

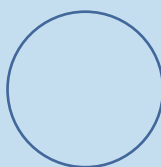
2023 INTERIM REPORT 中期報告



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)



BioStime

Swisse

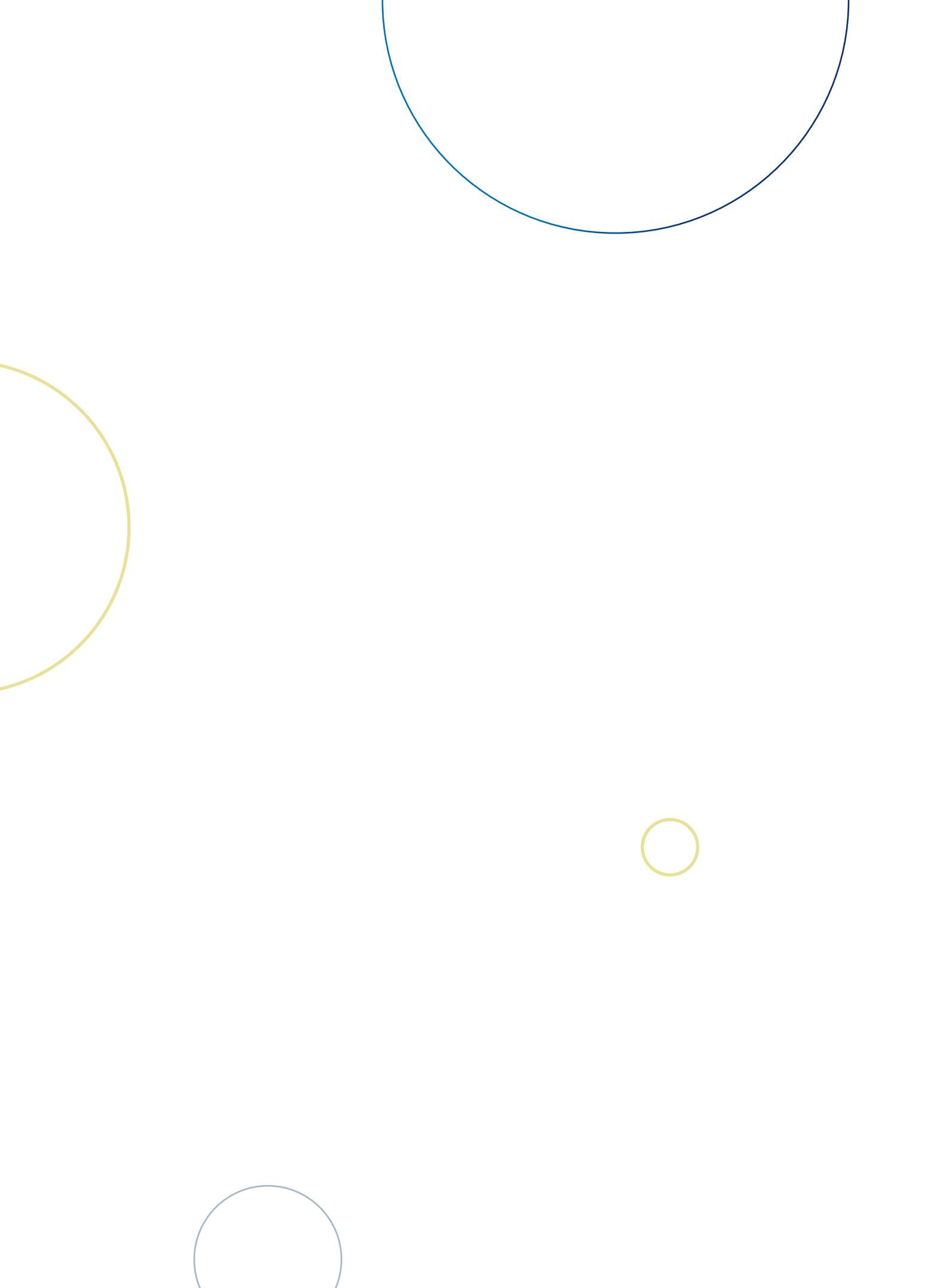
Zesty Paws

solidgold

dodie

GOÛT

AURELIA
LONDON



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Luo Fei (*Chairman*)
Mr. Wang Yidong

Non-executive Directors

Mrs. Laetitia Albertini
Dr. Zhang Wenhui
Mr. Luo Yun

Independent Non-executive Directors

Mr. Tan Wee Seng
Mrs. Lok Lau Yin Ching
Professor Ding Yuan

BOARD COMMITTEE

Audit Committee

Professor Ding Yuan (*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

Environmental, Social and Governance Committee

Mrs. Laetitia Albertini (*Chairman*)
Mr. Luo Fei
Mrs. Pascale Laborde (*Chief Sustainability Officer*)

COMPANY SECRETARY

Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Yang Wenyun

REGISTERED OFFICE

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

HEAD OFFICE

Suites 4007-09, 40/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 4007-09, 40/F, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

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

AUDITOR

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

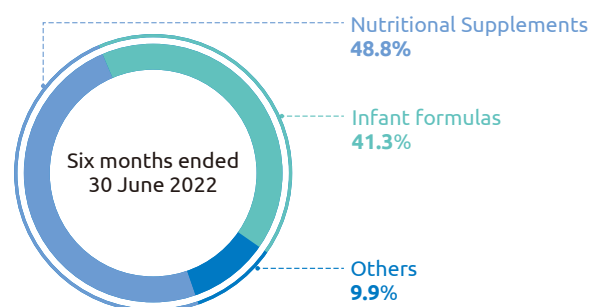
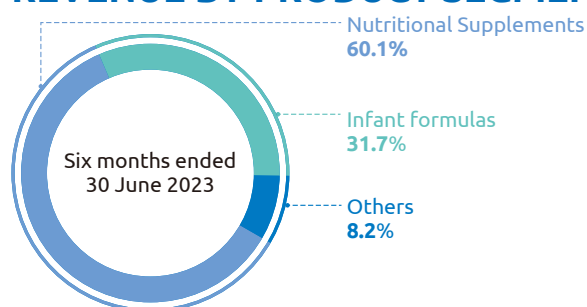
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2023 RMB million	2022 RMB million	
Revenue	6,980.8	5,955.4	17.2%
Gross profit	4,262.4	3,691.5	15.5%
EBITDA*	1,397.9	1,079.4	29.5%
Adjusted EBITDA*	1,309.5	1,056.1	24.0%
Adjusted EBITDA margin	18.8%	17.7%	1.1 pts
Net profit	608.0	475.1	28.0%
Adjusted net profit**	513.4	482.9	6.3%
Adjusted net profit margin	7.4%	8.1%	-0.7 pts

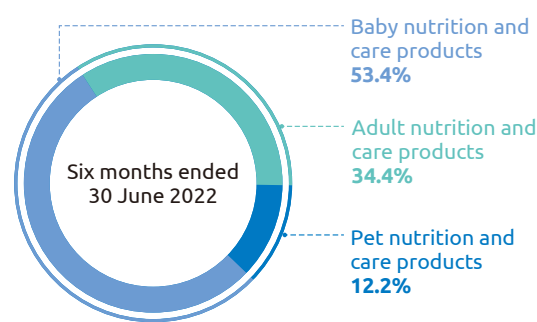
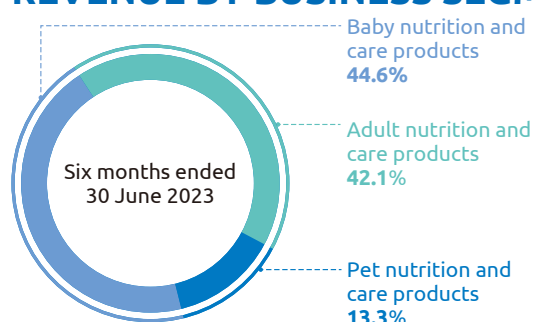
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB88.4 million for the six months ended 30 June 2023 (six months ended 30 June 2022: gains of RMB46.8 million) + Non-recurring gain of nil for the six months ended 30 June 2023 (six months ended 30 June 2022: losses of RMB23.5 million)

** Adjusted net profit = Net profit – EBITDA adjustment items of gains of RMB88.4 million for the six months ended 30 June 2023 (six months ended 30 June 2022: gains of RMB23.3 million) – Other non-cash gains of RMB6.2 million for the six months ended 30 June 2023 (six months ended 30 June 2022: losses of RMB31.1 million)

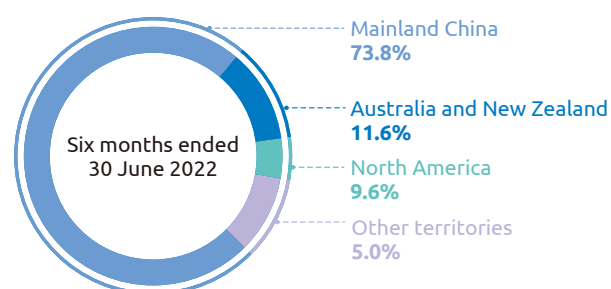
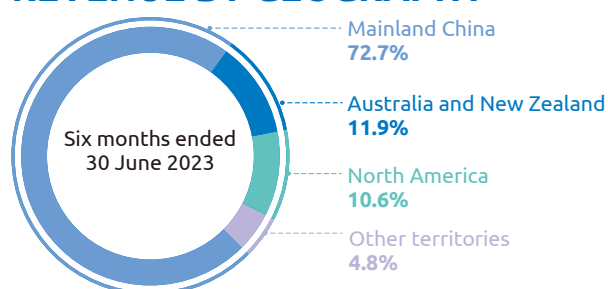
REVENUE BY PRODUCT SEGMENT



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 2023.

Our financial results were highly encouraging and set us up fully for delivering strong overall growth for the full year. Across the Group, we achieved double-digit top-line growth on a reported and like-for-like ("**LFL**")¹ basis and a positive EBITDA margin in each of our three strategic business pillars – Adult Nutrition and Care ("**ANC**"), Baby Nutrition and Care ("**BNC**") and Pet Nutrition and Care ("**PNC**") – once again delivering profitable growth through the three key objectives of Winning in Core, Globalisation and Diversification, and Investing in the Future.

In a few short months, we have passed several important milestones, taking further steps toward achieving our vision of becoming a global leader in premium family nutrition and wellness through superior products and aspirational brands.

The first milestone is related to our product mix. In the first half of 2023, revenue from high-margin and fast-growing nutritional supplements across all three of our ANC, BNC and PNC business segments² contributed to 60.1% of our total revenue. Our efforts to grow this part of our business will drive our margin growth well into the future.

The second is Swisse – our leading ANC brand – passing the AUD1 billion³ global sales milestone, a three-times sales increase⁴ since our acquisition in 2015. This growth was made possible by the Group's proactive expansion in mainland China, Australia and New Zealand ("**ANZ**") and other new markets, as well as utilising key partnerships, in line with our PPAAE (premium, proven, aspirational and engaging) model. Swisse also solidified its No. 1 position in the mainland China online market⁵ and Australia⁶, alongside wide recognition for its natural ingredients backed by science.

Investment in scientific research and product development led us to the third milestone: six of Biostime's infant milk formula ("**IMF**") series – Biostime Beta Star Shine, Biostime Pi-Star, Biostime Pi-Star Tianhe, Biostime Organic Milk (Healthy Times), Biostime Manle and Biostime Cute Betty Care Goat Milk – obtaining national certification under mainland China's new "GB standards" food safety framework, led by the State Administration for Market Regulation ("**SAMR**"), that came into effect in February 2023. These IMF series make up a super majority of our IMF sales in mainland China.

¹ LFL basis is used to indicate sales growth for the relevant period of this financial year compared with the same period of the previous financial year, excluding the impact from foreign exchange changes.

² Nutritional supplements include Swisse VHMS products, Biostime probiotic supplements, Biostime paediatric products and Solid Gold and Zesty Paws pet supplements.

³ Swisse, Total Net Revenue (Global), AUD, for the past twelve months as of 30 June 2023.

⁴ Swisse Global, net revenue increase from the twelve months ended 30 June 2015 (before acquisition by H&H) to the twelve months ended 31 December 2022.

⁵ According to research statistics by Early Data, an independent data provider, Swisse ranked No. 1 in the China online VHMS market with a market share of 7.9% for the twelve months ended 30 June 2023 as compared with 7.1% for the twelve months ended 30 June 2022.

⁶ Based on total market unit sales, according to research statistics by IQVIA, an independent research company, market share data for 2023 year to date 1 July 2023.

CHAIRMAN'S STATEMENT

Finally, I am pleased to share our success in issuing a new 3-year US\$200 million bond to refinance our outstanding bond which will mature in October 2024, ensuring that we retain a stable and sustainable capital structure while preserving our liquidity for operational and business development purposes. In addition, we successfully raised RMB500 million through a long-term loan agreement with China Construction Bank Corporation Guangzhou Development District Branch, taking advantage of relatively low onshore interest rates. All refinancing is well capitalised to meet debt obligations at the end of this year.

The successful refinancing keeps us on the steady path of reducing net leverage and effectively managing risk on our balance sheet. As of 30 June 2023, the Group maintained a healthy liquidity position with a cash balance of RMB2.14 billion, following the repayment of USD56.25 million of a 3-year term loan in June 2023 according to the amortization schedule, as we maintained a healthy level of cash conversion across our business. As a result, the Group's net leverage has further improved from 3.58x as of 31 December 2022 to 3.40x as of 30 June 2023. We remain on track to deleverage our balance sheet in the coming years and well-positioned to cope with greater exchange rate fluctuations and a higher interest rate environment, having earlier predominantly hedged these associated exposures with non-RMB denominated debt instruments until maturity through cross-currency swaps, interest rate swaps and natural hedges. The implied annualised interest expense margin⁷ (including the benefit of the above-mentioned hedges) was 6.46% for the six months ended 30 June 2023.

ADULT NUTRITION AND CARE

With Swisse surpassing the AUD1 billion sales milestone, our ANC segment is now our largest growth contributor, delivering 43.2% growth on a LFL basis in the first half of 2023. The growth was led by robust consumer demand for scientifically proven beauty, multi-vitamins and detox products in all core markets and new markets, as well as new innovative product launches such as Swisse Plus+ in mainland China and the new Swisse gummies range in Australia.

In mainland China, Swisse continued to outpace all other players in the category, delivering double-digit growth and profitability improvement. We saw growth across online and offline channels, including year-on-year sales volume growth of 50% during the 618 online shopping festival.

We stayed ahead of market growth and fortified our position as the No. 1 player in mainland China's online vitamin, herbal and mineral supplements ("VHMS") market, establishing dominance in innovative categories to drive further growth. Under the Swisse Plus+ range, Swisse Liver Cleanse has a No. 1 market share in the high-end thistle segment in mainland China⁸, while its NAD+ range is in the top three in its category. After its launch in the third quarter of 2022, Swisse Plus+ has grown to account for a high single-digit percentage of total ANC revenue in mainland China as we rapidly expanded our footprint across the country.

Sales in the normal trade channel, which accounted for 24.4% of total mainland China ANC revenue in the first half of 2023, went from strength to strength, growing by 102.1% year-on-year on an LFL basis. The rapid growth was supported by a more complete normal trade product portfolio, launches in innovative categories and effective brand marketing. As of 30 June 2023, 18 blue hats out of 74 Swisse SKUs in the normal trade channel were available at 52,504 normal retail touchpoints in mainland China, compared with 12 blue hats out of 47 Swisse SKUs available a year earlier.

⁷ The implied annualised interest expense margin is calculated by annualising the normalised interest expense including the benefit of hedge arrangements for the six months ended 30 June 2023, divided by the outstanding principal as of 30 June 2023 being converted to RMB with a consensus FX rates as the debts' drawdown dates.

⁸ According to research statistics by Early Data, an independent data provider, for the twelve months ended 30 June 2023, Swisse Plus+'s market share in the high-end thistles segment on the Alibaba, JD, VIP, Suning, Kaola and Amazon platforms.

CHAIRMAN'S STATEMENT

In ANZ, our second-largest market by revenue, we saw robust double-digit growth supported by our domestic and export channels. Swisse is the No. 1 player in the overall Australian VHMS market. This growth was delivered thanks to our strategic focus on the domestic market and new product launches, selective price increases across our portfolio, and the expanding contribution from innovative products including the Swisse gummies range that saw high double-digit revenue growth (reaching a No. 2 market share of 12.6%⁹). Swisse is currently the No. 1 brand across subcategories including Multivitamins, Beauty from Within, Detox and Muscle Support and Recovery and Sleep¹⁰.

In other territories, Hong Kong SAR and Singapore, our most profitable expansion markets, contributed solid double-digit growth, alongside strong growth momentum in our newer Asian expansion markets in Southeast Asia and India where we see very promising potential. We maintained our high market share rankings in several of these markets, including No. 1 and No. 2 rankings in the Singapore¹¹ and Italy¹² beauty VHMS markets, respectively.

BABY NUTRITION AND CARE

Amid strong market headwinds that are pressuring the performance of all IMF players in the mainland China market, the sales decline in our BNC segment was confined to low single digits. This was attributed to the strong performance of our paediatric probiotic and nutritional supplements business, partially offsetting a double-digit decline in IMF sales. However, the decline in IMF sales in the second quarter of 2023 was narrower than that in the first quarter as a result of our channel optimisation strategies amid increased competitive intensity across the IMF industry. Despite the systemic challenges facing the entire IMF industry in mainland China, we still achieved positive growth in the e-commerce channel.

Our paediatric probiotic and nutritional supplements business continued its long-term growth trend with 49.0% year-on-year growth, driven by higher consumer demand for paediatric nutritional supplements and the launch of new innovative products, including probiotic gummies, DHA and calcium which support the physical and mental well-being of children. This has solidified Biostime's status as the No. 1 paediatric nutritional supplement brand in mainland China¹³.

We are also engaging consumers outside of mainland China, especially in France where we continue to retain our No. 1 positions in the organic IMF category and the goat milk market category in pharmacy channels, with market shares of 43.3% and 41.1% respectively¹⁴.

⁹ According to research statistics by IQVIA, an independent research company, market share data for the 52 weeks period ended 1 July 2023.

¹⁰ According to research statistics by IQVIA, an independent research company, market share data for the 52 weeks period ended 1 July 2023.

¹¹ According to research statistics by Nielsen, an independent research company, market share data for the past twelve months as of 30 June 2023.

¹² According to research statistics by IMS IQVIA, an independent research company, market share data for the past twelve months as of 30 June 2023.

¹³ According to research statistics by Kantar Consumer Panel, an independent research company, market share data for the past twelve months as of 30 June 2023.

¹⁴ According to research statistics by GERS, an independent research company, market share data for the past twelve months as of 30 June 2023.

CHAIRMAN'S STATEMENT

PET NUTRITION AND CARE

Our PNC business hit its own milestone with Zesty Paws has been recognised as the No. 1 pet supplements brand in the US¹⁵, according to Euromonitor. This certification solidifies Zesty Paws' market leadership in both dollar and unit sales in the highly competitive pet supplement industry while reaffirming the brand's commitment to excellence and improving the health of pets worldwide through a science-based approach that leverages the Group's global research and development centres.

Overall PNC sales grew by strong double-digit growth on LFL basis during the first half of 2023 with both North America and mainland China markets seeing strong growth. Revenue in North America – now our third largest market and a major source of growth – expanded by 20.9% on a LFL basis, led by Zesty Paws, as we benefited from the increasingly well-established pet nutrition premiumization, the pet humanizing trends and a growing pet population. This growth was partially offset by the weaker growth of Solid Gold as a result of channel mix impact.

Zesty Paws ranked No. 1 in the overall US pet VMS market and overall e-commerce market with market shares of 11.4% and 12.2%, respectively¹⁶. Zesty Paws' nascent leadership in North America is being supported by a rapid expansion of its distribution network beyond Walmart, Target, PetSmart and independent pet stores into CVS and Tractor Supply to further increase its retail penetration and reach a broader consumer base. As a result, Zesty Paws' overall offline retail channel saw a strong retail scan sales growth and ranked No. 4 with a market share of 8.9%¹⁷.

In the first half of 2023, Solid Gold entered Walmart leveraging the synergetic benefits of the combined PNC business. Following the rapid offline expansion of both PNC brands in North America during the first half of 2023, Zesty Paws and Solid Gold are now present in more than 16,800 stores and 4,300 stores respectively across the United States.

Expansion in mainland China is also a key focus as we establish the Group as the world's leading health and nutrition company for dogs and cats, with Solid Gold maintaining its No. 2 position in mainland China's online premium cat dry food category¹⁸ mainly driven by innovative new products launch. Solid Gold sales in mainland China grew by a strong 21.6% on a LFL basis as we continued to tap increasing pet adoption rates, despite a temporary supply challenge in early 2023 that has now been resolved. We further improved our exposure to consumers in the online and offline markets, reaching more than 8,200 supermarkets, pet stores and pet hospitals in the offline market.

¹⁵ Euromonitor International Limited; Pet Supplements category as per Passport Ecommerce. All channels included, excluding vets, value sales in RSP, more info at <https://zestypaws.com/pages/claim>.

¹⁶ According to research statistics by Stackline and NielsenIQ Byzzer, independent research companies, market share data for the 52 weeks period ended 1 July 2023.

¹⁷ According to research statistics by NielsenIQ Byzzer, an independent research company, market share data for the 52 weeks period ended 1 July 2023.

¹⁸ According to research statistics by SmartPath, an independent research company, market share data for the past twelve months as of 30 June 2023.

OUTLOOK: POSITIVE GROWTH LED BY NUTRITIONAL SUPPLEMENTS

As we head into the second half of 2023, we remain fully committed to the growth, globalisation, and diversification of our ANC, BNC, and PNC businesses, winning in core by pursuing organic growth strategies in our stronghold markets and new markets.

We expect to maintain the solid growth rate of our ANC segment over the full year, driving growth through expansion and innovation. This is especially true in our core mainland China and ANZ markets where we will leverage our leading positions to expand market share. In mainland China, we intend to grow further in the cross-border e-commerce ("CBEC") market, deliver strong double-digit growth in the normal trade market and further develop Swisse's product portfolio – Swisse Core, Swisse Plus+, Swisse Me and Little Swisse to better capture demands for premium nutritional products from different groups of customers.

Within our BNC segment, we will focus on smoothly transitioning GB-approved IMF products into all of our channels following the successful GB approval of most of our series. However, achieving full-year growth in our BNC segment is becoming increasingly challenging given ongoing market headwinds. That said, these headwinds in our IMF business will continue to be partially offset by the strong performance of our probiotics and nutritional supplements segment will strengthen as we build on our No. 1 market share lead by growing our infant and kids range and expanding our market share in other supplements categories including DHA, calcium, and gummies.

We will actively grow our PNC segment by expanding Zesty Paws' leadership in North America, leveraging on the strength of its product superiority, particularly in the pet supplement category. We will build up the growth of Solid Gold by targeting the super-premium category and focusing on e-commerce and selective retail channels. We will expand our PNC business in mainland China with category-focused innovations, such as in the fish oil category while strengthening the leadership of Solid Gold by driving market share growth in the premium cat food category. We are also focused on global expansion with Zesty Paws set to expand its reach into new markets including mainland China, Canada, the United Kingdom, and Singapore.

In addition to these encouraging operational trends, we expect to see a continued gradual deleveraging trend in our gearing through to the end of the year. With our high cash-generating business model, we are also confident about our ability to further improve our balance sheet over the next two years.

SUSTAINABILITY: DRIVING OUR LONG-TERM GROWTH WITH IMPACT

In April 2023, we submitted our science-based greenhouse gas (GHG) emissions reduction targets to the internationally renowned Science-Based Targets initiative (SBTi). We have since launched our freight emissions reduction roadmap and are accompanying our various supply partners on the assessment and design of our GHG reduction trajectory to meet our targets.

In June 2023, we began implementing our Swisse vial packaging reduction project in Italy. Our new reduced-sized Swisse vials are expected to generate savings in plastic and carton usage, as well as in logistics costs and carbon emissions. In China, we launched the Swisse Recycle Plan where consumers are invited to give back their empty Swisse plastic vials and lids. Such plastic is then regenerated and given a second life.

Creating a strong and inclusive company culture that enables us to perform our best as a business also remained a strong focus during the first half of 2023. H&H's offices in Australia & New Zealand, the UK, France, and Italy all earned Great Place to Work certification for 2023, highlighting our success in promoting a positive workplace culture.

ACKNOWLEDGMENTS

Through all of the initiatives above, we are well on our way to reaching our vision to become a global leader in family nutrition and wellness. As we head into the second half of 2023, I am confident that we will continue to deliver for all our stakeholders, while helping people all around the world become healthier and happier. I thank you all for your support.

Luo Fei

Chairman

Hong Kong, 22 August 2023

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2023, the Group's revenue increased by 17.2% on reported basis or 16.3% on a like-for-like¹ ("LFL") basis to RMB6,980.8 million as compared with the same period in 2022, mainly driven by the strong growth of nutritional supplements. Revenue from high-margin and fast-growing nutrition supplements from all of the Group's three business segments achieved year-on-year growth of 42.8% on a LFL basis and contributed to 60.1% of the Group's total revenue for the six months ended 30 June 2023.

	Six months ended 30 June				2023 % to revenue	2022 % to revenue
	2023 RMB million	2022 RMB million	Reported Change	LFL Change		
Revenue by product segment						
Nutritional Supplements	4,192.3	2,904.6	44.3%	42.8%	60.1%	48.8%
– VHMS products	2,876.7	1,998.4	43.9%	43.5%	41.2%	33.6%
– Paediatric probiotic and nutritional supplements	743.6	499.1	49.0%	49.0%	10.7%	8.4%
– Pet supplements	572.0	407.1	40.5%	31.5%	8.2%	6.8%
Infant formulas	2,213.7	2,462.0	-10.1%	-10.1%	31.7%	41.3%
Others ²	574.8	588.8	-2.4%	-2.4%	8.2%	9.9%
Revenue by business segment						
Baby nutrition and care products	3,115.9	3,183.8	-2.1%	-2.1%	44.6%	53.4%
Adult nutrition and care products	2,938.2	2,046.4	43.6%	43.2%	42.1%	34.4%
Pet nutrition and care products	926.7	725.2	27.8%	21.4%	13.3%	12.2%
Revenue by geography						
Mainland China	5,076.1	4,394.6	15.5%	15.4%	72.7%	73.8%
ANZ	829.6	692.5	19.8%	19.4%	11.9%	11.6%
North America	736.5	571.0	29.0%	20.9%	10.6%	9.6%
Other territories	338.6	297.3	13.9%	13.7%	4.8%	5.0%
Total	6,980.8	5,955.4	17.2%	16.3%	100.0%	100.0%

¹ Like-for-like ("LFL") basis is used to indicate change of this period compared with same period of previous year, excluding the impact from foreign exchange changes.

² Others include pet food from Solid Gold, baby food and snacks from Good Goût, baby accessories from Dodie and other skincare products.

MANAGEMENT DISCUSSION AND ANALYSIS

Mainland China: Robust growth in ANC and healthy growth in PNC segment offsets decline in BNC segment

Revenue from mainland China amounted to RMB5,076.1 million for the six months ended 30 June 2023, representing an increase of 15.4% compared with the same period of last year on a LFL basis. The increase was mainly thanks to strong double-digit growth in ANC and PNC segment, which was partially offset by a low single-digit decrease in BNC segment. On reported basis, revenue from mainland China accounted for 72.7% of the Group's total revenue for the six months ended 30 June 2023, compared with 73.8% in the same period of last year.

Revenue from ANC segment in mainland China achieved strong double-digit growth of 55.9% on a LFL basis as compared with the same period of last year, and accounted for 66.6% of the Group's total ANC revenue for the six months ended 30 June 2023. The growth was mainly driven by the robust consumer demand for beauty, multi-vitamins and detox products, as well as the launch of innovative categories such as the Swisse Plus+ range. Revenue from the premium Swisse Plus+ range contributed to a high single-digit percentage of ANC revenue in mainland China market. For the six months ended 30 June 2023, normal trade sales continued to deliver robust year-on-year growth of 102.1% on a LFL basis, supported by the launch of more innovative categories, continued consumer education, and effective marketing. In the twelve months ended 30 June 2023, Swisse continued to maintain its No.1 position in mainland China's online VHMS market with a market share of 7.9%.

In BNC segment of mainland China, total revenue was RMB2,915.9 million for the six months ended 30 June 2023, decreasing slightly by 2.0% compared with the same period of last year. For the six months ended 30 June 2023, the revenue from IMF in mainland China recorded a year-on-year decline of 10.2% to RMB2,138.8 million, which was narrowed down since Q1 2023. The decrease was mainly resulted from (i) the systemic challenges faced by the entire IMF industry in mainland China. According to Nielsen, the over IMF sales in mainland China market declined by 12.7% for the six months ended 30 June 2023 as compared with the same period of last year; (ii) increased competitive intensity due to planned new 'GB standards' transition, and (iii) exit one unprofitable baby retail channel that did not meet the Group's target profitability requirements and the business invested and drove the growth in other channels where the Group continue to see profitable growth.

For the six months ended 30 June 2023, the Group recorded revenue from paediatric probiotic and nutritional supplements in mainland China of RMB735.7 million, increasing by 48.7% compared with the six months ended 30 June 2022, driven by the higher consumer demand for paediatric nutritional supplements and launch of new innovative products including probiotic gummies, DHA and calcium which support the physical and mental wellbeing of children. According to Kantar, Biostime is the No. 1 paediatric nutritional supplement brand in mainland China³.

Revenue from other paediatric products segment in mainland China, mainly sales of Dodie branded diaper, decreased by 58.5% to RMB41.5 million for the six months ended 30 June 2023 compared with the six months ended 30 June 2022. The decrease was mainly due to (i) the declined sales of overall mainland China market resulted from the declining birth rates and (ii) the Group's channel optimisation strategy of moving away from online to offline to drive continued profitability improvement.

Revenue from PNC segment in mainland China maintained a healthy growth of 21.9% on a LFL basis for the six months ended 30 June 2023 as compared with the same period of last year. The strong growth was mainly contributed by the increasing pet adoption rates and growing spending on premium pet nutrition. The Group further improved brand exposure to consumers in both the online and offline markets. Leveraging strong branding expertise online, Solid Gold ranked no. 2 in the premium cat dry food category with 13.6% share⁴. In the offline market, Solid Gold has entered more than 8,200 pet stores and pet hospitals in mainland China as of 30 June 2023. As of 30 June 2023, the Group has obtained 36 domestic product licenses in mainland China, which supported the growth in the normal trade channel.

³ According to research statistics by Kantar Consumer Panel, an independent research company, market share data for the period from 2 January 2021 to 31 December 2022.

⁴ Market share data from SmartPath for the last twelve months as of 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

ANZ: Double-digit growth year-on-year and increased market share in the domestic market

On a LFL basis, revenue from ANZ market segment increased by 19.4% year-on-year to AUD177.4 million for the six months ended 30 June 2023, contributing 11.9% of the Group's total revenue. This strong growth was driven by (i) leveraging growing demand for immune, beauty nutrition and general wellness-supporting products while continuing to strategically focus on the domestic market and new product launches; (ii) increasing contribution from innovative products, including gummies range which achieved high double-digit revenue growth and reached a No. 2 market share of 12.6%⁵. Swisse is currently the No. 1 player in the overall Australian VHMS market⁶.

North America: Continued strong growth along with expanded business both online and offline

For the six months ended 30 June 2023, revenue contributed from North America achieved strong growth of 20.9% year-on-year on a LFL basis, and accounted for 10.6% of the Group's total revenue. The strong growth was mainly driven by the increasingly well-established pet nutrition premiumization, the pet humanizing trends and growing pet population. This growth was partially offset by the weaker growth of Solid Gold as a result of channel mix impact.

Revenue of Zesty Paws achieved strong year-on-year growth of 30.1% on a LFL basis for the six months ended 30 June 2023. Zesty Paws has officially established itself as the category leader to become the No. 1 Brand of Pet Supplements in the USA⁷, according to Euromonitor. Revenue of Solid Gold recorded a slight decline of 2.6% on a LFL basis for the six months ended 30 June 2023 as compared with the same period of last year. In the first half of 2023, Solid Gold entered Walmart leveraging the synergetic benefits of the combined PNC business. Following the rapid offline expansion of both PNC brands in North America during the first half of 2023, Zesty Paws and Solid Gold are now present in more than 16,800 stores and 4,300 stores respectively across the United States, including major chains such as Walmart, Target, PetSmart, CVS, Tractor Supply and independent pet stores.

Other territories: Strong growth momentum continued in Asian expansion markets

Revenue contributed from other territories increased by 13.7% on a LFL basis for the six months ended 30 June 2023 as compared with the same period of last year. The increase was mainly attributed to robust growth in Asian markets including Hong Kong SAR, Southeast Asia, India and the Middle East. Revenue from Asian markets recorded a strong growth of 59.5% on a LFL basis in the first half of 2023 as compared with the same period of last year.

Gross profit and gross profit margin

In the first half of 2023, the Group recorded gross profit of RMB4,262.4 million, representing an increase of 15.5% as compared with the same period of last year. The Group's gross profit margin decreased from 62.0% in the first half of 2022 to 61.1% in the first half of 2023, mainly due to (i) the increased stock write-off and provision for the raw material of IMF products following the transition of new GB standards; (ii) the reclassification of certain costs of free gifts for BNC business in mainland China market from selling and distribution costs to cost of goods sold ("**COGS**") following a more precise way of classification according to respective purposes of usage; and (iii) the increasing sourcing costs, particularly in PNC segment. Various effective and timely supply chain optimisation measures helped to mitigate the impact of sourcing cost increase to a large extent.

⁵ According to research statistics by IQVIA, an independent research company, market share data for the 52 weeks period ended 1 July 2023.

⁶ Based on total market unit sales, sourced from IQVIA, market share data for 2023 year to date 1 July 2023 for the Australia Grocery and Pharmacy market.

⁷ Source Euromonitor International Limited; Pet Supplements category as per Passport Ecommerce. All channels included, excluding vets, value sales in RSP. For more information, see <https://zestypaws.com/pages/claim>.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margin of the ANC segment increased from 63.7% in the first half of 2022 to 67.0% in the first half of 2023, mainly resulting from (i) the favorable product mix towards higher revenue contribution from high-margin products such as Swisse Plus+ range; and (ii) the decreased stock write-off and provision owing to continued improvement in inventory management and demand planning.

The gross profit margin of the BNC segment decreased to 59.6% in the first half 2023 from 64.6% in the first half of 2022. The decrease was mainly due to (i) the one-off stock write-off and provision for the raw material and packaging material of IMF products following the transition of new GB standards; (ii) the reclassification of certain costs of free gifts in mainland China market from selling and distribution costs to COGS; and (iii) the increasing sourcing costs. The above decrease was partially offset by the favorable product mix impact towards higher revenue proportion from the higher-margin probiotic and nutrition supplements.

The gross profit margin of PNC segment increased to 47.0% in the first half of 2023 from 45.8% in the same period of last year. Excluding the impact on COGS of RMB23.5 million for the six months ended 30 June 2022 in relation to the one-time mark-to-market increase for the value of inventory in the acquisition of Zesty Paws, the gross profit margin of PNC segment decreased from 49.0% for the six months ended 30 June 2022 to 47.0% for the six months ended 30 June 2023. The decrease was mainly due to the phasing impact from the higher-cost stock purchased in last year and the first quarter of this year.

Other income and gains

Other income and gains amounted to RMB156.5 million for the six months ended 30 June 2023. Other income and gains primarily consisted of net foreign exchange gain of RMB49.3 million, net fair value gain on the derivative financial instruments of RMB29.3 million, gain on sales of raw materials of RMB22.8 million, government subsidies of RMB12.7 million, gain from the repurchase of senior notes of RMB13.9 million and others.

The net foreign exchange gain of RMB49.3 million mainly represented non-cash gain from the revaluation on intragroup loans. The non-cash fair value gain on the derivative financial instruments of RMB29.3 million was mainly caused by the fair value gain on the cross currency swap and cross currency interest rate swap agreements for the Group's long term debt.

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 8.8% to RMB2,538.7 million for the six months ended 30 June 2023, as compared with same period of 2022. Selling and distribution costs excluding D&A as a percentage of the Group's revenue decreased from 39.2% in the first half of 2022 to 36.4% in the first half of 2023 mainly thanks to the continuous efforts to drive spending efficiency in channel.

ANC

Selling and distribution costs of ANC business amounted to RMB1,092.2 million for the six months ended 30 June 2023, represented an increase of 32.3% 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 from 40.4% in the first half of 2022 to 37.2% in the first half of 2023, mainly driven by the continuous efforts to improve the spending efficiency.

Advertising and marketing expenses of ANC business as a percentage to the Group's ANC revenue decreased slightly from 30.1% in the first half of 2022 to 29.7% in the first half of 2023. The selling and distribution costs other than advertising and marketing expenses of ANC business as a percentage to its revenue decreased from 10.3% in the first half of 2022 to 7.5% in the first half of 2023 resulting from the continuing measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

BNC

Selling and distribution costs of BNC business amounted to RMB1,080.8 million for the six months ended 30 June 2023, represented a decrease of 13.8% 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 decreased from 39.4% in the first half of 2022 to 34.7% in the first half of 2023, thanks to the favorable product mix towards higher revenue contribution from high-margin probiotic and nutritional supplements. The decrease was also due to the phasing different of investments.

Advertising and marketing expenses of BNC business as a percentage of its revenue decreased from 11.3% in the first half of 2022 to 10.5% in the first half of 2023. Selling and distribution costs other than advertising and marketing expenses of BNC business as a percentage of revenue decreased to 24.2% in the first half of 2023 from 28.1% of the same period of last year mainly thanks to the continuous efforts to drive spending efficiency in channel.

PNC

Selling and distribution costs of PNC business increased by 43.2% to RMB365.6 million for the six months ended 30 June 2023, as compared with the same period of last year. Selling and distribution costs of PNC business as a percentage of its revenue increased from 35.2% for the six months ended 30 June 2022 to 39.5% for the same period of 2023, mainly due to the increased investment in channel expansion.

Advertising and marketing expenses of PNC business as percentages of its revenue increased from 12.4% for the six months ended 30 June 2022 to 13.7% for the six months ended 30 June 2023. The selling and distribution costs other than advertising and marketing expenses of PNC business as a percentage to its revenue increased from 22.8% in the first half of 2022 to 25.8% in the first half of 2023. The increase was mainly due to the investment to support channel expansion in both mainland China and North America markets.

Administrative expenses

Administrative expenses increased by 31.0% from RMB314.9 million for the six months ended 30 June 2022 to RMB412.4 million for the six months ended 30 June 2023. Administrative expenses as a percentage of the Group's revenue increased slightly from 5.3% in the first half of 2022 to 5.9% in the first half of 2023 mainly resulted from the increase in performance-related bonuses and increased travelling expenses post travel restriction during COVID pandemic.

Other expenses

Other expenses for the six months ended 30 June 2023 amounted to RMB104.1 million. Other expenses mainly included research and development ("R&D") expenditure of RMB84.9 million and others.

During the period under review, R&D expenditure increased by 23.9% as compared with the same period of last year attributable to the Group's determination for continued investment in product innovation. R&D expenditure as a percentage of the Group's revenue maintained stable at 1.2% for the six months end 30 June 2022 and 2023.

EBITDA and Adjusted EBITDA

Adjusted EBITDA increased by 24.0% to RMB1,309.5 million for the six months ended 30 June 2023, comparing with the six months ended 30 June 2022. Adjusted EBITDA margin for the first half of 2023 increased from 17.7% for the six months ended 30 June 2022 to 18.8% for the same period of 2023. The increase in Adjusted EBITDA margin was mainly driven by the favorable product mix towards higher revenue contribution from high-margin nutritional supplements and the continuous efforts to drive spending efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

EBITDA for the six months ended 30 June 2023 amounted to RMB1,397.9 million, increased by 29.5% from RMB1,079.4 million for the six months ended 30 June 2022.

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	
	2023 RMB million	2022 RMB million
EBITDA	1,397.9	1,079.4
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange gains	(49.3)	(15.5)
(2) Net fair value gains on financial instruments	(25.2)	(31.3)
(3) One-time gain from the repurchase of senior notes	(13.9)	–
Non-recurring items*:		
(4) Impact on COGS in relation to the one-time mark-to-market increase for the value of inventory in the acquisition of Zesty Paws	–	23.5
Adjusted EBITDA	1,309.5	1,056.1

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

Finance costs

During the six months ended 30 June 2023, the Group's finance costs increased by 41.9% to RMB358.0 million compared with the same period of 2022. The finance costs for the six months ended 30 June 2023 included interests for the interest-bearing bank loans and senior notes of RMB361.3 million. As the Group has entered into certain cross currency swaps and cross currency interest rate swaps to hedge its interest rate risk and foreign currency risk, respectively, the normalized interests⁸ for the interest-bearing bank loans and senior notes was RMB314.3 million for the six months ended 30 June 2023.

The interests for the interest-bearing bank loans and senior notes for the six months ended 30 June 2023 increased by 65.7% compared with the same period of last year mainly due to the increased base rate following the US Federal Reserve's rate hike and the depreciation of RMB against USD. The finance costs for the six months ended 30 June 2023 also included the one-off transaction costs net of gain on exchange of senior notes of RMB28.3 million, which was offset by the non-recurring amortized gain of RMB34.5 million in relation to the interest rate swap for previous term loan.

Following the hedging agreements entered by the Group in July 2023, the coupon of the new senior notes due 2026 has been hedged at a lower rate. The Group will further manage its cost of debt through certain liquidity measures.

Income tax expense

Income tax expense increased from RMB206.3 million for the six months ended 30 June 2022 to RMB295.1 million for the six months ended 30 June 2023. The effective tax rate increased from 30.3% in the first half of 2022 to 32.7% in the first half of 2023, mainly due to the increase in non-deductible interest of the interest-bearing bank loans and senior notes.

⁸ Normalized interest represents the gross interest expenses plus the net gains or losses from the interest settlement of all hedging agreements.

MANAGEMENT DISCUSSION AND ANALYSIS

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	
	2023	2022
	RMB million	RMB million
Net profit	608.0	475.1
Reconciled by:		
EBITDA adjusted items as listed above	(88.4)	(23.3)
Non-cash items*:		
One-off transaction costs, net of gain on exchange of senior notes	28.3	–
One-off write-off of unamortized transaction costs upon refinancing for the loan facilities	–	31.1
One-off amortized gain of interest rate swap for previous term loan	(34.5)	–
Adjusted net profit	513.4	482.9

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the six months ended 30 June 2023, the Group recorded net cash generated from operating activities of RMB22.1 million, resulting from pre-tax cash from operations of RMB359.7 million, minus income tax paid of RMB337.6 million.

Investing activities

For the six months ended 30 June 2023, net cash flows used in investing activities amounted to RMB19.3 million, primarily resulted from purchases of property, plant and equipment and intangible assets of RMB47.2 million, partially offsetting by interest received of RMB13.5 million, the proceed from disposal of items of property, plant and equipment, intangible assets and certain financial assets of RMB8.4 million, and the increase in time deposits of RMB6.0 million.

Financing activities

For the six months ended 30 June 2023, net cash flows used in financing activities amounted to RMB205.7 million, primarily related to the repayment of interest-bearing bank loans of RMB406.6 million, the interest paid for interest-bearing bank loans and senior notes of RMB348.3 million, the partial purchase of senior notes of RMB283.7 million, the transaction costs in relation to the exchange and issuance of the senior notes of RMB70.2 million, and the payment of lease liabilities of RMB18.4 million. The above cash outflows were partially offset by the proceed from a new bank loan of RMB500 million, and the net proceed from issuance of senior notes of RMB408.0 million.

Cash and bank balances

As of 30 June 2023, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,137.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest-bearing bank loans and senior notes

As of 30 June 2023, the Group's outstanding interest-bearing bank loans amounted to RMB8,070.6 million, including current portion of RMB1,447.6 million. The total carrying amount of the senior notes was RMB2,022.3 million, including current portion of RMB20.8 million.

As of 30 June 2023, the net leverage ratio decreased from 3.87 as of 30 June 2022 to 3.40⁹. Gearing ratio increased slightly from 47.0% as of 30 June 2022 to 47.2% as of 30 June 2023, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing bank loans by total assets.

Working capital

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

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables maintained stable at 22 days for the six months ended 30 June 2022 and 2023. The average turnover days of trade payables increased from 67 days for the six months ended 30 June 2022 to 77 days for the six months ended 30 June 2023, mainly due to the different cut-off days.

The inventory turnover days increased from 159 days for the six months ended 30 June 2022 to 174 days for the six months ended 30 June 2023. The inventory turnover days of ANC products increased from 143 days for the six months ended 30 June 2022 to 157 days for the six months ended 30 June 2023. The increase was mainly due to the higher safety stock built up to support the strong sales growth of ANC products. The inventory turnover days of BNC products increased slightly from 175 days for the six months ended 30 June 2022 to 176 days for the six months ended 30 June 2023. The inventory turnover days of BNC products was still at a high level mainly resulting from the higher safety stock built up ahead of the launch of IMF products under new GB standards in the second half of 2023. The inventory turnover days of PNC products increased from 143 days for the six months ended 30 June 2022 to 205 days for the six months ended 30 June 2023. The increase was mainly due to the higher safety stock built to ensure business continuity.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

As part of its strategy to optimize the capital structure, the Company has been in discussion and negotiation with Bank of Beijing Shenzhen Branch (the "**Bank**") for obtaining a line of credit from the Bank. The Company is pleased to announce that it has been informed by the Bank that it has completed its internal approval procedures for granting a line of credit (the "**Credit Facility**") with a maximum principal amount of RMB300,000,000 for a term of 2 years to Health and Happiness (H&H) China Limited, which is one of the subsidiaries of the Company, on 21 August 2023. No definitive legally binding agreement in respect of the Credit Facility has been entered into as of the date of this report. The Credit Facility may or may not materialize in full or at all.

⁹ Net leverage ratio as of 30 June 2023 is calculated with the outstanding principal of debt instruments being converted to RMB with a consensus FX rates as the debts' drawdown dates, minus cash and cash equivalents and restricted deposits. Net leverage ratio as of 30 June 2022 is calculated by dividing the carrying amount of net debts by pro forma Adjusted EBITDA for the last twelve months ended 30 June 2022, consolidating Zesty Paws' Adjusted EBITDA since 1 July 2021. On reported basis, the net leverage ratio decreased from 3.93 as of 30 June 2022 to 3.57 as of 30 June 2023, calculated by dividing the carrying amount of net debts by accumulated Adjusted EBITDA for the last twelve months ended 30 June 2022 and 2023.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company has complied with all the code provisions contained in the CG Code for the six months ended 30 June 2023.

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 2023.

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 2023.

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, Professor Ding Yuan, 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. Professor Ding Yuan, 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 amended with effect from 30 December 2022 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 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 the collection and administration of the human resources data and for 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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The environmental, social and governance committee of the Board ("**ESG Committee**") was established on 29 August 2022 with a set of written terms of reference. The ESG Committee consists of three members, namely, Mrs. Laetitia Albertini, the non-executive Director, Mr. Luo Fei, the executive Director, and Mrs. Pascale Laborde (Chief Sustainability Officer). Mrs. Laetitia Albertini was appointed as the chairman of the ESG Committee.

The purpose of the establishment of the ESG Committee is to better position our Group for management of sustainability issues and enhance quality of disclosure in relation thereto. The ESG Committee is responsible for:

- (a) assisting the Board to oversee, review and make recommendations to the Board on the establishment and development of the Group's vision, objectives, targets and strategies on sustainability;
- (b) developing, reviewing and overseeing the implementation of the sustainability policies and procedures of the Group on their effectiveness and make recommendations to the Board;
- (c) identifying the relevant sustainability issues and relevant circumstances that significantly affect the operations of the Group and/or the interest of other important stakeholders;
- (d) reviewing major trends in sustainability and related risks and opportunities for alignment of the Group's position and performance on the sustainability issues are aligned with relevant requirements and standards, and make recommendations to the Board;
- (e) properly managing the risks associated with the sustainable development of the Group; and
- (f) supporting and working with the sustainability working group of the Group to improve the quality of sustainability information disclosure.

EXECUTIVE COMMITTEE

The executive committee of the Board (the "**Executive Committee**") was established on 17 September 2020 which comprises three members, namely, Mr. Luo Fei (the executive Director, Chairman of the Executive Committee), Mr. Wang Yidong, the executive director, and Mr. Akash Bedi, the acting Chief Executive Officer.

According to its terms of reference, the Executive Committee has the authority to exercise the powers of the Board in the management of the business and affairs of the Company, provided that certain matters are reserved for the Board's approval, including but not limited to the declaration of dividends, issuance of securities, transactions contemplated under Chapter 14 and Chapter 14A of the Listing Rules and disclosure of inside information, etc.

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 2023, the Company attended 11 investors' conferences and roadshows and approximately 300 individual and group meetings with analysts, institutional investors and fund managers. The investors' conferences and roadshows attended by the Company during the six months ended 30 June 2023 are summarized as follows:

Date	Event	Organizer	Location
Jan-23	Morgan Stanley Virtual China Opportunity Conference	Morgan Stanley	Virtual
Jan-23	Citi China Consumer Corporate Day	Citi	Virtual
Jan-23	UBS Greater China Conference	UBS	Virtual
Mar-23	Post Annual Results Non-deal Roadshow	Citi/CLSA	Hong Kong
Mar-23	Post Annual Results Non-deal Roadshow	Morgan Stanley	Singapore
Apr-23	Post Annual Results Non-deal Roadshow	Goldman Sachs	London
May-23	Morgan Stanley China Summit	Morgan Stanley	Hong Kong
Jun-23	Goldman Sachs Greater China Consumer & Leisure Corporate Day	Goldman Sachs	Virtual
Jun-23	Consumption Recovery Salon	CMS	Beijing
Jun-23	UBS Asian Consumer, Gaming & Leisure Conference	UBS	Virtual
Jun-23	2023 Interim Capital Market Summit	Guosheng Securities	Changsha

The last shareholders' meeting was the annual general meeting held on 12 May 2023 at Suites 4007-09, 40/F, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong for approval of, among others, the general mandates to issue and repurchase shares of the Company, the re-appointment of auditors, the re-election of Directors, the declaration of a final dividend and the approval and adoption of the amended and restated articles of association of the Company. All proposed ordinary resolutions were passed by way of poll at the meeting.

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023.

The interim condensed consolidated financial statements for the six months ended 30 June 2023 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

During the six months ended 30 June 2023, with a view to reducing financing cost and optimising capital structure, the Company has in aggregate repurchased on market USD30,362,000 in principal amount of the 5.625% senior notes due 2024, representing approximately 11.2% of the outstanding principal amount of the 5.625% senior notes due 2024. The Company also repurchased on market USD11,350,000 in principal amount of the 13.5% senior notes due 2026, representing approximately 5.7% of the outstanding principal amount of the 13.5% senior notes due 2026.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

SHARE OPTION SCHEMES

The Company 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. As of 30 June 2023, there are two existing share option schemes valid and their details are as follows:

2020 Share Option Scheme

A share option scheme (the "2020 Share Option Scheme") of the Company was conditionally approved by resolutions of the shareholders of the Company on 8 May 2020 and the terms of such Share Option Scheme are disclosed in the circular of the Company dated 3 April 2020. Save as disclosed in the annual report of the Group for the year ended 31 December 2021, no other valuation on share options ("Share Options") granted under the 2020 Share Option Scheme was made for the six months ended 30 June 2023.

Particulars and movements of Share Options under the 2020 Share Option Scheme during the six months ended 30 June 2023 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 1 January 2023	Granted during the six months ended 30 June 2023	Exercised during the six months ended 30 June 2023	Lapsed during the six months ended 30 June 2023	Cancelled during the six months ended 30 June 2023	Outstanding as at 30 June 2023
Directors								
Mrs. Laetitia Albertini	30/11/2020	31.88	1,219,771	-	-	(705,070)	-	514,701
Mr. Wang Yidong	30/11/2020	31.88	908,113	-	-	(296,446)	-	611,667
Sub-total			2,127,884	-	-	(1,001,516)	-	1,126,368
Employees and others								
	30/11/2020	31.88	4,749,423	-	-	(1,653,845)	-	3,095,578
	13/07/2021	31.02	871,855	-	-	(289,745)	-	582,110
Sub-total			5,621,278	-	-	(1,943,590)	-	3,677,688
Total			7,749,162	-	-	(2,945,106)	-	4,804,056

No Share Options granted under 2020 Share Option Scheme were exercised and cancelled during the six months ended 30 June 2023.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2020 Share Option Scheme (continued)

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

All 1,153,658 Shares Options granted on 13 July 2021 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	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 Share Options available for grant under the 2020 Share Option Scheme mandate as at 1 January 2023 and 30 June 2023 were 56,656,324, and 59,601,430, respectively.

The total number of shares available for issue in respect of Share Options granted under the 2020 Share Option Scheme as at 30 June 2023 was 4,804,056, representing approximately 0.74% of the Company’s issued share capital as at 30 June 2023.

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 2021, 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 six months ended 30 June 2023 by category of Grantees were as follows:

Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share (HKD)	Outstanding as at 1 January 2023	Number of Share Options				Outstanding as at 30 June 2023
				Granted during the six months ended 30 June 2023	Exercised during the six months ended 30 June 2023	Lapsed during the six months ended 30 June 2023	Cancelled during the six months ended 30 June 2023	
Directors								
Mr. Tan Wee Seng	19/04/2017	25.75	150,000	-	-	-	-	150,000
	25/03/2020	26.10	150,000	-	-	-	-	150,000
Mrs. Lok Lau Yin Ching	25/03/2020	26.10	100,000	-	-	-	-	100,000
Mr. Luo Fei	24/08/2017	29.25	493,002	-	-	-	-	493,002
Mrs. Laetitia Albertini	24/08/2017	29.25	378,326	-	-	-	-	378,326
Mr. Wang Yidong	03/05/2016	21.05	90,578	-	-	-	-	90,578
	24/08/2017	29.25	378,326	-	-	-	-	378,326
Sub-total			1,740,232	-	-	-	-	1,740,232
Employees and others								
	29/12/2015	15.58	810,972	-	-	(86,248)	-	724,724
	30/09/2016	20.92	45,052	-	-	(4,071)	-	40,981
	23/12/2016	23.30	63,368	-	-	(12,475)	-	50,893
	19/04/2017	25.75	292,468	-	-	(43,991)	-	248,477
	07/07/2017	22.15	44,194	-	-	(1,550)	-	42,644
	24/08/2017	29.25	2,785,033	-	-	(233,532)	-	2,551,501
	05/12/2017	47.10	39,662	-	-	(6,925)	-	32,737
	20/04/2018	60.02	116,873	-	-	-	-	116,873
	26/07/2018	59.05	147,060	-	-	-	-	147,060
	28/09/2018	47.27	39,061	-	-	(5,165)	-	33,896
	29/03/2019	49.15	413,722	-	-	-	-	413,722
	09/07/2019	45.79	81,323	-	-	-	-	81,323
	25/03/2020	26.10	100,000	-	-	-	-	100,000
Sub-total			4,978,788	-	-	(393,957)	-	4,584,831
Total			6,719,020	-	-	(393,957)	-	6,325,063

No Share Options granted under 2010 Share Option Scheme were exercised and cancelled during the six months ended 30 June 2023.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEMES (CONTINUED)

2010 Share Option Scheme (continued)

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

Since the 2010 Share Option Scheme was terminated with effect from 8 May 2020, the total number of shares that may be issued in respect of Share Options granted under the 2010 Share Option Scheme as at 30 June 2023 was the same as the number of outstanding Share Options, i.e. 6,325,063, representing approximately 0.98% of the Company's issued share capital as at 30 June 2023.

2022 SHARE AWARD SCHEME

The Board adopted a share award scheme (the "**2022 Share Award Scheme**") on 11 January 2022. The purposes of the 2022 Share Award Scheme are to recognize the contributions by certain employees of the Group, to recognize the contributions by certain eligible participant(s) and to give incentives thereto in order to retain and motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group, by providing them with the opportunity to acquire equity interests in the Company.

The Board may from time to time at its absolute discretion select any eligible participant(s), i.e. any bona fide employee of the Company or of any subsidiary, for participation in the 2022 Share Award Scheme as selected participant(s) (the "**Selected Participant**"). Subject to the limit on the size of the 2022 Share Award Scheme as set out below, the Board shall (a) determine the number of awarded shares be granted pursuant to any award under the 2022 Share Award Scheme, or (b) instruct the trustee to allocate returned shares ("**Returned Shares**"), i.e. awarded shares which are not vested and/or forfeited in accordance with the terms of the 2022 Share Award Scheme, or such Shares being deemed to be Returned Shares in accordance with the terms of the 2022 Share Award Scheme, as awarded shares to any Selected Participant(s).

Awarded shares may be acquired by the trustee by way of (i) allotment and issue of new Shares by the Company pursuant to the relevant general mandate or specific mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time; or (ii) purchase of Shares in the open market by the trustee.

Such awarded shares shall then be held by the trustee for the Selected Participants in accordance with the provisions of the 2022 Share Award Scheme prior to vesting. The trustee shall not exercise any voting rights in respect of any Shares held under the trust (including but not limited to awarded shares, Returned Shares, any bonus Shares and scrip Shares).

The Trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Participants in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which will result in the number of Shares administered under the 2022 Share Award Scheme to exceed in total 10% of the Company's issued share capital as at the adoption date. Unless approved by the shareholders of the Company in a general meeting, the maximum number of awarded shares which may be subject to an award or awards made to a single Selected Participant at any time shall not in aggregate exceed 1.0% of the issued share capital of the Company as at the adoption date.

Subject to any early termination as may be determined by the Board, the 2022 Share Award Scheme shall be valid and effective for a term of ten years commencing on the adoption date of the same.

Details of the 2022 Share Award Scheme are set out in the Company's announcement dated 11 January 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION

2022 SHARE AWARD SCHEME (CONTINUED)

Particulars and movements of awarded shares under the 2022 Share Award Scheme during six months ended 30 June 2023 by category of Grantees were as follows:

Category of Grantees	Date of grant	Number of Awarded Shares				Outstanding as at 30 June 2023
		Outstanding as at 1 January 2023	Granted during the six months ended 30 June 2023	Vested during the six months ended 30 June 2023	Lapsed during the six months ended 30 June 2023	
Directors						
Mrs. Laetitia Albertini	08/04/2022	566,426	-	(566,426)	-	-
Mr. Wang Yidong	08/04/2022	793,845	-	(238,153)	-	555,692
Mr. Tan Wee Seng	08/04/2022	120,000	-	(36,000)	-	84,000
Mrs. Lok Lau Yin Ching	08/04/2022	120,000	-	(36,000)	-	84,000
Sub-total		1,600,271	-	(876,579)	-	723,692
Employees and others						
	08/04/2022	2,730,936	-	(844,478)	(240,450)	1,646,008
	14/12/2022	259,000	-	-	-	259,000
Sub-total		2,989,936	-	(844,478)	(240,450)	1,905,008
Total		4,590,207	-	(1,721,057)⁽¹⁾	(240,450)	2,628,700

Note:

- The weighted average closing price of these shares immediately before the dates on which the relevant award shares were vested is HKD13.14.

All 6,205,102 awarded shares granted on 8 April 2022 shall vest in accordance with the following schedule:

Vesting Date	Percentage of Share Awards to be vested
1 April 2023	30% of the total number of Share Awards granted
1 April 2024	30% of the total number of Share Awards granted
1 April 2025	40% of the total number of Share Awards granted

All 259,000 awarded shares granted on 14 December 2022 shall vest in accordance with the following schedule:

Vesting Date	Number of Share Awards to be vested
1 April 2024	111,000 Shares
1 April 2025	148,000 Shares

The total number of awarded shares available for grant under the 2022 Share Award Scheme mandate as at 1 January 2023 and 30 June 2023 were 59,930,898*, and 60,171,348, respectively.

The total number of shares available for issue under the 2022 Share Award Scheme as at 30 June 2023 was 57,808,894, representing approximately 8.95% of the Company's issued share capital as at 30 June 2023.

The number of shares that may be issued in respect of options and awards granted under all schemes of the Company during the six months ended 30 June 2023 divided by the weighted average number of shares of the relevant class in issue for the six months ended 30 June 2023 was nil.

* Included 1,873,895 shares lapsed during 12 month ended 31 December 2022.

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 2023, 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 5)
Mr. 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)	66.92%
Mrs. Laetitia Albertini	Beneficial owner	Long position	1,225,367 (Note 1)	0.19%
	Beneficial owner	Long position	893,027 (Note 2)	0.14%
Mr. Wang Yidong	Beneficial owner	Long position	402,317 (Note 1)	0.06%
	Beneficial owner	Long position	1,080,571 (Note 2)	0.17%
	Beneficial owner	Long position	555,692 (Note 4)	0.09%
Mr. Luo Yun	Beneficiary of a trust (other than a discretionary interest)	Long position	432,000,000 (Note 3)	66.92%
Mr. Tan Wee Seng	Beneficial owner	Long position	96,000 (Note 1)	0.01%
	Beneficial owner	Long position	300,000 (Note 2)	0.05%
	Beneficial owner	Long position	84,000 (Note 4)	0.01%
Mrs. Lok Lau Yin Ching	Beneficial owner	Long position	36,000 (Note 1)	0.01%
	Beneficial owner	Long position	100,000 (Note 2)	0.02%
	Beneficial owner	Long position	84,000 (Note 4)	0.01%

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 Option Scheme and/or the 2010 Share Option Scheme.

Note 3: As at 30 June 2023, 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 100% by Flying Company Limited, and therefore, Coliving Limited is deemed to be controlled by Flying Company Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. As from 7 April 2022, Sailing Group Limited no longer held shares in Coliving Limited which is deemed to be interested in the Company's shares held by Biostime Pharmaceuticals (China) Limited. Mr. Luo Yun ceased to be interested in the shares as a founder of the relevant trust, but continued to be interested in the same shares in the capacity of a beneficiary of another trust which is indirectly interested in the relevant shares of the Company.

Note 4: These are awarded shares granted by the Company under the 2022 Share Award Scheme.

Note 5: As at 30 June 2023, the total number of the issued shares of the Company was 645,561,354.

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 2023.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 30 June 2023, 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	66.92%
Flying Company Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.92%
Coliving Limited (Note 1)	Interest in a controlled corporation	Long position	432,000,000	66.92%
UBS Trustees (BVI) Limited (Note 1)	Trustee	Long position	432,000,000	66.92%
Templeton Asset Management Ltd.	Investment manager	Long position	32,474,620	5.03%
HSBC Holdings plc	Trustee	Long position	247,302,043	38.31%
	Interest in a controlled corporation	Long position	18,750	0.003%
	Custodian	Long position	4,464,500	0.69%

Note 1: As at 30 June 2023, 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 100% by Flying Company Limited, and therefore, Coliving Limited is deemed to be controlled by Flying Company Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor (“**Mr. Luo Fei’s Family Trust**”) and Mr. Luo Yun as the settlor (“**Mr. Luo Yun’s Family Trust**”), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr Luo Fei’s Family Trust and Mr. Luo Yun’s Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei’s Family Trust and Mr. Luo Yun’s Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. As from 7 April 2022, Sailing Group Limited no longer held shares in Coliving Limited which is deemed to be interested in the Company’s shares held by Biostime Pharmaceuticals (China) Limited. Mr. Luo Yun ceased to be interested in the shares as a founder of the relevant trust, but continued to be interested in the same shares in the capacity of a beneficiary of another trust which is indirectly interested in the relevant shares of the Company.

Note 2: As at 30 June 2023, the total number of the issued shares of the Company was 645,561,354.

Save as mentioned above, as at 30 June 2023, the Company had not been notified by any other person (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(2) of the Listing Rules, the changes in the information of the Directors of the Company subsequent to the date of this Interim Report of the Company are set out below:

Name of Director	Details of Change
Professor Ding Yuan	Professor Ding served as the vice president and dean of China Europe International Business School from May 2015 to March 2023.

Save for the information disclosed above, there is no other information required to be disclosed to Rules 13.51(2) of the Listing Rules.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS

On 27 September 2021:

- (1) the Company (as borrower) entered into a bridge loan agreement (the “**Bridge Loan Agreement**”) with Goldman Sachs (Asia) LLC (as arranger), Goldman Sachs Lending Partners LLC (“**Lender**”) (as lender), and The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) (as agent and security agent). Pursuant to the Bridge Loan Agreement, the Lender agrees to make available to the Company a bridge term loan facility (the “**Bridge Loan Facility**”) in the aggregate amount of US\$350 million. Any outstanding principal amount of the Bridge Loan Facility is to be repaid no later than the date falling 364 calendar days after the initial utilisation date of the Bridge Loan Facility;
- (2) the Company (as borrower) also entered into an incremental facility request with HSBC, as agent and security agent of the syndicated facilities agreement dated 21 June 2018 (as amended, restated and/or supplemented from time to time) (the “**Facilities Agreement**”) pursuant to which certain incremental term facility in the aggregate principal amount of US\$150 million (the “**Incremental Loan Facility**”) will be made available by the Lender to the Company under the Facilities Agreement. Any outstanding principal amount of the Incremental Loan Facility is to be repaid on 20 November 2023.

The amount to be borrowed under the Incremental Loan Facility and the Bridge Loan Facility are to be applied towards, amongst others, payment of the purchase price for the acquisition of Zesty Paws LLC as disclosed in the announcement of the Company dated 22 August 2021 and above. Under the terms of each of the Incremental Loan Facility and the Bridge Loan Facility, if, among other things, Mr. Luo Fei and Mr. Luo Yun and their family members (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made under the Incremental Loan Facility and the Bridge Loan Facility, respectively, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER FACILITY AGREEMENTS (CONTINUED)

On 29 October 2019, an incremental facility request (the “**Incremental Facility Request**”) was entered into between, amongst others, the Company and Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company, as borrowers of the Loan Facilities (as defined below) and HSBC as agent of the Facilities Agreement pursuant to which certain incremental term facilities and incremental revolving credit facilities equivalent in aggregate principal amount to US\$675 million (the “**Loan Facilities**”) arranged by Goldman Sachs (Asia) L.L.C., HSBC and J.P. Morgan Securities (Asia Pacific) Limited will be made available to the borrowers under the Facilities Agreement. The parties to the Incremental Facility Request entered into an amended and restated facilities agreement (the “**Amended and Restated Facilities Agreement**”) on 13 December 2019. Under the Amended and Restated Facilities Agreement, if, among other things, Mr. Luo Fei, Mr. Luo Yun and the family members of each of the foregoing (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made thereunder 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.

On 28 April 2022, the Company, Biostime Healthy Australia Investment Pty Limited and Health and Happiness (H&H) US International Incorporated (both being wholly-owned subsidiaries of the Company and together with the Company, the “**Borrowers**”) entered into an incremental facility request with HSBC, as agent and security agent of the syndicated facilities agreement dated 21 June 2018 (as amended, restated and/or supplemented from time to time) (the “**Facilities Agreement**”) pursuant to which the Refinancing Facilities in the aggregate principal amount of US\$1,200,000,000 will be made available by the credit parties to the Borrowers in the form of incremental facilities under the Facilities Agreement.

The Borrowers also entered into an amendment and restatement agreement (the “**Amendment and Restatement Agreement**”) with the credit parties pursuant to which the Facilities Agreement was amended and restated after the utilization of the Refinancing Facilities and satisfaction of certain conditions (such amended and restated Facilities Agreement being the “**Refinancing Facility Agreement**”).

Under the terms of the Refinancing Facility Agreement, in the event that Mr. Luo Fei and his family members (collectively) cease to hold (directly or indirectly) beneficially the largest percentage of the issued voting share capital of the Company, all loan facilities made or to be made under the Refinancing Facility Agreement, 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 as disclosed in this Report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

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 HKD0.44 per ordinary share, representing approximately 50.0% of the Group’s adjusted net profit for the period of six months ended 30 June 2023. The interim dividend will be paid on or about Wednesday, 11 October 2023 to the shareholders whose names appear on the register of members of the Company on Friday, 8 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 6 September 2023 to Friday, 8 September 2023, 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 Tuesday, 5 September 2023.

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 interim financial information set out on pages 34 to 84, which comprises the condensed consolidated statement of financial position of Health and Happiness (H&H) International Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at 30 June 2023 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period 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 this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information is 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

22 August 2023

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

Six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	5	6,980,848	5,955,447
Cost of sales		(2,718,402)	(2,263,980)
Gross profit		4,262,446	3,691,467
Other income and gains	5	156,494	91,660
Selling and distribution costs		(2,641,137)	(2,433,297)
Administrative expenses		(412,437)	(314,910)
Other expenses		(104,135)	(101,040)
Finance costs	6	(357,996)	(252,276)
Share of losses of associates		(83)	(200)
PROFIT BEFORE TAX	7	903,152	681,404
Income tax expense	8	(295,138)	(206,291)
PROFIT FOR THE PERIOD		608,014	475,113
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	37,173	281,951
Reclassification adjustments for losses included in profit or loss		(56,935)	(191,597)
Income tax effect		9,279	2,139
		(10,483)	92,493
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the period	23	100,826	3,041
Exchange differences on translation of foreign operations		(31,269)	33,498
Exchange differences on net investment in foreign operations		53,024	(134,549)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		112,098	(5,517)
Other comprehensive income/(loss) 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		4,063	(40,855)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		116,161	(46,372)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		724,175	428,741
Profit attributable to owners of the parent		608,014	475,113
Total comprehensive income attributable to owners of the parent		724,175	428,741
		RMB	RMB
		(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	10		
Basic		0.95	0.74
Diluted		0.95	0.74

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	378,167	388,382
Right-of-use assets	12(a)	139,458	142,720
Goodwill	13	7,881,391	7,684,093
Intangible assets	14	5,691,702	5,639,307
Bonds receivable		–	74,229
Deposits		71,539	61,842
Investment in associates		152,052	152,135
Deferred tax assets	26	589,569	637,800
Derivative financial instruments	23	114,763	128,081
Other non-current financial assets	15	200,409	195,017
Total non-current assets		15,219,050	15,103,606
CURRENT ASSETS			
Inventories	16	2,682,708	2,587,701
Trade and bills receivables	17	951,212	769,051
Prepayments, other receivables and other assets	18	215,401	179,304
Bonds receivable		78,771	–
Derivative financial instruments	23	72,378	8,936
Restricted deposits	19	17,437	10,767
Cash and cash equivalents	19	2,137,724	2,303,660
Total current assets		6,155,631	5,859,419
CURRENT LIABILITIES			
Trade payables	20	986,886	1,340,970
Other payables and accruals	21	2,092,617	2,199,256
Contract liabilities	22	72,075	266,613
Lease liabilities	12(b)	23,739	21,960
Senior notes	25	20,760	19,411
Interest-bearing bank loans	24	1,447,600	967,242
Tax payable		234,573	319,431
Dividend payables		224,425	–
Total current liabilities		5,102,675	5,134,883
NET CURRENT ASSETS		1,052,956	724,536
TOTAL ASSETS LESS CURRENT LIABILITIES		16,272,006	15,828,142

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Senior notes	25	2,001,509	1,886,148
Interest-bearing bank loans	24	6,622,959	6,695,491
Other payables and accruals	21	5,783	5,287
Lease liabilities	12(b)	76,209	79,183
Derivative financial instruments	23	64,327	183,749
Deferred tax liabilities	26	838,757	836,431
Total non-current liabilities		9,609,544	9,686,289
Net assets		6,662,462	6,141,853
EQUITY			
Issued capital	27	5,519	5,519
Other reserves		6,656,943	5,915,617
Proposed dividend		-	220,717
Total equity		6,662,462	6,141,853

Luo Fei

Director

Wang Yidong

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2023

Notes	Issued capital		Shares held				Fair value reserve of financial assets at fair value				Total equity					
	RMB'000	RMB'000	Share premium account	Share for the share award schemes	Contributed surplus	Share award reserve	Capital surplus	Statutory reserve	Share option reserve	Exchange fluctuation		Other reserve	Cash flow hedge reserve	Comprehensive income	Retained profits	Proposed dividend
At 31 December 2022 (Audited)	5,519	694,991*	(61,777)*	26,992*	20,231*	95*	382,665*	101,464*	(518,217)*	(1,217,025)*	54,671*	(42,001)*	6,473,508*	220,717		6,141,853
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	608,014	-	-	608,014
Other comprehensive income/(loss) for the period:																
Changes in fair value of equity investment designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	4,063	-	-	-	4,063
Cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-	-	(10,483)	-	-	-	-	(10,483)
Hedge of net investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(31,269)	-	-	-	-	-	-	(31,269)
Exchange differences on net investment in foreign operations	-	-	-	-	-	-	-	-	53,024	-	-	-	-	-	-	53,024
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	122,381	-	(10,483)	4,063	608,014	-	-	724,175
Equity-settled share option arrangements	-	-	-	-	-	-	-	2,826	-	-	-	-	-	-	-	2,826
Transfer of share option reserve upon the forfeiture or expiry of the share options	-	-	-	-	-	-	-	(3,839)	-	-	-	-	3,839	-	-	-
Equity-settled share award arrangements	-	-	16,474	-	(8,241)	-	-	-	-	-	-	-	1,120	-	-	9,353
Final 2022 dividend declared	-	-	-	-	-	-	-	-	-	-	-	-	4,972	(220,717)	-	(215,745)
At 30 June 2023 (Unaudited)	5,519	694,991*	(45,303)*	26,992*	11,990*	95*	382,665*	100,471*	(395,636)*	(1,217,025)*	44,188*	(37,938)*	7,091,453*	-	-	6,662,462

* These reserve accounts comprise the consolidated other reserves of RMB6,656,943,000 (31 December 2022: RMB5,915,617,000) in these interim condensed consolidated statement of financial position as at 30 June 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2023

	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Share award reserve RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Cash flow hedge reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total equity RMB'000
At 31 December 2021 (Audited)		5,516	688,995	(1)	26,992	-	95	382,665	192,751	(475,903)	(1,217,025)	(5,900)	(3,694)	6,202,890	87,805	5,885,186
Profit for the period		-	-	-	-	-	-	-	-	-	-	-	-	475,113	-	475,113
Other comprehensive income/(loss) for the period:																
Changes in fair value of equity investment designated at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	(40,855)	-	-	(40,855)
Cash flow hedges, net of tax		-	-	-	-	-	-	-	-	-	-	92,493	-	-	-	92,493
Hedge of net investments	23	-	-	-	-	-	-	-	-	3,041	-	-	-	-	-	3,041
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	33,498	-	-	-	-	-	33,498
Exchange differences on net investment in foreign operations		-	-	-	-	-	-	-	-	(134,549)	-	-	-	-	-	(134,549)
Total comprehensive income/(loss) for the period		-	-	-	-	-	-	-	-	(98,010)	-	92,493	(40,855)	475,113	-	428,741
Transfer to statutory reserve		-	-	-	-	-	-	1,674	-	-	-	-	-	(1,674)	-	-
Equity-settled share option arrangements	28	-	-	-	-	-	-	-	(43,287)	-	-	-	-	-	-	(43,287)
Transfer of share option reserve upon the forfeiture or expiry of the share options	28	-	-	-	-	-	-	-	(14,832)	-	-	-	-	14,832	-	-
Equity-settled share award arrangements	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,698
Share purchased for the 2022 Share Award Scheme (as defined in note 29)	29	-	-	(61,776)	-	-	-	-	-	-	-	-	-	-	-	(61,776)
Final 2021 dividend declared		-	-	-	-	-	-	-	-	-	-	-	-	(6,081)	(87,805)	(93,886)
At 30 June 2022 (Unaudited)		5,516	688,995	(61,777)	26,992	10,698	95	384,339	134,632	(573,913)	(1,217,025)	86,593	(44,549)	6,685,080	-	6,125,676

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		903,152	681,404
Adjustments for:			
Bank interest income	5	(11,775)	(8,242)
Interest income from loans and bonds receivables	5	(1,374)	(1,266)
Finance costs	6	357,996	252,276
Share of losses of associates		83	200
Depreciation of property, plant and equipment	7	32,773	36,363
Depreciation of right-of-use assets	7	17,675	20,589
Amortisation of intangible assets	7	99,432	98,335
Gains on early termination of leases	5	–	(3,213)
Loss on disposal of items of property, plant and equipment and intangible assets	7	316	1,063
(Reversal of) equity-settled share option expense	7	2,826	(43,287)
Equity-settled share award expense	7	9,353	10,698
Fair value gains on derivative financial instruments, net	7	(29,333)	(16,320)
Fair value losses/(gains) on financial assets	7	4,154	(14,985)
Impairment of trade receivables	7	1,393	30,994
Reversal of impairment of property, plant and equipment	7	(776)	–
Write-down of inventories to net realisable value	7	158,270	135,045
Net gain on partial repurchase of senior notes	5	(13,884)	–
Foreign exchange differences, net	7	(49,353)	(15,501)
		1,480,928	1,164,153
(Increase)/decrease in inventories		(219,353)	75,311
(Increase)/decrease in trade and bills receivables		(160,417)	23,279
(Increase)/decrease in prepayments, other receivables and other assets		(32,374)	21,611
(Increase)/decrease in rental deposits		(664)	2,781
Increase in restricted deposits		(6,670)	–
Decrease in trade payables		(367,089)	(60,173)
Decrease in other payables and accruals		(139,365)	(58,963)
Decrease in contract liabilities		(195,287)	(211,583)
Cash generated from operations		359,709	956,416
Corporate income tax paid		(337,640)	(400,553)
Net cash flows from operating activities		22,069	555,863

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Net cash flows from operating activities		22,069	555,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(28,469)	(26,330)
Purchases of items of intangible assets		(18,720)	(22,001)
Proceeds from disposal of items of property, plant and equipment and intangible assets		7,345	2,832
Additions to right-of-use assets		–	(6,242)
Partial disposal of/(addition to) certain financial assets		1,076	(1,181)
Increase in time deposits with original maturity of three months or more when acquired		6,000	–
Interest received		13,459	6,689
Net cash flows used in investing activities		(19,309)	(46,233)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of senior notes	25	407,985	–
Payment of transaction costs for issue of senior notes		(10,956)	–
Payment of transaction costs for exchange of senior notes		(59,254)	–
Partial repurchase of senior notes	25	(283,677)	–
Payment of transaction costs for refinancing of interest-bearing bank loans		–	(144,193)
Repayment of interest-bearing bank loans		(406,645)	(383,651)
New bank loans		500,000	–
Payment of lease liabilities	12(b)	(18,416)	(21,071)
Interest paid		(348,303)	(193,247)
Proceeds from termination of CCSs (as defined in note 23)		–	5,912
Proceeds from/(payment for) certain CCSs	23	13,609	(19,583)
Purchase of ordinary shares for 2022 Share Award Scheme	29	–	(61,776)
Net cash flows used in financing activities		(205,657)	(817,609)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(202,897)	(307,979)
Cash and cash equivalents at beginning of the period		2,297,660	2,400,070
Effect of foreign exchange rate changes, net		42,961	19,659
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		2,137,724	2,111,750
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	2,137,724	2,111,750

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

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 2023 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 2022, 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 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

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 2022, except for the adoption of the following new and revised IFRSs for the first time for the current period's financial information:

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Prior to the initial application of these amendments, the Group recognised a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases on a net basis. Upon initial application of these amendments, the Group separately recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022. The amendments did not have any significant impact on the Group's interim condensed consolidated financial information.

(d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments and the mandatory temporary exception retrospectively. The Group is currently assessing its exposure to Pillar Two income taxes.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products. In previous years, the Group had five reportable operating segments, including the infant formulas segment, the probiotic supplement segment, the adult nutrition and care products segment, the other pediatric products segment and the pet nutrition and care products segment. During the period, in order to better allocate the resources of the Group and assess the performance of different operating segments, the Group regroups the nutrition supplements from the other pediatric products segment to the probiotic supplements segment, which is correspondingly renamed as probiotic and nutritional supplements segment. The five reportable operating segments are as follows:

- (a) the infant formulas segment comprises the production and sale of milk formulas for infants, children and expectant and nursing mothers;
- (b) the probiotic and nutritional supplements segment comprises the production and sale of probiotic supplements and nutrition supplements in the form of sachets, capsules, gummies and tablets for infants, children and expectant mothers;
- (c) the adult nutrition and care products segment comprises the production and sale of vitamins, herbal and mineral supplements, skin care and sports nutrition products for adults;
- (d) the other pediatric products segment comprises the production and sale of dried baby food and baby care products; and
- (e) the pet nutrition and care products segment comprises the production and sale of holistic pet food and multi-condition pet supplements.

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 associates, finance costs as well as head office and corporate expenses are excluded from this measurement.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2023 (Unaudited):

	Infant formulas RMB'000	Probiotic and nutritional 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	2,213,750	743,571	2,938,215	158,634	926,678	-	6,980,848
Segment results	1,206,400	584,060	1,969,492	67,166	435,328	-	4,262,446
<i>Reconciliations:</i>							
Interest income							13,149
Other income and unallocated gains							143,345
Share of losses of associates							(83)
Corporate and other unallocated expenses							(3,157,709)
Finance costs							(357,996)
Profit before tax							903,152
Other segment information:							
Depreciation and amortisation	13,630	1,161	44,643	4,578	37,248	48,620	149,880
Impairment of trade receivables	-	-	1,393	-	-	-	1,393
Write-down of inventories to net realisable value	76,825	368	64,109	1,462	15,506	-	158,270
Capital expenditure*	7,448	802	12,364	5,060	7,675	2,698	36,047

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the six months ended 30 June 2022 (Unaudited):

	Infant formulas RMB'000	Probiotic and nutritional supplements RMB'000 (Restated)	Adult nutrition and care products RMB'000	Other pediatric products RMB'000 (Restated)	Pet nutrition and care products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	2,462,057	499,132	2,046,428	222,658	725,172	–	5,955,447
Segment results	1,551,426	393,957	1,302,854	111,172	332,058	–	3,691,467
<i>Reconciliations:</i>							
Interest income							9,508
Other income and unallocated gains							82,152
Share of loss of an associate							(200)
Corporate and other unallocated expenses							(2,849,247)
Finance costs							(252,276)
Profit before tax							681,404
Other segment information:							
Depreciation and amortisation	9,754	2,486	44,037	4,693	34,729	59,588	155,287
Impairment of trade receivables	–	–	21,109	9,885	–	–	30,994
Write-down/(write-back) of inventories to net realisable value	64,511	8,078	56,794	(8,711)	14,373	–	135,045
Capital expenditure*	10,210	1,658	8,382	3,018	8,182	1,193	32,643

* 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 2023

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Mainland China	5,076,109	4,394,592
Australia and New Zealand	829,624	692,539
North America	736,505	570,979
Other locations [#]	338,610	297,337
	6,980,848	5,955,447

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

(b) Non-current assets

	30 June	31 December
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Mainland China	450,869	468,274
Australia and New Zealand	2,368,790	2,368,711
North America	2,573,918	2,503,439
Other locations [#]	1,039,341	1,043,962
	6,432,918	6,384,386

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

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5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	6,980,848	5,955,447

Disaggregated revenue information

For the six months ended 30 June 2023 (unaudited)

Segments	Infant formulas RMB'000	Probiotic and nutritional supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Pet nutrition and care products RMB'000	Total RMB'000
Geographical markets						
Mainland China	2,138,794	735,688	1,955,452	41,455	204,720	5,076,109
Australia and New Zealand	8,540	920	819,567	597	–	829,624
North America	–	349	16,249	–	719,907	736,505
Other locations*	66,416	6,614	146,947	116,582	2,051	338,610
Total	2,213,750	743,571	2,938,215	158,634	926,678	6,980,848
Timing of revenue recognition						
Goods transferred at a point in time	2,213,750	743,571	2,938,215	158,634	926,678	6,980,848

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

Disaggregated revenue information (continued)

For the six months ended 30 June 2022 (unaudited)

Segments	Infant formulas RMB'000	Probiotic and nutritional supplements RMB'000 (Restated)	Adult nutrition and care products RMB'000	Other pediatric products RMB'000 (Restated)	Pet nutrition and care products RMB'000	Total RMB'000
Geographical markets						
Mainland China	2,381,436	494,781	1,250,602	99,889	167,884	4,394,592
Australia and New Zealand	18,823	628	673,088	–	–	692,539
North America	–	424	13,424	–	557,131	570,979
Other locations*	61,798	3,299	109,314	122,769	157	297,337
Total	2,462,057	499,132	2,046,428	222,658	725,172	5,955,447
Timing of revenue recognition						
Goods transferred at a point in time	2,462,057	499,132	2,046,428	222,658	725,172	5,955,447

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Bank interest income	11,775	8,242
Interest income from loans and bonds receivables	1,374	1,266
Foreign exchange gains	49,353	15,501
Fair value gains on derivative financial instruments, net	29,333	16,320
Fair value gains on financial assets	–	14,985
Government subsidies*	12,747	16,199
Gains on sales of raw materials	22,751	10,629
Gains on early termination of leases	–	3,213
Net gains on partial repurchase of senior notes	13,884	–
Others	15,277	5,305
	156,494	91,660

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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6. FINANCE COSTS

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest on interest-bearing bank loans and senior notes	361,336	218,087
Interest expense on lease liabilities (note 12(b))	2,859	3,068
Write-off of unamortised transaction costs and losses on modification upon refinancing of interest-bearing bank loans	–	31,121
Amortised gain of interest rate hedge in relation to previous term loan	(34,472)	–
Transaction costs, net of gain on exchange of senior notes	28,273	–
	357,996	252,276

7. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of inventories sold		2,560,132	2,128,935
Depreciation of property, plant and equipment	11	32,773	36,363
Depreciation of right-of-use assets	12(a)	17,675	20,589
Amortisation of intangible assets	14	99,432	98,335
Research and development costs**		84,948	68,474
Lease payments not included in the measurement of lease liabilities		10,246	7,947
Gain on early termination of leases*		–	(3,213)
Loss on disposal of items of property, plant and equipment and intangible assets		316	1,063
Employee benefit expenses:			
Wages and salaries		592,452	544,305
Pension scheme contributions (defined contribution schemes)		78,011	77,489
Staff welfare and other expenses		41,748	22,725
(Reversal of) equity-settled share option expense	28	2,826	(43,287)
Equity-settled share award expense	29	9,353	10,698
		724,390	611,930
Foreign exchange differences, net*	5	(49,353)	(15,501)
Fair value gains on derivative financial instruments, net*	5	(29,333)	(16,320)
Fair value losses/(gains) on financial assets		4,154**	(14,985)*
Impairment of trade receivables**	17	1,393	30,994
Reversal of impairment of property, plant and equipment	11	(776)	–
Write-down of inventories to net realisable value#		158,270	135,045
Amortised gain of interest rate hedge in relation to previous term loan	6	(34,472)	–
Net gains on partial repurchase of senior notes*	5	(13,884)	–
Transaction costs, net of gain on exchange of senior notes	6	28,273	–

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

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

Included in "Cost of sales" in profit or loss

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	135,352	197,388
Hong Kong SAR	110,694	83,007
Australia	5,616	1,343
Elsewhere	205	1,273
Deferred (note 26)	43,271	(76,720)
Total tax charge for the period	295,138	206,291

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 2022: 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 (“**Guangzhou Hapai**”), the Company’s wholly-owned subsidiary operating in mainland China, was recognised as high-technology enterprise in December 2022, and is subject to EIT at a rate of 15% for three years from 2022 to 2024. Therefore, Guangzhou Hapai was subject to EIT at a rate of 15% for the six months ended 30 June 2023 and 2022. Biostime (Guangzhou) Health Products Limited (“**Biostime Health**”), the Company’s wholly-owned subsidiary, was recognised as high-technology enterprise in December 2020, and was subject to EIT at a rate of 15% for the three years from 2020 to 2022. As at 30 June 2023, Biostime Health was in the progress of re-application of high-technology enterprise and expected that it is highly probable to be recognised as a high-technology enterprise. Thus, Biostime Health calculated the income tax provision at the rate of 15% in the period.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2022: 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 2022: HKD2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (six months ended 30 June 2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2022: 16.5%).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

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 2022: 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 2023

9. DIVIDENDS

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Final declared – HKD0.38 (2022: HKD0.17) per ordinary share	215,745	93,886
Dividends on ordinary shares declared after the interim reporting date: Interim – HKD0.44 (2022: HKD0.25) per ordinary share	256,700	144,869

On 22 August 2023, the Board declared an interim dividend of HKD0.44 (six months ended 30 June 2022: HKD0.25) per ordinary share, amounting to a total of approximately RMB256,700,000 (six months ended 30 June 2022: RMB144,869,000).

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

The calculation of the basic earnings per share amounts is based on the profit for the six months ended 30 June 2023 attributable to ordinary equity holders of the parent of RMB608,014,000 (six months ended 30 June 2022: RMB475,113,000), and the adjusted weighted average number of ordinary shares of 639,704,919 (six months ended 30 June 2022: 641,531,668) in issue during the period.

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

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

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	608,014	475,113
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	645,561,354	645,211,045
Weighted average number of shares held for the share award schemes	(5,856,435)	(3,679,377)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	639,704,919	641,531,668
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	3,613,542	2,845,434
Adjusted weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	643,318,461	644,377,102

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment with an aggregate cost of RMB26,379,000 (six months ended 30 June 2022: RMB22,568,000). Furthermore, depreciation of RMB32,773,000 (six months ended 30 June 2022: RMB36,363,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB7,603,000 (six months ended 30 June 2022: RMB3,895,000) were disposed of and an impairment of RMB776,000 (six months ended 30 June 2022: Nil) was reversed by the Group. Besides, exchange realignment with an amount of RMB3,006,000 was recognised (six months ended 30 June 2022: RMB1,527,000 (negative)) in the Period.

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 RMB14,448,000 (six months ended 30 June 2022: RMB24,477,000). Depreciation of RMB17,675,000 (six months ended 30 June 2022: RMB20,589,000) was charged, and the right-of-use-assets of RMB2,015,000 (six months ended 30 June 2022: RMB9,334,000) were derecognised due to the early termination of leases. Furthermore, exchange realignment with an amount of RMB1,980,000 was recognised in the period (six months ended 30 June 2022: RMB877,000 (negative)).

(b) Lease liabilities

During the period, the Group recognised the new lease liabilities of RMB14,448,000 (six months ended 30 June 2022: RMB18,235,000) and interest expense of RMB2,859,000 (six months ended 30 June 2022: RMB3,068,000) was charged. Furthermore, the Group paid for the lease liabilities of RMB18,416,000 (six months ended 30 June 2022: RMB21,071,000), and the lease liabilities of RMB2,015,000 (six months ended 30 June 2022: RMB12,547,000) were derecognised due to the early termination of leases. Besides, exchange realignment with an amount of RMB1,929,000 was recognised in the period (six months ended 30 June 2022: RMB1,289,000 (negative)).

13. GOODWILL

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Cost and carrying amount:		
At 1 January	7,684,093	7,471,994
Impairment during the period/year	–	(109,062)
Exchange realignment	197,298	321,161
At end of the period/year	7,881,391	7,684,093

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

14. INTANGIBLE ASSETS

During the period, the Group acquired intangible assets with an aggregate cost of RMB9,668,000 (six months ended 30 June 2022: RMB10,075,000). Furthermore, amortisation of RMB99,432,000 (six months ended 30 June 2022: RMB98,335,000) was charged by the Group, and intangible asset with an aggregate carrying amount of RMB58,000 (six months ended 30 June 2022: Nil) was disposed of by the Group. Besides, exchange realignment with an amount of RMB142,217,000 was recognised in the period (six months ended 30 June 2022: RMB110,316,000).

15. OTHER NON-CURRENT FINANCIAL ASSETS

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Financial assets at fair value through profit or loss	(a)		
– Unlisted equity investments		40,407	46,439
– Other unlisted investments		114,262	106,649
		154,669	153,088
Equity investment designed at fair value through other comprehensive income	(b)		
– Listed equity investment in BOD Australia Limited		4,923	10,511
– Listed equity investment in Else Nutrition Holdings Limited		39,505	30,180
– Unlisted equity investment in Arla Foods Arinco A/S (“Arla”)		1,312	1,238
		45,740	41,929
		200,409	195,017

Notes:

- (a) These 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.

These 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.

- (b) These 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

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16. INVENTORIES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Raw materials	1,016,349	652,111
Goods in transit	264,119	671,558
Work in progress	2,482	3,623
Finished goods	1,399,758	1,260,409
	2,682,708	2,587,701

17. TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables	946,906	747,762
Bills receivable	32,397	47,538
	979,303	795,300
Less: Impairment provision	(28,091)	(26,249)
	951,212	769,051

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 90 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

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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 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	575,615	314,564
1 to 3 months	308,902	411,192
Over 3 months	66,695	43,295
	951,212	769,051

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
At beginning of the period/year	26,249	24,968
Impairment losses recognised	1,393	20,048
Amount written off as uncollectible	(885)	(15,825)
Impairment losses reversed	–	(4,382)
Exchange realignment	1,334	1,440
At end of the period/year	28,091	26,249

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Prepayments	116,153	85,986
Deposits	4,766	4,066
Other receivables	92,233	69,474
Prepaid expenses	12,607	19,743
Right-of-return assets	3,282	13,248
	229,041	192,517
Impairment allowance	(13,640)	(13,213)
	215,401	179,304

As at 30 June 2023, the balance due from the Group's associate included in the prepayments was RMB4,000 (31 December 2022: RMB4,000).

Except for the balances with a former supplier amounting to RMB13,640,000 (31 December 2022: RMB13,213,000), 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 2023 and 31 December 2022, the loss allowance was assessed to be minimal.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Cash and bank balance	2,076,169	2,227,362
Time deposits	61,555	76,298
Restricted deposits	17,437	10,767
	2,155,161	2,314,427
Less:		
Restricted deposits for custom duties	(10,000)	(10,000)
Restricted deposits for operating leases	(781)	(767)
Restricted deposits for operating activity of a subsidiary	(6,656)	–
	(17,437)	(10,767)
Cash and cash equivalents as stated in the consolidated statement of financial position	2,137,724	2,303,660
Less:		
Non-pledged time deposit with original maturity of three months or more when acquired	–	(6,000)
Cash and cash equivalents as stated in the consolidated statement of cash flow	2,137,724	2,297,660
Denominated in RMB (note)	672,838	1,097,543
Denominated in other currencies	1,482,323	1,216,884
	2,155,161	2,314,427

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. The carrying amounts of the cash and cash equivalents to its fair values. The bank balances is deposited with creditworthy banks with no recent history of default.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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20. TRADE PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	986,886	1,340,970

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	745,542	955,278
1 to 3 months	192,656	255,950
Over 3 months	48,688	129,742
	986,886	1,340,970

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

21. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Salaries and welfare payables		192,638	208,272
Accruals		1,034,121	971,927
Other tax payables		121,089	140,983
Other payables	(a)	115,414	121,646
Refund liabilities	(b)	635,138	761,715
		2,098,400	2,204,543
Less: current portion		(2,092,617)	(2,199,256)
Non-current portion		5,783	5,287

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. OTHER PAYABLES AND ACCRUALS (CONTINUED)

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 2023 and 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Sales rebate	617,836	717,609
Sales return	17,302	44,106
	635,138	761,715

22. CONTRACT LIABILITIES

Details of contract liabilities as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Advances from customers	72,075	266,613

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration.

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23. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2023		31 December 2022	
		Assets RMB'000 (Unaudited)	Liabilities RMB'000 (Unaudited)	Assets RMB'000 (Audited)	Liabilities RMB'000 (Audited)
Non-current					
Early redemption option embedded in the senior notes	(a)	17,939	–	13,760	–
The Swaps (as defined below)					
– designated as hedge	(b)	60,090	–	76,790	–
– not designated as hedge	(b)	–	–	–	1,531
The CCSs (as defined below)					
– designated as hedge	(c)	36,734	50,093	37,531	139,971
– not designated as hedge	(c)	–	14,234	–	42,247
		114,763	64,327	128,081	183,749
Current					
The Swaps (as defined below)					
– designated as hedge	(b)	55,922	–	–	–
– not designated as hedge	(b)	2,703	–	–	–
The CCSs (as defined below)					
– designated as hedge	(c)	13,753	–	8,936	–
		72,378	–	8,936	–

Notes:

- (a) 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 2023 was RMB17,939,000 (31 December 2022: RMB13,760,000). A fair value loss of RMB11,871,000 was charged to profit or loss for the period (six months ended 30 June 2022: RMB1,899,000).
- (b) Cash flow hedges

As at 30 June 2023 and 31 December 2022, the Group had certain cross currency interest rate swaps and cross currency swaps (collectively, the “Swaps”) in order to hedge the exposure arising from bank borrowings carried at floating rates and denominated in foreign currencies. Under the Swaps, the Group agreed with the counterparties to exchange, at specified interval, the difference between fixed contract rates and floating-rate interest amounts (if applicable) calculated by reference to the agreed notional amounts in specified currencies denominated in foreign currencies.

For the Swaps designated as hedging instruments, there is an economic relationship between the hedged items and the hedging instruments as the terms of the Swaps 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.

During the period, in respect of the Swaps designated as hedging instruments, a net gain of RMB37,173,000 (six months ended 30 June 2022: RMB281,951,000) was included in the cash flow hedge reserve and a loss of the ineffective portion of RMB301,000 was charged in profit or loss (six months ended 30 June 2022: a gain of RMB1,033,000).

For the Swaps not designated as hedging instruments, a net gain of RMB4,106,000 was recognised in profit or loss for the period (six months ended 30 June 2022: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(c) Hedges of net investments in foreign operations

As at 30 June 2023 and 31 December 2022, 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 ratio 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 gain of RMB100,826,000 (six months ended 30 June 2022: RMB3,041,000) arising from the changes in fair value was included in exchange fluctuation reserve and a net gain of RMB13,063,000 (six months ended 30 June 2022: RMB18,542,000) was recognised in profit or loss. For the CCSs not designated as hedging instruments, a net gain of RMB24,336,000 (six months ended 30 June 2022: RMB4,761,000) was recognised in profit or loss during the period. During the period, the Company has received net cash of RMB13,609,000 (six months ended 30 June 2022: RMB19,583,000 paid) in respect of those CCSs.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. INTEREST-BEARING BANK LOANS

	30 June 2023			31 December 2022		
	Effective interest rate (%)**	Maturity*	RMB'000 (Unaudited)	Effective interest rate (%)**	Maturity*	RMB'000 (Audited)
Current						
Secured bank loan	-	-	-	HIBOR+margin	Jun-23	113,166
Secured bank loan	-	-	-	SOFR+margin	Jun-23	275,512
Secured bank loan	HIBOR+margin	Dec-23	171,158	HIBOR+margin	Dec-23	167,753
Secured bank loan	SOFR+margin	Dec-23	450,771	SOFR+margin	Dec-23	410,811
Secured bank loan	HIBOR+margin	Jun-24	230,856	-	-	-
Secured bank loan	SOFR+margin	Jun-24	539,310	-	-	-
Unsecured bank loan	LPR+margin	Sep-23	5,505	-	-	-
Unsecured bank loan	LPR+margin	Mar-24	50,000	-	-	-
			<u>1,447,600</u>			<u>967,242</u>
Non-current						
Secured bank loan	-	-	-	HIBOR+margin	Jun-24	225,663
Secured bank loan	-	-	-	SOFR+margin	Jun-24	539,536
Secured bank loan	HIBOR+margin	Dec-24	875,781	HIBOR+margin	Dec-24	846,237
Secured bank loan	SOFR+margin	Dec-24	2,113,332	SOFR+margin	Dec-24	2,023,260
Secured bank loan	HIBOR+margin	Jun-25	934,166	HIBOR+margin	Jun-25	902,652
Secured bank loan	SOFR+margin	Jun-25	2,254,220	SOFR+margin	Jun-25	2,158,143
Unsecured bank loan	LPR+margin	Sep-24	50,052	-	-	-
Unsecured bank loan	LPR+margin	Mar-25	50,052	-	-	-
Unsecured bank loan	LPR+margin	Sep-25	10,010	-	-	-
Unsecured bank loan	LPR+margin	Nov-25	335,346	-	-	-
			<u>6,622,959</u>			<u>6,695,491</u>
			<u>8,070,559</u>			<u>7,662,733</u>
Analysed into:						
Bank loans repayable						
within one year or on demand			1,447,600			967,242
in the second year			6,277,603			3,634,696
in the third to fifth years, inclusive			345,356			3,060,795
			<u>8,070,559</u>			<u>7,662,733</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. INTEREST-BEARING BANK LOANS (CONTINUED)

* The secured bank loans shall become due in full if the 2019 Notes (as defined in note 25) have not been repaid or otherwise refinanced, refunded, replaced, exchanged, renewed, redeemed, defeased, discharged, or extended, in full on or prior to the date falling 3 months prior to the maturity of the 2019 Notes.

** SOFR stands for the Secured Overnight Financing Rate.

HIBOR stands for the Hong Kong InterBank Offered Rate.

LPR stands for the Loan Prime Rate.

Notes:

- (a) As at 30 June 2023 and 31 December 2022, the Group's interest-bearing bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges over 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) The Group's interest-bearing bank loans are subject to the fulfilment of certain covenants relating to limitations on indebtedness. The Company regularly monitors its compliance with these covenants.
- (c) As at 30 June 2023, the Group's interest-bearing bank loans were denominated in USD, HKD and RMB at aggregate amounts of RMB5,357,633,000 (31 December 2022: RMB5,407,262,000), RMB2,211,961,000 (31 December 2022: RMB2,255,471,000), and RMB500,965,000 (31 December 2022: Nil) respectively.

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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 and coupon interest rate of 5.625% per annum (the “**2019 Notes**”). The Company repurchased an aggregate principal amount of USD29,844,000 of the 2019 Notes from the open market prior to 31 December 2022. During the six months ended 30 June 2023, the Company repurchased an aggregate principal amount of USD30,362,000 of the 2019 Notes from the open market and exchanged an aggregate principal amount of USD141,793,000 of the 2019 Notes for new senior notes.

On 26 June 2023, the Company issued new senior notes due 26 June 2026 with an aggregate principal amount of USD200,000,000 and coupon interest rate of 13.5% per annum (the “**2023 Notes**”), among which, USD141,793,000 was issued for exchange of the 2019 Notes and USD58,207,000 was for new issue. During the six months ended 30 June 2023, the Company repurchased an aggregate principal amount of USD11,350,000 of the 2023 Notes from the open market.

The 2019 Notes and the 2023 Notes are both listed on The Stock Exchange of Hong Kong Limited (“**HKSE**”). The 2019 Notes are jointly and severally guaranteed, on a senior subordinated basis, by certain subsidiaries of the Company, and are secured on a second-ranking basis by a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries). The 2023 Notes are jointly and severally guaranteed, on a senior basis, by certain subsidiaries of the Company. The 2023 Notes and its subsidiary guarantees are secured on a first-ranking basis, by floating charges over all or substantially all assets of the Company and each initial subsidiary guarantor (in each case other than any assets located in the PRC or shares of subsidiaries in the PRC that will not secure the 2023 Notes) as well as pledges/charges over shares of each initial subsidiary guarantor, Health and Happiness (H&H) China Limited and Biostime Health.

Pursuant to their terms, the 2019 Notes and the 2023 Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

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

As at 30 June 2023, the fair value of the early redemption option embedded in the Senior Notes amounted to RMB17,939,000 (31 December 2022: RMB13,760,000), details of which are set out in note 23(a) to these interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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25. SENIOR NOTES (CONTINUED)

The movements of the Senior Notes during the six months ended 30 June 2023 and the year ended 31 December 2022 are set out below:

	Total RMB'000
At 1 January 2022 (Audited)	1,938,452
Partial repurchase of senior notes	(183,209)
Gain on partial repurchase of senior notes	(25,204)
Interest charged during the year	109,087
Interest paid during the period	(112,767)
Exchange realignment	179,200
At 31 December 2022 and 1 January 2023 (Audited)	1,905,559
Partial repurchase of senior notes	(283,677)
Net gain on partial repurchase of senior notes (note 5)	(13,884)
Gain on exchange of senior notes	(30,981)
Upon the completion of the issuance of senior notes	
Proceeds received	407,985
Transaction cost incurred	(37,290)
Redemption option embedded in senior notes	16,399
Interest charged during the period	56,609
Interest paid during the period	(66,906)
Exchange realignment	68,455
At 30 June 2023 (Unaudited)	2,022,269
Less: current portion	(20,760)
Non-current portion	2,001,509

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the six months ended 30 June 2023 and the year ended 31 December 2022 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	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 31 December 2022 (Restated)	24,434	404,737	85,421	68,039	24,888	50,454	657,973
Credited/(charged) to profit or loss for the period (note 8)	10,417	(54,090)	(7,156)	(2,611)	(4,563)	2,038	(55,965)
Exchange realignment	-	988	-	2,339	198	966	4,491
Gross deferred tax assets at 30 June 2023 (Unaudited)	34,851	351,635	78,265	67,767	20,523	53,458	606,499

	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	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 31 December 2021 (Audited)	2,942	431,498	68,303	80,090	4,721	-	15,292	602,846
Effect of adoption of amendments to IAS 12	-	(2,811)	-	-	-	20,874	-	18,063
At 1 January 2022 (Restated)	2,942	428,687	68,303	80,090	4,721	20,874	15,292	620,909
Credited/(charged) to profit or loss for the year	21,492	(24,647)	17,118	(15,231)	156	3,715	34,509	37,112
Deferred tax charged to equity during the year	-	-	-	-	(5,475)	-	-	(5,475)
Exchange realignment	-	697	-	3,180	598	299	653	5,427
Gross deferred tax assets at 31 December 2022 (Restated)	24,434	404,737	85,421	68,039	-	24,888	50,454	657,973

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Change in fair value of derivative financial instruments RMB'000	Right-of-use assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2023 (Restated)	16,930	45,996	741,933	23,037	20,173	8,535	856,604
(Credited)/charged to profit or loss for the period (note 8)	(726)	(11,152) [#]	(17,017)	20,342	(3,389)	(752)	(12,694)
Credited to equity for the period	-	-	-	(9,279)	-	-	(9,279)
Exchange realignment	(2)	189	19,341	704	146	678	21,056
Gross deferred tax liabilities at 30 June 2023 (Unaudited)	16,202	35,033	744,257	34,804	16,930	8,461	855,687
At 31 December 2021 (Audited)	171	61,864	756,532	-	-	7,565	826,132
Effect of adoption of amendments to IAS 12	-	-	-	-	18,063	-	18,063
At 1 January 2022 (Restated)	171	61,864	756,532	-	18,063	7,565	844,195
Charged/(credited) to profit or loss for the year	16,754	(16,017) [#]	(29,148)	22,255	1,888	963	(3,305)
Exchange realignment	5	149	14,549	782	222	7	15,714
Gross deferred tax liabilities at 31 December 2022 (Restated)	16,930	45,996	741,933	23,037	20,173	8,535	856,604

[#] The amount represented a deferred tax provision of RMB20,142,000 (year ended 31 December 2022: RMB31,713,000) on the distributable profits of the Company's subsidiaries in mainland China after offsetting the realised deferred tax liabilities of RMB31,294,000 (year ended 31 December 2022: RMB47,730,000) arising from dividends declared by these subsidiaries to their foreign investors during the period.

For presentation purpose, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purpose:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Net deferred tax assets recognised in the consolidated statement of financial position	589,569	637,800
Net deferred tax liabilities recognised in the consolidated statement of financial position	(838,757)	(836,431)

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27. SHARE CAPITAL

Shares

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Authorised:		
10,000,000,000 (31 December 2022: 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:		
645,561,354 (31 December 2022: 645,561,354) ordinary shares of HKD0.01 each	HKD6,455,614	HKD6,455,614
Equivalent to	RMB5,519,000	RMB5,519,000

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 2022 (Audited)	645,211,045	6,452	5,516
Share options exercised (note)	350,309	4	3
At 31 December 2022 (Audited) and 30 June 2023 (Unaudited)	645,561,354	6,456	5,519

Note:

During the year ended 31 December 2022, the subscription rights attaching to 350,309 share options were exercised at the subscription prices of HKD15.58 per share, resulting in the issue of 350,309 ordinary shares for a total cash consideration, before expenses, of HKD5,458,000 (equivalent to approximately RMB4,875,000).

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 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 2010 Share Option Scheme expired on 24 November 2020.

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 2020 Share Option Scheme, as the 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 2023

	2010 Share Option Scheme		2020 Share Option Scheme		Total 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 2023	29.76	6,719	31.78	4,924	11,643
Forfeited during the period	26.82	(369)	31.83	(120)	(489)
Expired during the period	15.58	(25)	–	–	(25)
At 30 June 2023 (Unaudited)	29.99	6,325	31.78	4,804	11,129

Six months ended 30 June 2022

	2010 Share Option Scheme		2020 Share Option Scheme		Total 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 2022	30.34	13,043	31.80	10,435	23,478
Forfeited during the period	32.31	(5,078)	31.85	(1,058)	(6,136)
At 30 June 2022 (Unaudited)	29.09	7,965	31.79	9,377	17,342

During the six months ended 30 June 2023 and 2022, no share options were exercised.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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28. SHARE OPTION SCHEMES (CONTINUED)

Movements in share options (continued)

Share option reserve of RMB3,839,000 related to the expired or forfeited shares that have been vested was transferred to retained profits during the period (six months ended 30 June 2022: RMB14,832,000).

During the period, the Group recognised share option expense related to the share option schemes of RMB2,826,000 (six months ended 30 June 2022: a reversal of share option expenses of RMB43,287,000).

29. SHARE AWARD SCHEME

The board of directors of the Company approved a share award scheme (the “**2022 Share Award Scheme**”) on 11 January 2022, from when the 2022 Share Award Scheme will remain in force for ten years unless otherwise cancelled or amended. The purposes of the 2022 Share Award Scheme are to recognise the contributions by certain employees of the Company or of any subsidiary and to give incentives thereto in order to retain and motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the 2022 Share Award Scheme and the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), the board of directors may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine.

Shares may be acquired by the independent trustee (the “**Trustee**”) by way of (i) allotment and issue of new ordinary shares by the Company pursuant to the relevant general mandate or specific mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time; or (ii) purchase of ordinary shares in the open market by the Trustee.

During the six months ended 30 June 2023, no ordinary shares were purchased on the open market of the HKSE for 2022 Share Award Scheme (six months ended 30 June 2022: 6,536,500 ordinary shares of the Company were purchased for the 2022 Share Award Scheme at a total consideration of HKD75,757,000 (equivalent to approximately RMB61,776,000)).

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29. SHARE AWARD SCHEME (CONTINUED)

Summary of particulars of the shares granted under the 2022 Share Award Scheme (the “**Awarded Shares**”) during the period is as follows:

Date of grant	Number of Outstanding Awarded Shares as at 31 December 2022	Fair value	Vesting date	Number of Awarded Shares		Outstanding Awarded Shares at 30 June 2023
				Vested during the period	Forfeited during the period	
2022/4/8	1,721,057	19,947,097	2023/4/1	(1,721,057)	-	-
2022/4/8	1,118,631	12,551,073	2024/4/1	-	(103,050)	1,015,581*
2022/4/8	1,491,519	16,123,251	2025/4/1	-	(137,400)	1,354,119*
2022/12/14	111,000	1,548,450	2024/4/1	-	-	111,000
2022/12/14	148,000	1,984,680	2025/4/1	-	-	148,000
	4,590,207	52,154,551		(1,721,057)	(240,450)	2,628,700

* Among these Awarded Shares granted, 723,692 of the Awarded Shares were granted to the executive directors and non-executive directors.

The Group recognised a share award expense of RMB9,353,000 during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB10,698,000) in relation to the 2022 Share Award Scheme.

1,721,057 shares for the 2022 Share Award Scheme, amounting to RMB16,474,000, were awarded upon vesting during the six months ended 30 June 2023. Share award reserve of RMB17,594,000 related to the vested Awarded Shares was transferred to retained profits for the vested Awarded Shares during the period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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30. 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 37 and 38 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 People's Republic of China, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

31. COMMITMENTS

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Contracted, but not provided for:		
Intangible assets	10,734	12,072
Property, plant and equipment	5,646	3,807
	16,380	15,879

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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32. RELATED PARTY BALANCES AND TRANSACTIONS

- (a) The Group had the following transactions with related parties during the period:

During the period, there was no transaction with an associate, while during the six months ended 30 June 2022, the Group purchased finished goods from an associate with the amount of RMB2,637,000, which were conducted in accordance with mutually agreed terms.

- (b) **Outstanding balance with related parties**

Details of the Group's prepayment balance with its associate as at the end of the reporting period are disclosed in note 18 to these interim condensed consolidated financial statements.

- (c) **Compensation of key management personnel of the Group**

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Fees	3,408	3,200
Short-term employee benefits	48,728	52,272
Pension scheme contributions	363	348
Termination payments	2,860	–
(Reversal of) equity-settled share option expense	2,063	(34,677)
Equity-settled share award expense	8,884	10,792
Total compensation paid to key management personnel	66,306	31,935

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Financial assets				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	17,939	13,760	17,939	13,760
– The Swaps	118,715	76,790	118,715	76,790
– The CCSs	50,487	46,467	50,487	46,467
Other non-current financial assets	200,409	195,017	200,409	195,017
	387,550	332,034	387,550	332,034
Financial liabilities				
Derivative financial instruments				
– The Swaps	–	(1,531)	–	(1,531)
– The CCSs	(64,327)	(182,218)	(64,327)	(182,218)
Senior notes	(2,022,269)	(1,905,559)	(1,977,632)	(1,627,580)
	(2,086,596)	(2,089,308)	(2,041,959)	(1,811,329)

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade 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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33. 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 2023 were assessed to be insignificant.
- (b) The financial assets of unlisted equity investments at fair value through profit or loss included in the other non-current financial assets are measured using the market approach with significant unobservable market inputs.
- (c) The financial assets of other unlisted investments 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 and the binomial tree model using significant unobservable market inputs.
- (d) The fair values of equity investments designed at fair value through other comprehensive income included in other non-current financial assets are based on quoted market prices or the recent transaction price method with significant unobservable market inputs.
- (e) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the Swaps and the CCSs, are measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the Swaps and the CCSs were the same as their carrying amounts.
- (f) 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.
- (g) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

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

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Other non-current financial assets – other unlisted investment	Discounted cash flow model	Discount rate	3.62% to 3.70% (31 December 2022: 3.61% to 3.69%)	1% (31 December 2022: 1%) increase in discount rate would result in decrease in fair value by RMB181,000 (31 December 2022: RMB194,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in increase in fair value by RMB189,000 (31 December 2022: RMB191,000)
Other non-current financial assets – the unlisted equity investment in Arla	Recent transaction price method	Recent transaction price	Not applicable	Not applicable
Other non-current financial assets – the unlisted equity investment	Market approach	Enterprise value -to-sales ratio	3.22 to 3.28 (31 December 2022: 3.22 to 3.28)	1% (31 December 2022: 1%) increase in discount rate would result in increase in fair value by RMB412,000 (31 December 2022: RMB251,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in decrease in fair value by RMB405,000 (31 December 2022: RMB244,000)

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33. 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 – receive leg	4.14% to 5.63% (31 December 2022: 3.95% to 5.07%)	1% (31 December 2022: 1%) increase in discount rate would result in decrease in fair value by RMB1,454,000 (31 December 2022: RMB1,824,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in increase in fair value by RMB1,455,000 (31 December 2022: RMB1,826,000)
		Discount rate – pay leg	2.29% to 2.40% (31 December 2022: 1.66% to 2.24%)	1% (31 December 2022: 1%) increase in discount rate would result in increase in fair value by RMB641,000 (31 December 2022: RMB951,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in decrease in fair value by RMB641,000 (31 December 2022: RMB951,000)

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33. 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/AUD)	Discounted cash flow model	Discount rate – receive leg	3.87% to 5.37%	1% (31 December 2022: 1%) increase in discount rate would result in increase in fair value by RMB1,148,000 (31 December 2022: RMB1,356,000)
			(31 December 2022: 3.70% to 4.87%)	1% (31 December 2022: 1%) decrease in discount rate would result in decrease in fair value by RMB1,238,000 (31 December 2022: RMB1,358,000)
		Discount rate – pay leg	4.13% to 4.8%	1% (31 December 2022: 1%) increase in discount rate would result in decrease in fair value by RMB1,040,000 (31 December 2022: RMB1,233,000)
		(31 December 2022: 3.25% to 4.37%)	1% (31 December 2022: 1%) decrease in discount rate would result in increase in fair value by RMB1,116,000 (31 December 2022: RMB1,235,000)	

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33. 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 Swaps (USD/HKD)	Discounted cash flow model	Discount rate – receive leg	4.14% to 5.63% (31 December 2022: 3.95% to 5.07%)	1% (31 December 2022: 1%) increase in discount rate would result in decrease in fair value by RMB722 (31 December 2022: RMB247)
				1% (31 December 2022: 1%) decrease in discount rate would result in increase in fair value by RMB722 (31 December 2022: RMB247)
		Discount rate – pay leg	3.84% to 4.88% (31 December 2022: 3.57% to 4.73%)	1% (31 December 2022: 1%) increase in discount rate would result in increase in fair value by RMB194,000 (31 December 2022: RMB413,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in decrease in fair value by RMB194,000 (31 December 2022: RMB413,000)

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

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instruments – the Swaps (USD/AUD)	Discounted cash flow model	Discount Rate – receive leg	5.01% to 5.11% (31 December 2022: 4.26% to 4.34%)	1% (31 December 2022: 1%) increase in discount rate would result in decrease in fair value by RMB231,000 (31 December 2022: RMB834,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in increase in fair value by RMB238,000 (31 December 2022: RMB843,000)
		Discount Rate – pay leg	4.28% to 4.37% (31 December 2022: 3.19% to 3.25%)	1% (31 December 2022: 1%) increase in discount rate would result in increase in fair value by RMB16,936,000 (31 December 2022: RMB7,103,000)
				1% (31 December 2022: 1%) decrease in discount rate would result in decrease in fair value by RMB17,347,000 (31 December 2022: RMB7,225,000)
Derivative financial instrument – early redemption option embedded in the senior notes	Discounted cash flow model	Discount Rate	11.86% to 14.78% (31 December 2022: 4.48%)	1% (31 December 2022: 1%) increase in would result in increase in fair value by RMB7,152,000 (31 December 2022: RMB3,577,000)
				1% (31 December 2022: 1%) decrease in would result in decrease in fair value by RMB7,181,000 (31 December 2022: RMB3,589,000)

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

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

Assets measured at fair value:

	Fair value measurement using			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 2023 (Unaudited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	17,939	17,939
– The Swaps	–	–	118,715	118,715
– The CCSs	–	–	50,487	50,487
Other non-current financial assets	44,428	–	155,981	200,409
	44,428	–	343,122	387,550
As at 31 December 2022 (Audited)				
Derivative financial instruments				
– Early redemption option embedded in the senior notes	–	–	13,760	13,760
– The Swaps	–	–	76,790	76,790
– The CCSs	–	–	46,467	46,467
Other non-current financial assets	40,691	–	154,326	195,017
	40,691	–	291,343	332,034

The movements in fair value measurements within Level 3 during the six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
At 1 January	291,343	272,404
Additions	16,399	3,438
Total losses charged to profit or loss	(633)	(19,997)
Total gains recognised in equity	54,371	152,730
Derecognition	–	(85,913)
Net cash settlement	(28,496)	(59,341)
Exchange realignment	10,138	28,022
At end of the period/year	343,122	291,343

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33. 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 2023 (Unaudited)				
Derivative financial instruments				
– The CCSs	–	–	64,327	64,327
As at 31 December 2022 (Audited)				
Derivative financial instruments				
– The Swaps	–	–	1,531	1,531
– The CCSs	–	–	182,218	182,218
	–	–	183,749	183,749

The movements in fair value measurements within Level 3 during six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
At 1 January	183,749	430,802
Total gains recognised in profit or loss	(25,812)	(20,797)
Total gains recognised in equity	(83,702)	(234,130)
Net cash settlement	(14,063)	(29,485)
Exchange realignment	4,155	37,359
At end of the period/year	64,327	183,749

During six months ended 30 June 2023 and the year ended 31 December 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

34. COMPARATIVE AMOUNTS

As further explained in note 4 to these interim condensed consolidated financial statements, due to the regroup of reportable segments during the period, certain comparative amounts in note 4 and 5 to these interim condensed consolidated financial statements, have been restated to conform with the current period's presentation.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

35. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 22 August 2023.

**H&H STANDS FOR
HEALTH AND HAPPINESS.
IT'S IN OUR NAME.
IT'S IN OUR EVERY DAY.
IT'S IN EVERYTHING WE DO.**



**Health and Happiness (H&H)
International Holdings Limited**

健合 (H&H) 國際控股有限公司

