, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “*Interim Financial Reporting*” (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”).

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

SCOPE OF REVIEW

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

Ernst & Young
Certified Public Accountants
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

24 August 2021

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

Six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	5	5,424,320	5,167,225
Cost of sales		(2,001,571)	(1,736,792)
Gross profit		3,422,749	3,430,433
Other income and gains	5	87,444	134,058
Selling and distribution costs		(2,172,679)	(2,066,521)
Administrative expenses		(311,105)	(284,285)
Other expenses		(229,808)	(72,562)
Finance costs	6	(129,919)	(150,124)
Share of profit of an associate		3,445	5,134
PROFIT BEFORE TAX	7	670,127	996,133
Income tax expense	8	(168,773)	(278,128)
PROFIT FOR THE PERIOD		501,354	718,005
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period	23	117,261	(17,419)
Reclassification adjustments for losses included in profit or loss		(56,747)	(36,753)
Income tax effect		(11,540)	22,405
		48,974	(31,767)
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	23	(24,285)	53,553
Exchange differences on translation of foreign operations		(113,438)	(71,310)
Exchange differences on net investment in foreign operations		(107)	(3,400)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(88,856)	(52,924)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		(61,325)	66,472
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(150,181)	13,548
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		351,173	731,553
Profit attributable to owners of the parent		501,354	718,005
Total comprehensive income attributable to owners of the parent		351,173	731,553
		RMB	RMB
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	10		
Basic		0.78	1.12
Diluted		0.78	1.11

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	455,073	433,896
Right-of-use assets	12(a)	162,733	169,591
Goodwill	13	6,461,479	6,648,697
Intangible assets	14	3,431,319	3,579,673
Bonds receivable		211,194	220,504
Deposits		33,082	65,484
Investment in an associate		70,226	66,780
Deferred tax assets	26	526,418	587,539
Derivative financial instruments	23	75,156	91,345
Other non-current financial assets	15	318,375	386,363
Total non-current assets		11,745,055	12,249,872
CURRENT ASSETS			
Inventories	16	2,032,816	1,958,055
Trade and bills receivables	17	677,135	795,558
Prepayments, other receivables and other assets	18	330,679	341,629
Financial asset at fair value through profit or loss		442	–
Derivative financial instruments	23	29,639	38,022
Pledged deposits	19	3,993	4,416
Cash and cash equivalents	19	1,971,344	1,830,873
Total current assets		5,046,048	4,968,553
CURRENT LIABILITIES			
Trade and bills payables	20	738,954	637,822
Other payables and accruals	21	1,575,634	2,184,333
Contract liabilities	22	138,830	168,028
Lease liabilities	12(b)	45,280	42,846
Derivative financial instruments	23	7,363	–
Senior notes	25	19,621	20,232
Tax payable		216,014	224,440
Dividend payables		209,137	–
Total current liabilities		2,950,833	3,277,701
NET CURRENT ASSETS		2,095,215	1,690,852
TOTAL ASSETS LESS CURRENT LIABILITIES		13,840,270	13,940,724

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Senior notes	25	1,945,056	1,965,327
Interest-bearing bank loans	24	4,004,311	4,038,793
Other payables and accruals	21	4,315	5,030
Lease liabilities	12(b)	75,596	106,262
Derivative financial instruments	23	573,567	684,583
Deferred tax liabilities	26	846,850	938,042
Total non-current liabilities		7,449,695	7,738,037
Net assets		6,390,575	6,202,687
EQUITY			
Issued capital	27	5,516	5,510
Other reserves		6,385,059	5,987,832
Proposed dividend		–	209,345
Total equity		6,390,575	6,202,687

Luo Fei

Director

Wang Yidong

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2021

	Notes	Issued capital		Shares for the share award schemes		Share premium account		Shares for the share award schemes		Capital surplus		Statutory reserve		Share option reserve		Exchange fluctuation reserve		Other reserve		Cash flow hedge reserve		Fair value reserve of financial assets through other comprehensive income		Retained profits		Proposed dividend		Total			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2020 (Audited)		5,510	673,589*	(1)*	26,992*	95*	382,651*	168,275*	(91,387)*	(1,217,025)*	(87,575)*	166,214*	5,966,004*	209,345	6,202,687																
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	501,354	-	501,354	-	-	-	-	-	-	-	-	-	-	-	-	-	-	501,354	
Other comprehensive income/(loss) for the period:																															
Changes in fair value of equity investment designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-	-	(61,325)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(61,325)	
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	48,974	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,974	
Hedge of net investments	23	-	-	-	-	-	-	-	(24,285)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,285)		
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(113,438)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(113,438)		
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	-	(107)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(107)		
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	-	(137,830)	-	48,974	(61,325)	501,354	-	351,173															351,173	
Equity-settled share option arrangements	28	6	12,919	-	-	-	-	32,877	-	-	-	-	-	-	45,802																
Transfer of share option reserve upon the forfeiture or expiry of share options	28	-	-	-	-	-	-	(6,038)	-	-	-	-	6,038	-	-																
Final 2020 dividend declared		-	-	-	-	-	-	-	-	-	-	-	258	(209,345)	(209,087)																
At 30 June 2021 (Unaudited)		5,516	686,508*	(1)*	26,992*	95*	382,651*	195,114*	(229,217)*	(1,217,025)*	(38,601)*	104,889*	6,473,654*	-	6,390,575																

* These reserve accounts comprise the consolidated other reserves of RMB6,385,059,000 (31 December 2020: RMB5,987,832,000) in these interim condensed consolidated statement of financial position as at 30 June 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2021

	Notes	Shares			Capital surplus	Contributed surplus	Statutory reserve	Share option reserve	Exchange fluctuation reserve	Other reserve	Cash flow hedge reserve	Fair value reserve of financial assets		Total	
		Issued capital	Share premium account	Share for the share award schemes								Share reserve	Share option reserve		through other comprehensive income
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2019 (Audited)		5,500	653,039	(3,397)	26,992	95	382,651	125,093	(214,731)	(1,217,025)	(53,307)	(12,183)	5,398,554	502,525	5,593,806
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	718,005	-	718,005
Other comprehensive income/(loss) for the period:															
Changes in fair value of equity investment designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-	-	66,472	-	-	66,472
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	(31,767)	-	-	-	-	(31,767)
Hedge of net investments	23	-	-	-	-	-	-	-	53,553	-	-	-	-	-	53,553
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(71,310)	-	-	-	-	-	(71,310)
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	-	(3,400)	-	-	-	-	-	(3,400)
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	-	(21,157)	-	(31,767)	66,472	718,005	-	731,533
Equity-settled share option arrangements		7	20,139	-	-	-	-	28,078	-	-	-	-	-	-	48,224
Transfer of share option reserve upon the forfeiture or expiry of share options	28	-	-	-	-	-	-	(109)	-	-	-	-	109	-	-
Disposal of shares held for share award schemes		-	-	3,396	-	-	-	-	-	-	-	-	(985)	-	2,411
Final 2019 dividend declared		-	-	-	-	-	-	-	-	-	-	-	1,445	(502,525)	(501,080)
Proposed interim 2020 dividend	9	-	-	-	-	-	-	-	-	-	-	-	(359,002)	359,002	-
At 30 June 2020 (Unaudited)		5,507	673,178	(1)	26,992	95	382,651	153,062	(235,888)	(1,217,025)	(85,074)	54,289	5,738,126	359,002	5,874,914

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		670,127	996,133
Adjustments for:			
Bank interest income	5	(2,518)	(7,302)
Interest income from loans and bonds receivables	5	(4,577)	(4,816)
Other investment income	5	–	(714)
Finance costs	6	129,919	150,124
Share of profit of an associate		(3,445)	(5,134)
Depreciation of property, plant and equipment	7	42,653	43,257
Depreciation of right-of-use assets	7	27,525	26,432
Amortisation of intangible assets	7	66,487	63,925
Gains on early termination of leases	5	(19,249)	–
Loss on disposal of items of property, plant and equipment and intangible assets	7	738	38
Equity-settled share option expense	7	35,780	32,654
Fair value losses/(gains) on derivative financial instruments, net	7	47,787	(48,848)
Fair value losses/(gains) on financial assets	7	5,147	(277)
Impairment of trade receivables	7	1,699	3,726
Write-down of inventories to net realisable value	7	134,715	36,504
Foreign exchange differences, net	7	98,752	(31,046)
		1,231,540	1,254,656
Increase in inventories		(238,263)	(480,951)
Decrease in trade and bills receivables		95,866	415,144
Increase in prepayments, other receivables and other assets		317	7,175
Increase in rental deposits		(96)	(78)
Increase in trade and bills payables		112,500	122,931
Decrease in other payables and accruals		(621,271)	(156,562)
(Decrease)/increase in contract liabilities		(27,639)	41,939
Cash generated from operations		552,954	1,204,254
Corporate income tax paid		(198,034)	(346,024)
Net cash flows from operating activities		354,920	858,230

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(29,749)	(22,271)
Proceeds from disposal of items of property, plant and equipment and intangible assets		5,214	443
Additions to intangible assets		(11,203)	(10,903)
Addition to other financial assets		–	(44,173)
Addition to investment to a short-term financial instrument		(442)	(355,057)
Proceeds from disposal of a short-term financial instrument		–	354,783
Interest received		2,567	6,853
Net cash flows used in investing activities		(33,613)	(70,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	27	10,022	15,570
New bank loans		–	936,401
Repayment of bank loans		–	(412,417)
Payment of lease liabilities	12(b)	(32,811)	(30,298)
Decrease in restricted deposits		–	616
Interest paid		(105,998)	(120,748)
Payment for certain CCSs (as defined in note 23)	23	(19,413)	(12,069)
Proceeds from disposal of shares held for share award schemes		–	2,411
Net cash flows (used in)/from financing activities		(148,200)	379,466
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		1,830,873	2,217,335
Effect of foreign exchange rate changes, net		(32,636)	19,519
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
		1,971,344	3,404,225
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	1,971,344	3,404,225

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

1. CORPORATE AND GROUP INFORMATION

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

The Company and its subsidiaries (together, the “**Group**”) are principally engaged in the manufacture and sale of premium pediatric nutrition and baby care products, adult nutrition and care products and pet nutrition and care products.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021 (the “**Period**”) have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the revised International Financial Reporting Standards (“**IFRSs**”) (which also include International Accounting Standards (“**IASs**”) and Interpretations) as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following IFRSs for the first time for the current period’s financial information:

Amendments to IFRS 9,
IAS 39, IFRS 7, IFRS 4 and IFRS 16
Amendment to IFRS 16

Interest Rate Benchmark Reform – Phase 2

Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the following IFRSs, the application of these revised IFRSs in the Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank loans with floating interest rates, denominated in United States dollars ("**USD**") and Australian dollars as at 30 June 2021, with detailed information in note 24 to these interim condensed consolidated financial statements. Since the interest rates of these bank loans were not replaced by RFRs during the Period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

The Group also has applied cash flow hedges to manage the cash flow interest rate risk of such interest-bearing bank loans, details of which are set out in note 23(d) to these interim condensed consolidated financial statements. The Group expects to amend the formal designation of that hedging relationship upon modification (or other forms of changes that in substance result in a replacement of the benchmark interest rate) of the cross currency interest rate swaps ("**CCIRS**") or the interest-bearing bank loans. Provided that the modification or the change is a direct consequence of the interest rate benchmark reform, and the new basis for determining the contractual cash flows of the CCIRSs and the interest-bearing bank borrowing is economically equivalent to the previous basis immediately preceding the change, the modification or the change in the CCIRSs or the interest-bearing bank borrowing will not result in derecognition, and the related hedge relationship will remain and not be discontinued. The Group expects that any resulting ineffectiveness upon the modification or the change to be charged to profit or loss will be immaterial.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has five reporting 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;
- (d) the other pediatric products segment comprises the production of dried baby food and nutrition supplements and baby care products; and
- (e) the pet nutrition and care products segment comprises the production of food, health supplements and bone broth products for pets.

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2021 (Unaudited):

	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Pet nutrition and care products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	2,541,232	464,401	1,906,475	293,670	218,542	-	5,424,320
Segment results	1,611,739	363,049	1,205,167	151,747	91,047	-	3,422,749
<i>Reconciliations:</i>							
Interest income							7,095
Other income and unallocated gains							80,349
Share of profit of an associate							3,445
Corporate and other unallocated expenses							(2,713,592)
Finance costs							(129,919)
Profit before tax							670,127
Other segment information:							
Depreciation and amortisation	13,854	4,558	59,126	7,536	315	51,276	136,665
Impairment/(write-back of impairment) of trade receivables	-	-	40	1,873	(214)	-	1,699
Write-down/(write-back) of inventories to net realisable value	7,544	5,286	117,127	5,138	(380)	-	134,715
Capital expenditure*	19,047	2,737	8,711	4,341	-	46,285	81,121

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2020 (Unaudited):

	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	2,338,258	856,131	1,640,161	332,675	–	5,167,225
Segment results	1,489,081	672,646	1,098,180	170,526	–	3,430,433
<i>Reconciliations:</i>						
Interest income						12,118
Other income and unallocated gains						121,940
Share of profit of an associate						5,134
Corporate and other unallocated expenses						(2,423,368)
Finance costs						(150,124)
Profit before tax						996,133
Other segment information:						
Depreciation and amortisation	13,236	3,702	51,101	7,199	58,376	133,614
(Write-back of)/impairment of trade receivables	–	–	(57)	3,783	–	3,726
Write-down of inventories to net realisable value	12,210	737	21,724	1,833	–	36,504
Capital expenditure*	12,797	668	7,715	4,802	8,621	34,603

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Mainland China	4,333,248	4,268,938
Australia and New Zealand	597,910	587,334
Other locations [#]	493,162	310,953
	5,424,320	5,167,225

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

(b) Non-current assets

	30 June	31 December
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Mainland China	512,075	507,418
Australia and New Zealand	2,557,668	2,699,656
Other locations [#]	1,082,690	1,108,350
	4,152,433	4,315,424

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 Hong Kong Special Administrative Region ("Hong Kong SAR") of the People's Republic of China (the "PRC").

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	5,424,320	5,167,225

Disaggregated revenue information

For the six months ended 30 June 2021 (unaudited)

Segments	Infant	Probiotic	Adult	Other	Pet	Total
	formulas	supplements	nutrition	pediatric	nutrition	
	RMB'000	RMB'000	and care	products	and care	RMB'000
			products	RMB'000	products	RMB'000
Geographical markets						
Mainland China	2,464,495	460,051	1,185,954	142,399	80,349	4,333,248
Australia and New Zealand	20,980	588	576,003	339	–	597,910
Other locations*	55,757	3,762	144,518	150,932	138,193	493,162
Total	2,541,232	464,401	1,906,475	293,670	218,542	5,424,320
Timing of revenue recognition						
Goods transferred at a point in time	2,541,232	464,401	1,906,475	293,670	218,542	5,424,320

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

Disaggregated revenue information (continued)

For the six months ended 30 June 2020 (unaudited)

Segments	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Total RMB'000
Geographical markets					
Mainland China	2,281,998	853,865	926,430	206,645	4,268,938
Australia and New Zealand	15,220	397	571,717	–	587,334
Other locations*	41,040	1,869	142,014	126,030	310,953
Total	2,338,258	856,131	1,640,161	332,675	5,167,225
Timing of revenue recognition					
Goods transferred at a point in time	2,338,258	856,131	1,640,161	332,675	5,167,225

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Bank interest income	2,518	7,302
Interest income from loans and bonds receivables	4,577	4,816
Foreign exchange gains	–	31,046
Fair value gains on derivative financial instruments, net	–	48,848
Fair value gains on financial assets	–	277
Government subsidies*	30,091	36,642
Other investment income	–	714
Gains on sales of raw materials	25,843	–
Gains on early termination of leases	19,249	–
Others	5,166	4,413
	87,444	134,058

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans and senior notes	104,116	125,305
Interest expense on lease liabilities (note 12(b))	3,755	4,309
Amortised loss of interest rate hedge in relation to previous term loan	22,048	20,510
	129,919	150,124

7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of inventories sold		1,866,856	1,700,288
Depreciation of property, plant and equipment	11	42,653	43,257
Depreciation of right-of-use assets	12(a)	27,525	26,432
Amortisation of intangible assets	14	66,487	63,925
Research and development costs**		59,696	58,443
Lease payments not included in the measurement of lease liabilities		8,216	2,061
Gains on early termination of leases*		(19,249)	–
Loss on disposal of items of property, plant and equipment and intangible assets		738	38
Employee benefit expenses:			
Wages and salaries		574,885	570,552
Pension scheme contributions (defined contribution schemes)		59,741	61,294
Staff welfare and other expenses		24,590	17,637
Equity-settled share option expense	28	35,780	32,654
		694,996	682,137
Foreign exchange differences, net		98,752**	(31,046)*
Fair value losses/(gains) on derivative financial instruments, net	23	47,787**	(48,848)*
Fair value losses/(gains) on financial assets		5,147**	(277)*
Impairment of trade receivables**	17	1,699	3,726
Write-down of inventories to net realisable value#		134,715	36,504

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

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

Included in "Cost of sales" in profit or loss

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	102,663	352,697
Hong Kong SAR	86,121	67,461
Australia	(392)	(5,562)
Elsewhere	1,195	1,287
Deferred (note 26)	(20,814)	(137,755)
Total tax charge for the period	168,773	278,128

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

PRC enterprise income tax (“EIT”)

The income tax provision of the Group in respect of its operations in mainland China has been calculated at the rate of 25% (six months ended 30 June 2020: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof.

Guangzhou Hapai Information Technology Co., Ltd and Biostime (Guangzhou) Health Products Limited (“**Biostime Health**”), the Company’s wholly-owned subsidiaries operating in mainland China, were recognised as high-technology enterprise, and are subject to EIT at a rate of 15% for the Period and the six months ended 30 June 2020.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profits arising in Hong Kong SAR during the Period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HKD2,000,000 (six months ended 30 June 2020: HKD2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (six months ended 30 June 2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2020: 16.5%).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

8. INCOME TAX EXPENSE (CONTINUED)

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2020: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

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

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

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 MEC group.

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

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

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

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

Income tax for other jurisdictions

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

11. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB72,433,000 (six months ended 30 June 2020: RMB22,448,000). During the Period, depreciation of RMB42,653,000 (six months ended 30 June 2020: RMB43,257,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB5,950,000 (six months ended 30 June 2020: RMB481,000) were disposed of by the Group. Besides, exchange realignment with an amount of RMB2,653,000 (negative) was recognised in the Period (six months ended 30 June 2020: RMB511,000 (negative)).

12. LEASE

(a) Right-of-use assets

The Group has lease contracts for various items of land, office buildings, vehicles and office equipment. During the Period, the Group recognised the right-of-use assets, with an aggregate cost of RMB36,253,000 (six months ended 30 June 2020: RMB2,689,000). During the Period, depreciation of RMB27,525,000 (six months ended 30 June 2020: RMB26,432,000) was charged, and the right-of-use-assets of RMB13,390,000 were derecognised due to the early termination of leases. Besides, exchange realignment with an amount of RMB2,196,000 (negative) was recognised in the Period (six months ended 30 June 2020: RMB550,000 (negative)).

(b) Lease liabilities

During the Period, the Group recognised the new lease liabilities of RMB36,253,000 (six months ended 30 June 2020: RMB2,689,000) and interest expense of RMB3,755,000 (six months ended 30 June 2020: RMB4,309,000) was charged. During the Period, the Group paid for the lease liabilities of RMB32,811,000 (six months ended 30 June 2020: RMB30,298,000), and the lease liabilities of RMB32,639,000 were derecognised due to the early termination of leases. Besides, exchange realignment with an amount of RMB2,790,000 (negative) was recognised in the Period (six months ended 30 June 2020: RMB595,000 (negative)).

13. GOODWILL

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cost and carrying amount:		
At 1 January	6,648,697	5,467,488
Acquisition of subsidiaries	–	1,047,492
Exchange realignment	(187,218)	133,717
At end of the Period/year	6,461,479	6,648,697

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

14. INTANGIBLE ASSETS

During the Period, the Group acquired intangible assets with an aggregate cost of RMB8,688,000 (six months ended 30 June 2020: RMB12,155,000). During the Period, amortisation of RMB66,487,000 (six months ended 30 June 2020: RMB63,925,000) was charged by the Group, and intangible asset with an aggregate carrying amount of RMB2,000 (six months ended 30 June 2020: Nil) was disposed of by the Group. Besides, exchange realignment with an amount of RMB90,553,000 (negative) was recognised in the Period (six months ended 30 June 2020: RMB13,301,000 (negative)).

15. OTHER NON-CURRENT FINANCIAL ASSETS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets at fair value through profit or loss		
– Unlisted equity investments	67,832	72,925
– Other unlisted investments	62,963	64,532
Equity investment designed at fair value through other comprehensive income		
– Listed equity investment in BOD Australia Limited	23,853	35,290
– Listed equity investment in Else Nutrition Holdings Limited (“Else”)	163,727	213,616
	318,375	386,363

The above unlisted equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The above unlisted investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The above listed equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers the investments to be strategic in nature.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

16. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	768,470	804,274
Goods in transit	362,479	232,689
Work in progress	2,313	401
Finished goods	899,554	920,691
	2,032,816	1,958,055

17. TRADE AND BILLS RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	667,087	714,374
Bills receivable	24,425	94,307
	691,512	808,681
Less: Impairment provision	(14,377)	(13,123)
	677,135	795,558

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

17. 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 provisions, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	377,157	466,228
1 to 3 months	237,165	289,211
Over 3 months	62,813	40,119
	677,135	795,558

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At beginning of the Period/year	13,123	7,424
Acquisition of a subsidiary	–	188
Impairment losses recognised	10,091	10,516
Amount written off as uncollectible	(21)	(1,582)
Impairment losses reversed	(8,392)	(3,477)
Exchange realignment	(424)	54
At end of the Period/year	14,377	13,123

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Prepayments	163,967	204,807
Deposits	1,840	1,281
Other receivables	122,276	107,208
Prepaid expenses	39,543	27,313
Right-of-return assets	3,053	1,020
	330,679	341,629

As at 31 December 2020, included in prepayments was an amount due from the Group's associate of RMB10,885,000. As at 30 June 2021, the balance was nil.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 30 June 2021 and 31 December 2020, the loss allowance was assessed to be minimal.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Cash and bank balances	1,971,344	1,830,873
Pledged deposits	3,993	4,416
	1,975,337	1,835,289
Less:		
Restricted deposits for an operating lease	(3,993)	(4,416)
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	1,971,344	1,830,873
Denominated in RMB (note)	787,312	752,922
Denominated in other currencies	1,188,025	1,082,367
	1,975,337	1,835,289

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. CASH AND CASH EQUIVALENTS 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 month and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with original maturity over one year when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

20. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	732,270	626,732
Bills payable	6,684	11,090
	738,954	637,822

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:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	626,988	502,892
1 to 3 months	78,712	53,138
Over 3 months	33,254	81,792
	738,954	637,822

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

As at 30 June 2021, included in trade payables is an amount due to an associate of the Group of RMB20,525,000 (31 December 2020: Nil) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Salaries and welfare payables		150,778	234,801
Accruals		667,205	963,306
Other tax payables		49,938	123,790
Other payables	(a)	101,706	133,729
Refund liabilities	(b)	610,322	733,737
		1,579,949	2,189,363
Less: current portion		(1,575,634)	(2,184,333)
Non-current portion		4,315	5,030

Notes:

- (a) Other payables are non-interest-bearing and have an average term of three months.
- (b) Details of refund liabilities as at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Sales rebate	594,981	722,582
Sales return	15,341	11,155
	610,322	733,737

22. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Advances from customers	134,310	136,307
Customer loyalty points	4,520	31,721
	138,830	168,028

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2021		31 December 2020	
		Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Current					
Forward currency contracts	(a)	-	7,363	-	-
Warrants	(b)	29,639	-	38,022	-
		29,639	7,363	38,022	-
Non-current					
Early redemption option embedded in the senior notes	(c)	75,156	-	91,345	-
The CCIRs	(d)	-	386,000	-	516,429
The CCSs (as defined below)					
– designated as hedge	(e)	-	148,301	-	134,650
– not designated as hedge	(e)	-	39,266	-	33,504
		75,156	573,567	91,345	684,583

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 net fair value of the forward currency contracts as at 30 June 2021 was RMB7,363,000 (negative) (31 December 2020: Nil). A net loss of RMB7,363,000 was charged to profit or loss during the Period (six months ended 30 June 2020: a net gain of RMB10,912,000).
- (b) In the Period, the Group was granted several warrants entitling the Group to acquire, subject to adjustment, one common share in the capital of Else for each warrant. The fair value of the warrants as at 30 June 2021 was RMB29,639,000 (31 December 2020: RMB38,022,000). A fair value loss of RMB8,383,000 was charged to profit or loss for the Period (six months ended 30 June 2020: a gain of RMB12,049,000).
- (c) An early redemption option is embedded in the senior notes, details of which are set out in note 25 to these interim condensed consolidated financial statements. The fair value of the early redemption option as at 30 June 2021 was RMB75,156,000 (31 December 2020: RMB91,345,000). A fair value loss of RMB15,187,000 was charged to profit or loss for the Period (six months ended 30 June 2020: RMB7,691,000).
- (d) Cash flow hedges

As at 30 June 2021 and 31 December 2020, the Group had certain CCIRs to hedge its exposure arising from bank borrowings carried at floating rates and denominated in foreign currencies. Under the CCIRs, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the CCIRs match the term of the term loans denominated in USD. The cash flow hedge relating to the expected interest and principal payments was assessed to be highly effective. The fair value of the CCIRs as at 30 June 2021 was RMB386,000,000 (negative) (31 December 2020: RMB516,429,000 (negative)). A gain of RMB117,261,000 (six months ended 30 June 2020: a loss of RMB17,419,000) was included in the cash flow hedge reserve and a loss of the ineffective portion of RMB395,000 was charged to profit or loss for the Period (six months ended 30 June 2020: a gain of RMB89,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(e) Hedges of net investments in foreign operations

As at 30 June 2021 and 31 December 2020, the Company had certain cross currency swap and cross currency interest rate swap agreements (the “CCSs”) to hedge its exposure of foreign currency risks arising from its investment in mainland China and Australia. Under the CCSs, the Company agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and fixed or floating-rate interest amounts calculated by reference to the agreed notional amounts at specified currencies.

For the CCSs designated as hedging instruments, there is an economic relationship between the hedge item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the CCSs. The Company has established a hedge ration of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investments in the foreign subsidiaries becomes lower than the amount of the CCSs.

During the Period, in respect of the CCSs designated as hedging instruments, a net loss of RMB24,285,000 (six months ended 30 June 2020: a net gain of RMB53,553,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net loss of RMB5,686,000 (six months ended 30 June 2020: a net gain of RMB10,427,000) was charged to profit or loss. For the CCSs not designated as hedging instruments, a net loss of RMB10,773,000 (six months ended 30 June 2020: a net gain of RMB23,062,000) was charged to profit or loss during the Period. During the Period, the Company has paid net cash of RMB19,413,000 (six month ended 30 June 2020: RMB12,069,000) in respective of those CCSs.

24. INTEREST-BEARING BANK LOANS

	30 June 2021			31 December 2020		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Non-current						
Secured bank loan	BBSY+margin	Nov-2022	59,384	BBSY+margin	Nov-2022	61,131
Secured bank loan	Libor+margin	Nov-2022	541,262	Libor+margin	Nov-2022	544,688
Secured bank loan	BBSY+margin	May-2023	59,384	BBSY+margin	May-2023	61,131
Secured bank loan	Libor+margin	May-2023	541,262	Libor+margin	May-2023	544,688
Secured bank loan	BBSY+margin	Nov-2023	277,126	BBSY+margin	Nov-2023	285,276
Secured bank loan	Libor+margin	Nov-2023	2,525,893	Libor+margin	Nov-2023	2,541,879
			4,004,311			4,038,793

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. INTEREST-BEARING BANK LOANS (CONTINUED)

Analysed into:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Bank loans repayable		
within one year or on demand	–	–
in the second year	1,201,292	605,819
in the third to fifth years, inclusive	2,803,019	3,432,974
	4,004,311	4,038,793

BBSY stands for the Australian Bank Bill Swap Bid Rate.

Libor stands for the London InterBank offered Rate.

Notes:

- (a) As at 30 June 2021 and 31 December 2020, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges (in respect of H&H Hong Kong, a floating charge only) over present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.
- (b) As at 30 June 2021, the Group's bank loans were denominated in USD and AUD at aggregate amounts of RMB3,608,417,000 (31 December 2020: RMB3,631,255,000) and RMB395,894,000 (31 December 2020: RMB407,538,000) respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. SENIOR NOTES

On 24 October 2019, the Company issued senior notes due 24 October 2024 with an aggregate principal amount of USD300,000,000 (the “**Senior Notes**”), which are listed on The Stock Exchange of Hong Kong Limited. The coupon interest rate of the Senior Notes is 5.625% per annum and interest is paid semi-annually. The Company used the net proceeds of the Senior Notes to redeem a portion of the senior notes issued on 21 June 2016 and 23 January 2017.

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

Pursuant to the terms of the Senior Notes, on or after 24 October 2021, 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 the principal amount) set forth below, plus accrued and unpaid interest, if any, on the notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on 24 October of the years indicated below (subject to the rights of holders of Senior Notes on the relevant record date to receive interest on the relevant interest payment date).

Period	Redemption price
2021	102.81250%
2022	101.40625%
2023 and thereafter	100.00000%

The Company may at its option redeem the Senior Notes, in whole but not in part, at any time prior to 24 October 2021, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. SENIOR NOTES (CONTINUED)

At any time and from time to time prior to 24 October 2021, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in one or more equity offerings at a redemption price of 105.625% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date; provided that at least 60% of the aggregate principal amount of the Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

As at 30 June 2021, the fair value of the early redemption option embedded in the Senior Notes amounted to RMB75,156,000 (31 December 2020: RMB91,345,000), details of which are set out in note 23(c) to these interim condensed consolidated financial statements.

The Senior Notes is subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

The movements of the Senior Notes during the Period and the year ended 31 December 2020 are set out below:

	RMB'000
At 1 January 2020 (Audited)	2,124,779
Interest charged during the year	114,429
Interest paid during the year	(116,313)
Exchange realignment	(137,336)
At 31 December 2020 and 1 January 2021 (Audited)	1,985,559
Interest charged during the Period	53,108
Interest paid during the Period	(54,606)
Exchange realignment	(19,384)
At 30 June 2021 (Unaudited)	1,964,677
Less: current portion	(19,621)
Non-current portion	1,945,056

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period and the year ended 31 December 2020 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	Tax losses recognised RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021 (Audited)	12,336	375,618	58,395	95,021	25,014	21,155	587,539
(Charged)/credited to profit or loss for the Period (note 8)	(6,830)	(55,784)	8,390	11,701	6,733	(7,600)	(43,390)
Charged to equity for the Period	-	-	-	-	(11,540)	-	(11,540)
Exchange realignment	-	(2,110)	-	(2,926)	(681)	(474)	(6,191)
At 30 June 2021 (Unaudited)	5,506	317,724	66,785	103,796	19,526	13,081	526,418
At 1 January 2020 (Audited)	7,796	277,527	34,891	65,338	-	21,529	407,081
Credited/(charged) to profit or loss for the year	4,540	96,597	23,504	28,907	(9,166)	(905)	143,477
Deferred tax credited to equity during the year	-	-	-	-	32,913	-	32,913
Exchange realignment	-	1,494	-	776	1,267	531	4,068
At 31 December 2020 (Audited)	12,336	375,618	58,395	95,021	25,014	21,155	587,539

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021 (Audited)	111	81,466	848,665	-	7,800	938,042
Credited to profit or loss for the Period (note 8)	(62)	(47,137) [#]	(13,276)	-	(3,729)	(64,204)
Exchange realignment	(2)	(275)	(26,654)	-	(57)	(26,988)
At 30 June 2021 (Unaudited)	47	34,054	808,735	-	4,014	846,850
At 1 January 2020 (Audited)	228	79,685	855,921	19,558	10,842	966,234
(Credited)/charged to profit or loss for the year	(116)	1,623 [#]	(28,925)	(19,069)	(3,148)	(49,635)
Exchange realignment	(1)	158	21,669	(489)	106	21,443
At 31 December 2020 (Audited)	111	81,466	848,665	-	7,800	938,042

[#] The amount represented a deferred tax provision of RMB21,205,000 (year ended 31 December 2020: RMB61,539,000) on the distributable profits of the Company's subsidiaries in mainland China after offsetting the realised deferred tax liabilities of RMB68,342,000 (year ended 31 December 2020: RMB59,916,000) arising from dividends declared by these subsidiaries to their foreign investors during the Period.

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27. SHARE CAPITAL

Shares

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Authorised: 10,000,000,000 (31 December 2020: 10,000,000,000) ordinary shares of 0.01 each in Hong Kong dollars ("HKD")	HKD100,000,000	HKD100,000,000
Issued and fully paid: 645,121,948 (31 December 2020: 644,433,102) ordinary shares of HKD0.01 each	HKD6,451,219	HKD6,444,331
Equivalent to	RMB5,516,000	RMB5,510,000

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

	Number of shares in issue	Share capital HKD'000	Equivalent to RMB'000
At 1 January 2020 (Audited)	643,325,824	6,433	5,500
Share options exercised (note (a))	1,107,278	11	10
At 31 December 2020 and 1 January 2021 (Audited)	644,433,102	6,444	5,510
Share options exercised (note (b))	688,846	7	6
At 30 June 2021 (Unaudited)	645,121,948	6,451	5,516

Notes:

- (a) During the year ended 31 December 2020, the subscription rights attaching to 1,107,278 share options were exercised at the subscription prices ranging from HKD2.53 to HKD25.75, resulting in the issue of 1,107,278 ordinary shares for a total cash consideration, before expenses, of HKD15,854,000 (equivalent to approximately RMB15,953,000).
- (b) During the Period, the subscription rights attaching to 688,846 share options were exercised at the subscription prices ranging from HKD2.53 to HKD29.25, resulting in the issue of 688,846 ordinary shares for a total cash consideration, before expenses, of HKD12,087,000 (equivalent to RMB10,022,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 28 to these interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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28. 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 “**2010 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 and the 2010 Share Option Scheme expired on 17 December 2020 and 24 November 2020, respectively.

Pursuant to the resolution of the annual general meeting of the Company held on 8 May 2020, a new share option scheme (the “**2020 Share Option Scheme**”) has been adopted and in effect, and the 2010 Share Option Scheme was terminated upon the 2020 Share Option Scheme becoming unconditional. Thereafter, no further options shall be offered under the 2010 Share Option Scheme but in all other respects the provisions of the 2010 Share Option Scheme shall remain in full force and effect and options granted thereunder prior to such termination shall continue to be valid and exercisable in accordance with their terms of issue. Subject to the terms of the 2020 Share Option Scheme, the 2020 Share Option Scheme shall be valid and effective for a period of 10 years commencing on 8 May 2020.

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HKD2.53. In respect of the 2020 Share Option Scheme, as same with the subscription price of options under the 2010 Share Option Scheme, the exercise price of the share options is determined by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

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28. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options

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

Six months ended 30 June 2021

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		2020 Share Option Scheme		Total number of options
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2021	2.53	57	30.68	17,020	31.88	12,729	29,806
Forfeited during the Period	2.53	-	38.69	(995)	31.88	(1,155)	(2,150)
Exercised during the Period	2.53	(26)	18.15	(663)	-	-	(689)
Expired during the Period	2.53	(31)	22.60	(4)	-	-	(35)
At 30 June 2021	2.53	-	30.71	15,358	31.88	11,574	26,932

Six months ended 30 June 2020

	Pre-IPO Share Option Scheme		2010 Share Option Scheme		Total number of options
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	
At 1 January 2020	2.53	303	31.07	21,894	22,197
Granted during the period	2.53	-	26.10	705	705
Forfeited during the period	2.53	(4)	32.28	(1,831)	(1,835)
Expired during the period	2.53	(31)	22.12	(6)	(37)
Cancelled during the period	2.53	-	49.15	(150)	(150)
Exercised during the period	2.53	(172)	16.93	(639)	(811)
At 30 June 2020	2.53	96	31.10	19,973	20,069

The weighted average share prices at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme and the 2010 Share Option Scheme during the Period were HKD33.61 per share (six months ended 30 June 2020: HKD31.54 per share) and HKD30.93 per share (six months ended 30 June 2020: HKD32.22 per share), respectively.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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28. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options (continued)

A total of 688,846 share options were exercised during the Period under the share option schemes, resulting in the issue of 688,846 ordinary shares of the Company and new share capital of HKD7,000 (equivalent to approximately RMB6,000) and share premium of HKD12,080,000 (equivalent to approximately RMB10,016,000) (before issue expenses). An amount of RMB2,903,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share option reserve of RMB6,038,000 related to the expired or forfeited shares that have been vested was transferred to retained profits during the Period (six months ended 30 June 2020: RMB109,000).

During the Period, the Group has recognised share option expense related to the share option schemes of RMB35,780,000 (six months ended 30 June 2020: RMB32,654,000) in total.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 39 and 40 of these interim condensed consolidated 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 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 PRC, 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.

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30. COMMITMENTS

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	5,277	4,957
Property, plant and equipment	9,745	6,663
	15,022	11,620

31. RELATED PARTY BALANCES AND TRANSACTIONS

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

(a) Related party transactions

The Group purchases finished goods from an associate, amounted to RMB75,115,481 (six months ended 30 June 2020: RMB115,714,000) in the Period. The transactions were conducted in accordance with mutually agreed terms.

(b) Outstanding balance with a related party

Details of the Group's prepayments and trade payable balance with its associate as at the end of the reporting period are disclosed in notes 18 and 20 to these interim condensed consolidated financial statements.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fees	3,200	2,382
Short-term employee benefits	46,724	31,768
Pension scheme contributions	716	381
Equity-settled share option expense	26,124	21,159
Termination benefits	-	1,745
Total compensation paid to key management personnel	76,764	57,435

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	75,156	91,345	75,156	91,345
– Warrants	29,639	38,022	29,639	38,022
Financial asset at fair value through profit or loss	442	–	442	–
Other non-current financial assets	318,375	386,363	318,375	386,363
	423,612	515,730	423,612	515,730
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	(7,363)	–	(7,363)	–
– The CCSs	(187,567)	(168,154)	(187,567)	(168,154)
– The CCIRSs	(386,000)	(516,429)	(386,000)	(516,429)
Senior notes	(1,964,677)	(1,985,559)	(2,006,733)	(2,048,825)
	(2,545,607)	(2,670,142)	(2,587,663)	(2,733,408)

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 lease liability (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

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32. 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, lease liabilities (non-current), and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for bonds receivables as at 30 June 2021 were assessed to be insignificant.
- (b) The financial assets at fair value through profit or loss included in the other non-current financial assets are measured using valuation technique of the discounted cash flow model using significant unobservable market inputs or the last transaction price method with market observable inputs.
- (c) The fair values of equity investments designed at fair value through other comprehensive income included in other non-current financial assets and the financial asset at fair value through profit or loss, are based on quoted market prices.
- (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 fair value of warrants is measured using valuation technique of binomial model using significant observable market input.
- (f) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the CCIRs and the CCSs, are measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the CCIRs and the CCSs were the same as their carrying amounts.
- (g) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of discounted cash flow model using significant unobservable market inputs.
- (h) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

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32. 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	7.27% to 7.42% (31 December 2020: 7.89% to 8.05%)	1% (31 December 2020: 1%) increase in discount rate would result in decrease in fair value by RMB17,000 (31 December 2020: RMB19,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in increase in fair value by RMB17,000 (31 December 2020: RMB19,000)
Other non-current financial assets – investment in ISM	Discounted cash flow model	Discount rate	3.59% to 3.66% (31 December 2020: 3.60% to 3.67%)	1% (31 December 2020: 1%) increase in discount rate would result in decrease in fair value by RMB61,000 (31 December 2020: RMB64,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in increase in fair value by RMB61,000 (31 December 2020: RMB64,000)
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – receive leg	0.14% to 0.97% (31 December 2020: 0.18% to 0.43%)	1% (31 December 2020: 1%) increase in discount rate would result in decrease in fair value by RMB434,000 (31 December 2020: RMB258,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in increase in fair value by RMB434,000 (31 December 2020: RMB258,000)

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – the CCSs (USD/RMB)	Discounted cash flow model	Discount rate – pay leg	2.56% to 2.79% (31 December 2020: 2.26% to 2.71%)	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB1,896,000 (31 December 2020: RMB1,998,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB1,897,000 (31 December 2020: RMB2,000,000)
Derivative financial instrument – the CCSs (USD/AUD)	Discounted cash flow model	Discount rate – receive leg	0.14% to 0.97% (31 December 2020: 0.18% to 0.43%)	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB1,000 (31 December 2020: RMB1,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB1,000 (31 December 2020: RMB8,000)
		Discount rate – pay leg	0.00% to 1.07% (31 December 2020: –0.02% to 0.45%)	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB29,000 (31 December 2020: RMB14,000)
				1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB29,000 (31 December 2020: RMB14,000)

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – The CCIRs	Discounted cash flow model	Discount Rate – Receive leg	0.122% to 0.124%	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB864,000 (31 December 2020: RMB1,711,000)
			(31 December 2020: 0.257% to 0.263%)	1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB838,000 (31 December 2020: RMB1,651,000)
		Discount Rate – Pay leg	1.247% to 1.273%	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB82,607,000 (31 December 2020: RMB107,569,000)
			(31 December 2020: 0.059% to 0.061%)	1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB89,476,000 (31 December 2020: RMB114,234,000)
Derivative financial instrument – early redemption option embedded in the senior notes	Discounted cash flow model	Discount Rate	3.24% to 3.30%	1% (31 December 2020: 1%) increase in discount rate would result in increase in fair value by RMB2,032,000 (31 December 2020: RMB2,212,000)
			(31 December 2020: 3.01% to 3.07%)	1% (31 December 2020: 1%) decrease in discount rate would result in decrease in fair value by RMB2,034,000 (31 December 2020: RMB2,215,000)

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

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

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2021 (Unaudited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	75,156	75,156
– Warrants	–	29,639	–	29,639
Financial asset at fair value through profit or loss	442	–	–	442
Other non-current financial assets	187,580	67,832	62,963	318,375
	188,022	97,471	138,119	423,612
At 31 December 2020 (Audited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	91,345	91,345
– Warrants	–	38,022	–	38,022
Other non-current financial assets	248,906	72,925	64,532	386,363
	248,906	110,947	155,877	515,730

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2020 are as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At 1 January	155,877	114,328
Additions	–	1,129
Total (losses)/gains recognised in profit or loss	(15,240)	47,903
Exchange realignment	(2,518)	(7,483)
At end of the Period/year	138,119	155,877

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

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 30 June 2021 (Unaudited)				
Derivative financial instruments				
– The CCIRs	–	–	386,000	386,000
– The CCSs	–	–	187,567	187,567
– Forward currency contracts	–	7,363	–	7,363
	–	7,363	573,567	580,930
At 31 December 2020 (Audited)				
Derivative financial instruments				
– The CCSs	–	–	168,154	168,154
– The CCIRs	–	–	516,429	516,429
	–	–	684,583	684,583

The movements in fair value measurements within Level 3 during the Period and for the year ended 31 December 2020 are as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At 1 January	684,583	121,329
Net cash settlement	(19,413)	(31,925)
Total losses charged in profit or loss	16,854	56,914
Total (gains)/losses charged in equity	(92,976)	521,285
Exchange realignment	(15,481)	16,980
At end of the Period/year	573,567	684,583

During the Period and the year ended 31 December 2020, 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.

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33. EVENTS AFTER THE REPORTING PERIOD

- On 13 July 2021, a total of 1,153,658 share options were granted under the 2020 Share Option Scheme. The share options shall vest in accordance with the relevant timetables with a 6-year exercise period at an exercise price of HKD31.02 per share.
- On 23 August 2021, the Group entered into an agreement for the acquisition of 100% equity interest in Zesty Paws, LLC (“Zesty Paws”). Zesty Paws, incorporated in the United States, is mainly engaged in the business of marketing and selling nutritional supplements for cats and dogs marketed under the brand Zesty Paws. The total purchase consideration for the acquisition is approximately USD610,000,000 (approximately to RMB3,963,000,000) (subject to adjustment), details of which are set out in the announcement of the Company dated 22 August 2021.

34. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2021.

TINEKE
MARKETING
MANAGER

ROCKY
H&H FAMILY



