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)
(Stock Code: 1112)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2022	2021	*Change*
	RMB million	*RMB million*	
	(Unaudited)	(Unaudited)	
Revenue	**5,955.4**	5,424.3	*9.8%*
Gross profit	**3,691.5**	3,422.7	*7.9%*
EBITDA*	**1,079.4**	929.6	*16.1%*
Adjusted EBITDA*	**1,056.1**	1,066.4	*-1.0%*
Adjusted EBITDA margin	**17.7%**	19.7%	*-2.0pts*
Net profit	**475.1**	501.4	*-5.2%*
Adjusted net profit**	**482.9**	660.2	*-26.9%*
Adjusted net profit margin	**8.1%**	12.2%	*-4.1pts*

* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. Adjusted EBITDA = EBITDA – Non-cash gains of RMB46.8 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB151.7 million) + Non-recurring losses of RMB23.5 million for the six months ended 30 June 2022 (six months ended 30 June 2021: gains of RMB14.9 million)

** Adjusted net profit = Net profit – EBITDA adjustment items of gains of RMB23.3 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB136.8 million) + Other non-cash losses of RMB31.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: losses of RMB22.0 million)

The board (the "**Board**") of directors (the "**Directors**") of Health and Happiness (H&H) International Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021, as follows:

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

Six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**5,955,447**	5,424,320
Cost of sales		**(2,263,980)**	(2,001,571)
Gross profit		**3,691,467**	3,422,749
Other income and gains	*5*	**91,660**	87,444
Selling and distribution costs		**(2,433,297)**	(2,172,679)
Administrative expenses		**(314,910)**	(311,105)
Other expenses		**(101,040)**	(229,808)
Finance costs		**(252,276)**	(129,919)
Share of (loss)/profit of an associate		**(200)**	3,445
PROFIT BEFORE TAX	*6*	**681,404**	670,127
Income tax expense	*7*	**(206,291)**	(168,773)
PROFIT FOR THE PERIOD		**475,113**	501,354

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
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	**281,951**	117,261
Reclassification adjustments for losses included in profit or loss	**(191,597)**	(56,747)
Income tax effect	**2,139**	(11,540)
	92,493	48,974
Hedge of net investments:		
Effective portion of changes in fair value of hedging instruments arising during the period	**3,041**	(24,285)
Exchange differences on translation of foreign operations	**33,498**	(113,438)
Exchange differences on net investment in foreign operations	**(134,549)**	(107)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(5,517)**	(88,856)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
Six months ended 30 June 2022

	Note	Six months ended 30 June **2022** *RMB'000* (Unaudited)	2021 *RMB'000* (Unaudited)
Other comprehensive 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		**(40,855)**	(61,325)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(46,372)**	(150,181)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**428,741**	351,173
Profit attributable to owners of the parent		**475,113**	501,354
Total comprehensive income attributable to owners of the parent		**428,741**	351,173
		RMB **(Unaudited)**	*RMB* (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic		**0.74**	0.78
Diluted		**0.74**	0.78

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**425,161**	444,378
Right-of-use assets		**138,594**	144,917
Goodwill		**7,581,836**	7,471,994
Intangible assets		**5,594,492**	5,572,436
Bonds receivable		**70,084**	72,197
Deposits		**57,140**	42,305
Investment in an associate		**67,513**	67,712
Deferred tax assets		**659,521**	602,846
Derivative financial instruments		**49,577**	13,715
Other non-current financial assets		**310,027**	335,783
Total non-current assets		**14,953,945**	14,768,283
CURRENT ASSETS			
Inventories		**1,907,570**	2,087,720
Trade and bills receivables	*10*	**687,901**	739,257
Prepayments, other receivables and other assets		**239,861**	280,762
Derivative financial instruments		**7,444**	5,655
Cash and cash equivalents		**2,111,750**	2,400,070
Total current assets		**4,954,526**	5,513,464
CURRENT LIABILITIES			
Trade and bills payables	*11*	**792,646**	881,458
Other payables and accruals		**2,177,367**	2,175,358
Contract liabilities		**52,596**	264,215
Lease liabilities		**19,650**	23,533
Derivative financial instruments		**2,933**	104
Senior notes		**20,364**	19,752
Interest-bearing bank loans		**374,223**	3,125,737
Tax payable		**220,829**	331,776
Dividend payables		**92,828**	–
Total current liabilities		**3,753,436**	6,821,933
NET CURRENT ASSETS/(LIABILITIES)		**1,201,090**	(1,308,469)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
30 June 2022

	30 June 2022 *RMB'000* **(Unaudited)**	31 December 2021 *RMB'000* (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	**16,155,035**	13,459,814
NON-CURRENT LIABILITIES		
Senior notes	**2,018,749**	1,918,700
Interest-bearing bank loans	**6,945,060**	4,311,094
Other payables and accruals	**3,998**	8,851
Lease liabilities	**69,328**	79,049
Derivative financial instruments	**191,876**	430,802
Deferred tax liabilities	**800,348**	826,132
Total non-current liabilities	**10,029,359**	7,574,628
Net assets	**6,125,676**	5,885,186
EQUITY		
Issued capital	**5,516**	5,516
Other reserves	**6,120,160**	5,791,865
Proposed dividend	**–**	87,805
Total equity	**6,125,676**	5,885,186

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

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 2022 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 2021, 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 2021.

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 2021, except for the adoption of the following IFRSs for the first time for the current period's financial information:

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs are described below:

Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there was no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. The amendment did not have significant impact on the financial position or performance of the Group.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

(e) the pet nutrition and care products segment comprises the production of food, health supplements and bone broth products for pets.

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

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

	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Pet nutrition and care products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:							
Sales to external customers	2,462,057	494,339	2,046,428	227,451	725,172	–	5,955,447
Segment results	1,551,426	391,288	1,302,854	113,841	332,058	–	3,691,467
Reconciliations:							
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

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

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

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June **2022** *RMB'000* **(Unaudited)**	2021 *RMB'000* (Unaudited)
Mainland China	**4,394,592**	4,333,248
Australia and New Zealand	**692,539**	597,910
United States	**570,979**	151,461
Other locations#	**297,337**	341,701
	5,955,447	5,424,320

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

(b) **Non-current assets**

	30 June 2022	31 December 2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**498,971**	502,838
Australia and New Zealand	**2,343,232**	2,391,368
United States	**2,442,546**	2,349,792
Other locations#	**998,151**	1,027,750
	6,282,900	6,271,748

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**")

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	**5,955,447**	5,424,320

Disaggregated revenue information

For the six months ended 30 June 2022 (unaudited)

Segments	**Infant formulas** *RMB'000*	**Probiotic supplements** *RMB'000*	**Adult nutrition and care products** *RMB'000*	**Other pediatric products** *RMB'000*	**Pet nutrition and care products** *RMB'000*	**Total** *RMB'000*
Geographical markets						
Mainland China	**2,381,436**	**489,988**	**1,250,602**	**104,682**	**167,884**	**4,394,592**
Australia and New Zealand	**18,823**	**628**	**673,088**	**–**	**–**	**692,539**
United States	**–**	**424**	**13,424**	**–**	**557,131**	**570,979**
Other locations*	**61,798**	**3,299**	**109,314**	**122,769**	**157**	**297,337**
Total	**2,462,057**	**494,339**	**2,046,428**	**227,451**	**725,172**	**5,955,447**
Timing of revenue recognition						
Goods transferred at a point in time	**2,462,057**	**494,339**	**2,046,428**	**227,451**	**725,172**	**5,955,447**

For the six months ended 30 June 2021 (unaudited)

Segments	Infant formulas *RMB'000*	Probiotic supplements *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Pet nutrition and care products *RMB'000*	Total *RMB'000*
Geographical markets						
Mainland China	2,464,495	460,051	1,185,954	142,399	80,349	4,333,248
Australia and New Zealand	20,980	588	576,003	339	–	597,910
United States	–	134	13,134	–	138,193	151,461
Other locations*	55,757	3,628	131,384	150,932	–	341,701
Total	2,541,232	464,401	1,906,475	293,670	218,542	5,424,320
Timing of revenue recognition						
Goods transferred at a point in time	2,541,232	464,401	1,906,475	293,670	218,542	5,424,320

* Including Hong Kong SAR of the PRC.

Other income and gains

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**8,242**	2,518
Interest income from loans and bonds receivables	**1,266**	4,577
Foreign exchange gains	**15,501**	–
Fair value gains on derivative financial instruments, net	**16,320**	–
Fair value gains on financial assets	**14,985**	–
Government subsidies*	**16,199**	30,091
Gains on sales of raw materials	**10,629**	25,843
Gains on early termination of leases	**3,213**	19,249
Others	**5,305**	5,166
	91,660	87,444

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

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**2,128,935**	1,866,856
Depreciation of property, plant and equipment	**36,363**	42,653
Depreciation of right-of-use assets	**20,589**	27,525
Amortisation of intangible assets	**98,335**	66,487
Research and development costs**	**68,474**	59,696
Lease payments not included in the measurement of lease liabilities	**7,947**	8,216
Gains on early termination of leases*	**(3,213)**	(19,249)
Loss on disposal of items of property, plant and equipment and intangible assets	**1,063**	738
Employee benefit expenses:		
Wages and salaries	**544,305**	574,885
Pension scheme contributions (defined contribution schemes)	**77,489**	59,741
Staff welfare and other expenses	**22,725**	24,590
(Reversal of)/equity-settled share option expense	**(43,287)**	35,780
Equity-settled share award expense	**10,698**	–
	611,930	694,996
Foreign exchange differences, net	**(15,501)***	98,752**
Fair value (gains)/losses on derivative financial instruments, net	**(16,320)***	47,787**
Fair value (gains)/losses on financial assets	**(14,985)***	5,147**
Impairment of trade receivables**	**30,994**	1,699
Write-down of inventories to net realisable value#	**135,045**	134,715

* 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

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Charge/(credit) for the period		
Mainland China	**197,388**	102,663
Hong Kong SAR	**83,007**	86,121
Australia	**1,343**	(392)
Elsewhere	**1,273**	1,195
Deferred	**(76,720)**	(20,814)
Total tax charge for the period	**206,291**	168,773

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 2021: 25%) on the taxable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

Biostime (Guangzhou) Health Products Limited ("**Biostime Health**"), the Company's wholly-owned subsidiary operating in mainland China, was recognised as high-technology enterprise in December 2020, and is subject to EIT at a rate of 15% for three years from 2020 to 2022. Therefore, Biostime Health was subject to EIT at a rate of 15% for the six months ended 30 June 2022 and 2021. Guangzhou Hapai Information Technology Co., Ltd ("**Guangzhou Hapai**"), the Company's wholly-owned subsidiary, was recognised as high-technology enterprise in December 2019, and was subject to EIT at a rate of 15% for the three years from 2019 to 2021. As at 30 June 2022, Guangzhou Hapai 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, Guangzhou Hapai 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 2021: 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 2021: HKD2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (six months ended 30 June 2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2021: 16.5%).

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (six months ended 30 June 2021: 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 entitles.

United States corporate income tax

The Group is subject to taxation and files corporate income tax returns in the United States federal (calculated at the statutory rate of 21%) and state jurisdictions. The immediate United States parent entity is taxed as a single entity for United States tax purposes and as such the United States parent entity recognises all current and deferred tax amounts.

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.

8. DIVIDENDS

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final declared – HKD0.17 (2021: HKD0.39) per ordinary share	**93,886**	209,087
Dividends on ordinary shares declared after the interim reporting date:		
Interim – HKD0.25 (2021: HKD0.37) per ordinary share	**144,869**	198,051

On 29 August 2022, the Board declared an interim dividend of HK0.25 (six months ended 30 June 2021: HKD0.37) per ordinary share, amounting to a total of approximately RMB144,869,000 (six months ended 30 June 2021: RMB198,051,000).

9. 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 2022 attributable to ordinary equity holders of the parent of RMB475,113,000 (six months ended 30 June 2021: RMB501,354,000), and the adjusted weighted average number of ordinary shares of 641,531,668 (six months ended 30 June 2021: 644,503,900) 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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**475,113**	501,354
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**645,211,045**	644,679,611
Weighted average number of shares held for the share award schemes	**(3,679,377)**	(175,711)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**641,531,668**	644,503,900
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**2,845,434**	1,809,157
Adjusted weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**644,377,102**	646,313,057

10. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**704,337**	716,027
Bills receivable	**30,806**	48,198
	735,143	764,225
Less: Impairment provision	**(47,242)**	(24,968)
	687,901	739,257

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.

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 2022 *RMB'000* **(Unaudited)**	31 December 2021 *RMB'000* (Audited)
Within 1 month	**433,025**	477,008
1 to 3 months	**231,454**	223,721
Over 3 months	**23,422**	38,528
	687,901	739,257

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

	30 June 2022 *RMB'000* **(Unaudited)**	31 December 2021 *RMB'000* (Audited)
At beginning of the period/year	**24,968**	13,123
Impairment losses recognised	**31,804**	21,760
Amount written off as uncollectible	**(9,005)**	(5,706)
Impairment losses reversed	**(810)**	(2,834)
Exchange realignment	**285**	(1,375)
At end of the period/year	**47,242**	24,968

11. TRADE AND BILLS PAYABLES

	30 June 2022 *RMB'000* **(Unaudited)**	31 December 2021 *RMB'000* (Audited)
Trade payables	**792,646**	881,458

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

	30 June 2022 *RMB'000* **(Unaudited)**	31 December 2021 *RMB'000* (Audited)
Within 1 month	**669,979**	671,096
1 to 3 months	**98,522**	171,715
Over 3 months	**24,145**	38,647
	792,646	881,458

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

As at 30 June 2022, included in trade payables is an amount due to an associate of the Group of RMB2,721,000 (31 December 2021: RMB1,248,000) which is repayable within 30 days, being a credit period offered by the associate to its major customers.

CHAIRMAN'S STATEMENT

In the first half of 2022, we made solid headway along our strategic path for accelerating our business growth, achieving both top-line and like-for-like ("**LFL**")[1] expansions, with overall sales developments being well in line with our expectations. Our strategies for channel expansion, geographical diversification, and product innovation continued to deliver, restoring our growth trajectory and supporting our overall margins while positioning each of our strategic business pillars – Baby Nutrition & Care ("**BNC**"), Adult Nutrition & Care ("**ANC**") and Pet Nutrition and Care ("**PNC**") – for the future, despite facing continued industry challenges and a volatile macroeconomic environment.

In addition, on 27 June 2022, the Group drew down a new 3-year term loan facility with an aggregate principal amount of US$1.125 billion to refinance all of its existing loan facilities. This new loan facility is also sustainability-linked with 3 Environmental, Social and Governance ("**ESG**") performance targets that will unlock interest savings when each target is met. This successful refinancing arrangement has greatly improved our capital structure and liquidity position.

BABY NUTRITION & CARE

The overall performance in our BNC segment, our largest revenue contributor, aligned with our previous guidance. We continued to strengthen brand awareness and rapidly expand our reach in lower-tier cities through our channel expansion strategy, branding initiatives and focused investments in consumer education. In April, Biostime entered the children's formula (aged 3+) category to capture this demographic and tap more of the mainland China infant milk formula ("**IMF**") market – a move set to deliver new incremental sales growth opportunities to our overall IMF business. This narrowed revenue decline in the IMF category to low single digits with channel inventory levels remaining healthy – an encouraging result in the context of the long-term structural challenges facing all market players in mainland China, including declining birth rates, constrained demand, and increasing competition ahead of the implementation of new 'GB standards' (i.e. National Standards of the People's Republic of China) early next year.

We saw a clear turnaround in other parts of our BNC segment. Our probiotic supplements category delivered very strong momentum in the second quarter in particular as we expanded distribution and penetration within our existing IMF offline channels, introduced the functional benefits of our products to more consumers, and leveraged the efforts of our dedicated team to drive sales. This enabled a return to positive growth for the full six-month period, in line with our guidance and strategy. These efforts and our continued strong brand positioning also enabled us to maintain a stable share of mainland China's probiotics market and contributed to the healthy EBITDA level seen in the BNC segment.

Outside of mainland China, we witnessed robust double-digit growth in our Biostime branded business in France underpinned by our No.1 position in the organic IMF category within the French pharmacy channel where our market share is 43.0%. Even more encouragingly, our organic goat milk IMF already has a market share of 37.6% in the French pharmacy channel following its launch in November last year.

[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 merger & acquisition and foreign exchange changes.

ADULT NUTRITION & CARE

In the ANC segment, we performed satisfactorily in many areas and delivered double-digit growth in our major markets despite supply chain challenges. In mainland China, consumer demand for supplement products remained resilient. Normal trade sales grew robustly, supported by the launch of more innovative categories, effective marketing, and a strong performance during the 618 shopping festival. Our omni-channel strategy and our efforts to enhance brand awareness also further strengthened sales growth.

We saw a continued turnaround in the Australia and New Zealand ("**ANZ**") market with sustained growth momentum in the domestic market and export channels. This strong growth was fueled by rising demand for immune-supporting products, a strategic refocus on the domestic market and the launch of new products in innovative categories, maintaining Swisse's leadership in key categories and channels. Innovation was also a key factor with the launch of revolutionary beauty products within our Nutra+ range targeting the pharmaceutical channel and new product launches including Swisse Collagen+ Hyaluronic Acid Tablets.

ANC growth momentum is also proving to be very robust in our new expansion markets in Asia where, over the past several years, we have entered several markets including Hong Kong SAR, Singapore, Malaysia, Thailand, Indonesia, and India. This business was further expanded in the first half of 2022 when we launched Swisse in the Vietnam retail channel. Swisse also continued to strengthen its No.1 beauty supplement brand status in Singapore. These markets will continue to be a key focus for us and, consequentially, we are diversifying into more channels to further bolster growth, especially in Southeast Asia where we see extremely promising potential.

PET NUTRITION & CARE

Within our PNC business, we are witnessing growing durable trends toward pet nutrition premiumization and pet humanization in both the United States ("**US**") and mainland China markets. Channel expansion in the US, which is now the Group's third largest market and a major new source of growth, is one of our major priorities. Leveraging local expertise to expand both brands online and offline, Zesty Paws maintained its leading position on Amazon and Chewy and has been launched on Costco's online store. Zesty Paws and our other PNC brand, Solid Gold, are now present in more than 7,744 stores and 4,200 stores respectively, including major chains such as Walmart, Target, Petco and PetSmart, creating stronger channel synergies and brand awareness that will propel future growth.

Meanwhile, PNC sales in mainland China, led by Solid Gold, continued to deliver robust double-digit growth, leveraging increasing pet adoption rates and growing spending on premium pet nutrition. Our best-selling SKU, Indigo Moon, ranked first in the imported cat food category on Tmall during the 618 shopping festival, and Solid Gold now ranks 2nd in the premium cat dry food category with an 18.8% share. This enabled us to further improve brand exposure to consumers in both the online and offline markets. So far, we have reached approximately 5,000 pet stores and pet hospitals in the offline Chinese market.

On the financial side, we continued to deleverage our balance sheet through the continued generation of strong cash flow, with 90.6% of our adjusted EBITDA being converted into operating cash flow in the first half. We aim to achieve a healthy level in the coming three years while maintaining a consistent dividend payout ratio of 30% of adjusted net profit to reward our shareholders.

OUTLOOK: SUSTAIN GROWTH MOMENTUM AS WE AIM FOR GLOBAL LEADERSHIP IN PREMIUM NUTRITION AND WELLNESS

The fast-moving global macroeconomic environment is making conditions even more challenging, with existing supply chain and inflationary pressures. In mainland China, the industry environment confronting our BNC business, particularly the IMF segment, is set to become even more demanding as more small brands exit the market and seek to offload their inventory.

However, we are continuing to pursue expanded top-line growth compared to last year, with our ANC and PNC segments continuing their growth momentum and our BNC segment gradually returning to positive growth. We have stayed at the forefront of these segments of our business, attentive to changing consumer needs whilst capitalizing on new opportunities for growth. As we contend with ongoing competition in the second half, we will continue to stabilize our IMF market position through prioritizing our channel expansion strategy, as well as branding initiatives and focused investment in consumer education. Meanwhile, with probiotics having already returned to growth, we aim to expand into new categories and extend our penetration into Chinese offline channels, utilizing Biostime's world's No.1 brand positioning in mainland China's children's probiotics and prebiotics supplements market to further power growth momentum.

In the ANC category, we will push forward our normal trade business in mainland China with branding initiatives that target both the online and offline markets, while introducing more 'blue hat' (i.e. supplements registered with the State Administration for Market Regulation) and localized products to drive sales momentum. Meanwhile, we expect domestic sales and other export channel sales in ANZ to remain resilient as we launch more products in innovative categories and maintain Swisse's leadership in this market.

In the PNC segment, we will exploit strong industry momentum to further expand our business on online and offline platforms in the US, sustaining our leadership on the Amazon and Chewy e-commerce platforms. We will continue to develop Solid Gold in the mainland China market, having recently received seven new licenses to sell pet food products offline, with further plans to launch new products in the second half of this year.

Rising inflation and supply chain challenges will also squeeze margins in the second half of the year. However, we will continue to position the business for sustainable growth while combating these margin pressures through product mix optimization, increasing the price of selected SKUs, as well as with spending efficiency improvements and alternative sourcing.

SUSTAINABILITY: MAKING PURPOSEFUL STRIDES TOWARDS OUR SUSTAINABILITY GOALS

Sustainability touched every aspect of our business in the first half of 2022. Within our first impact area – 'Advancing the Story of Good Health' – we launched over 104 new products, won 23 awards for our products, and translated our investment in H&H Science into three innovative product opportunities in maternal and infant health. Additionally, we donated over US$1.0 million to community programs in the first half of the year, including supporting the Red Cross in response to the Australian flooding crisis.

In 'Reducing Our Footprint on the Planet' – our second impact area – we completed our Group-wide global carbon footprint assessment. Our next steps are to define our greenhouse gas emissions reduction targets, following the Science Based Targets initiative (SBTi) framework, to be approved in 2023. We confirmed our goal to combat climate change, aligning with our commitment to complete climate risks scenario analysis according to Task Force on Climate-related Financial Disclosures (TCFD) recommendations by the end of 2022. We are also proud to share that our Swisse Earth range of sustainably sourced supplements, packaged using recycled and recyclable paper, has won a Packaging Innovation and Design Award (PIDA) from the Australian Institute of Packaging.

In 'Honoring Human Rights and Fairness' – our third impact area – we developed our Diversity Equity and Inclusion Policy and launched the #IAmRemarkable program, a Google initiative that empowers women and underrepresented groups in the workplace and beyond. We held workshops in the UK and China, with plans to expand across our offices globally. We also became a new member of the Women's Empowerment Principles (WEPs) community, founded by the United Nations to promote gender equality in the workplace. Sharing societal concerns about animal welfare, we developed and approved company-wide Animal Welfare and Animal Testing policies, defining our principles to protect the health and safety of all animals in our value chain.

In the area of 'Good Governance' – our fourth impact area – we have established an ESG committee to manage the Group's management of sustainability issues and to enhance the quality of disclosure. We have also incorporated ESG key performance indicators into senior managers' performance reviews. Fostering transparency for our stakeholders, we maintained our MSCI ESG rating of 'A' for ESG performance. Our teams in Australia, New Zealand and China also submitted B Corp applications, while our UK, France and US teams are currently completing the application process. This progress moves us closer to our commitment to achieve Group-wide B-Corp certification by 2025.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

For the six months ended 30 June 2022, the Group's revenue increased by 9.8% on reported basis to RMB5,955.4 million as compared with the same period in 2021, mainly driven by the healthy growth of the ANC and Solid Gold businesses as well as the consolidation of Zesty Paws' revenue since the completion of acquisition on 4 October 2021. On a LFL basis, the Group's revenue increased by 5.1% comparing with the same period in 2021.

	Six months ended 30 June				% to revenue	
	2022 *RMB million*	2021 *RMB million*	*Reported Change*[1]	*LFL Change*	**2022**	2021
Revenue by product segment						
Baby nutrition and care products	**3,183.8**	3,299.3	*-3.5%*	*-3.5%*	**53.4%**	60.9%
– Infant formulas	**2,462.0**	2,541.2	*-3.1%*	*-3.1%*	**41.3%**	46.9%
– Probiotic supplements	**494.3**	464.4	*6.4%*	*6.4%*	**8.3%**	8.6%
– Other pediatric products	**227.5**	293.7	*-22.5%*	*-22.5%*	**3.8%**	5.4%
Adult nutrition and care products	**2,046.4**	1,906.5	*7.3%*	*14.9%*	**34.4%**	35.1%
Pet nutrition and care products	**725.2**	218.5	*231.9%*	*35.4%*[2]	**12.2%**	4.0%
Revenue by geography						
Mainland China	**4,394.6**	4,333.2	*1.4%*	*3.4%*	**73.8%**	79.9%
ANZ	**692.5**	597.9	*15.8%*	*24.0%*	**11.6%**	11.0%
US	**571.0**	151.5	*276.9%*	*21.9%*[2]	**9.6%**	2.8%
Other territories	**297.3**	341.7	*-13.0%*	*-10.7%*	**5.0%**	6.3%
Total	**5,955.4**	5,424.3	*9.8%*	*5.1%*	**100.0%**	100.0%

1 The exchange rates used for the six months ended 30 June 2022 and 2021 were AUD1=RMB4.6639 and USD1=RMB6.4835, AUD1=RMB4.9922 and USD1=RMB6.4718, respectively.

2 The LFL change of PNC and US are on pro forma basis as if the revenue of Zesty Paws for the six months ended 30 June 2022 and 2021 were consolidated.

Mainland China: Focusing on channel expansion and consumer education to protect market share and margins

Revenue from mainland China amounted to RMB4,394.6 million for the six months ended 30 June 2022, increasing by 3.4% compared with the same period of last year on a LFL basis. The increase mainly thanks to strong growth in ANC and PNC segment, which was partially offset by a single-digit decrease in BNC segment. On reported basis, revenue from mainland China accounted for 73.8% of the Group's total revenue for the six months ended 30 June 2022, compared with 79.9% in the same period of last year.

In BNC segment, the total revenue was RMB2,976.1 million for the six months ended 30 June 2022, decreasing by 3.0% compared with the same period of last year. For the six months ended 30 June 2022, the revenue from IMF in mainland China recorded a narrowing decline by 3.4% to RMB2,381.4 million, compared with same period of last year. All IMF players in mainland China are facing long-term structural challenges, including declining birth rates, constrained demand, increasing competition ahead of the implementation of new GB standards early next year. While the Group continued to strengthen brand awareness and rapidly expand its reach in lower-tier cities through its channel expansion strategy, branding initiatives and focused investments in consumer education. According to Nielsen, an independent research data provider, the Group continued to maintain a stable market position of 5.7% of the overall mainland China IMF market for the twelve months ended 30 June 2022.

For the six months ended 30 June 2022, the Group recorded revenue from probiotic supplements in mainland China of RMB490.0 million, increasing by 6.5% compared with the six months ended 30 June 2021. Such increase was driven by distribution expansion and penetration within the Group's existing IMF offline channels, introduction of the functional benefits of the Group's products to more consumers, and leveraging the efforts of the Group's dedicated team to drive sales.

Revenue from other pediatric products segment in mainland China, mainly sales of Dodie branded diaper, decreasing by 26.5% to RMB104.7 million for the six months ended 30 June 2022 compared with the six months ended 30 June 2021. The decrease was mainly due to the focus shift from volume growth to profitability improvement for this category.

In ANC segment, on a LFL basis, mainland China active sales maintained double-digit growth of 12.9% as compared with the same period of last year, and accounted for 61.1% of the Group's total ANC revenue for the six months ended 30 June 2022. The growth was mainly driven by the Group's omni-channel strategy and its efforts to enhance brand awareness. For the six months ended 30 June 2022, normal trade sales continued to deliver robust year-on-year growth of 41.7% on a LFL basis, supported by the launch of more innovative categories, effective marketing, and a strong performance during the 618 shopping festival. In the twelve months ended 30 June 2022, Swisse continued to maintain its No. 1 position across major e-commerce platforms in mainland China with a market share of 7.0%.

Revenue from PNC segment in mainland China recorded a robust growth of 108.6% on a LFL basis in the six months ended 30 June 2022 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's best-selling SKU in mainland China market, Indigo Moon, ranked first in the imported cat food category on Tmall during the 618 shopping festival, and Solid Gold now ranks 2nd in the premium cat dry food category with an 18.8% market share. This enabled the Group to further improve its brand exposure to consumers in both the online and offline markets.

ANZ: Sustaining growth momentum in both the domestic market and export channels

On a LFL basis, revenue from ANZ market segment increased by 24.0% to AUD148.5 million for the six months ended 30 June 2022, contributing 11.6% of the Group's total revenue. This strong growth was fueled by the rising demand for immune-supporting products, as well as a strategic refocus on the domestic market and the launch of new products in innovative categories, maintaining Swisse's leadership in key categories and channels. For the six months ended 30 June 2022, revenue from the corporate daigou channel and retail channels increased by 27.4% and 22.3% respectively as compared with the same period in 2021, and accounted for 33.8% and 66.2% of the total ANZ business, respectively.

US: Rapidly becoming the Group's third largest market

For the six months ended 30 June 2022, revenue contributed from the US achieved strong growth of 276.9% year-on-year on reported basis, and accounted for 9.6% of the Group's total revenue. The strong growth was mainly driven by the increasing pet population, alongside the pet nutrition premiumization and pet humanizing trends that are becoming well established in the US market. On a LFL and pro forma basis, assuming the revenue of Zesty Paws for the six months ended 30 June 2022 and 2021 were consolidated, revenue contributed from the US increased by 21.9% compared with the same period of last year.

On the standalone basis, revenue of Solid Gold and Zesty Paws achieved strong year-on-year growth of 13.6% and 26.3% for the six months ended 30 June 2022, respectively. Leveraging local expertise to expand online and offline, Zesty Paws maintained its leading position on Amazon and Chewy and was launched on Costco's online store.

Other territories: Strong growth momentum continued in Asian markets while facing pressure from EU markets

Revenue contributed from other territories decreased by 10.7% on a LFL basis in the six months ended 30 June 2022 as compared with the same period of last year. The decrease mainly resulted from the Group's strategic refocusing and restructuring particularly in EU markets aiming for profitability improvement. Following the expansion into Thailand, Indonesia, and Taiwan (China) in 2021, the Group also launched Swisse in Vietnam during the first half of 2022. These markets will continue to be a key focus for the Group and, consequentially, the Group is diversifying into more channels to further bolster growth in Southeast Asia, where it sees extremely promising potential.

Gross profit and gross profit margin

In the first half of 2022, the Group recorded gross profit of RMB3,691.5 million, representing an increase of 7.9% as compared with the same period of last year. The Group's gross profit margin decreased to 62.0% in the first half of 2022 from 63.1% in the first half of 2021, mainly due to the unfavorable product mix changes towards higher revenue proportion from the lower-margin PNC segment. The respective gross profit margin of BNC segment, ANC segment and PNC segment increased compared with the same period of last year. Various effective and timely supply chain optimization measures helped to mitigate the impact of sourcing cost increase to a large extent.

The gross profit margin of the BNC segment increased slightly to 64.6% in the first half 2022 from 64.5% in the first half of 2021 mainly due to the higher revenue proportion from the high-margin probiotic supplements.

The gross profit margin of the ANC segment increased from 63.2% in the first half of 2021 to 63.7% in the first half of 2022, mainly resulting from the decreased stock provision owing to continued improvement in inventory management and demand planning.

The gross profit margin of PNC segment increased to 45.8% in the first half of 2022 from 41.7% in the same period of last year. Excluding the impact on cost of goods sold ("**COGS**") of RMB23.5 million 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 was 49.0% for the six months ended 30 June 2022. The increased gross profit margin of PNC segment was mainly due to the higher gross profit margin from Zesty Paws and mainland China active sales of Solid Gold.

Other income and gains

Other income and gains amounted to RMB91.7 million for the six months ended 30 June 2022. Other income and gains primarily consisted of net fair value gain on the financial instruments of RMB31.3 million, net foreign exchange gain of RMB15.5 million, government subsidies of RMB16.2 million, gain on sales of raw materials of RMB10.6 million and others.

The non-cash fair value gain on financial instruments of RMB31.3 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, and the existing equity investments held by NewH2. The net foreign exchange gain of RMB15.5 million mainly represented non-cash gain from the revaluation on intragroup loans.

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 11.3% to RMB2,334.4 million in the six months ended 30 June 2022, as compared with same period of 2021. Selling and distribution costs excluding D&A as a percentage of the Group's revenue increased slightly from 38.7% in the first half of 2021 to 39.2% in the first half of 2022.

BNC

Selling and distribution costs of BNC business amounted to RMB1,253.5 million in the six months ended 30 June 2022, represented a decrease of 2.0% as compared with the same period of last year. Selling and distribution costs of BNC business as a percentage of the Group's revenue from BNC business increased from 38.8% in the first half of 2021 to 39.4% in the first half of 2022.

Advertising and marketing expense of BNC business as a percentage of its revenue remained flat at 11.3% in the first half of 2022 as compared with the same period of 2021, whereas selling and distribution costs other than advertising and marketing expense of BNC business as a percentage of revenue increased to 28.1% in the first half of 2022 from 27.5% of the same period of last year mainly due to higher channel investment required for BNC business in mainland China market amid declining birth rate, intensifying competition and constrained demand.

ANC

Selling and distribution costs of ANC business amounted to RMB825.6 million in the six months ended 30 June 2022, represented an increase of 8.2% 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 increased slightly from 40.0% in the first half of 2021 to 40.3% in the first half of 2022.

Advertising and marketing expense of ANC business as a percentage to the Group's ANC revenue increased from 28.3% in the first half of 2021 to 30.1% in the half of 2022. The increase was mainly from mainland China and ANZ markets in order to further enhance brand awareness and build up scale both online and offline. The Group's most influential brand-building investment, in particular, has been Biostime and Swisse's co-sponsoring of the supremely popular reality show *Sisters Who Make Waves* (乘風破浪的姐姐), which allowed the Group to reach and educate a highly-relevant audience for both brands.

The selling and distribution costs other than advertising and marketing expense of ANC business as a percentage to its revenue decreased from 11.7% in the first half of 2021 to 10.3% in the first half of 2022 resulting from the continuing measures taken in all markets especially in mainland China and ANZ to improve the spending efficiency.

PNC

Following the consolidation of Zesty Paws' revenue since the completion of acquisition on 4 October 2021, selling and distribution costs of PNC business increased from RMB55.5 million for the six months ended 30 June 2021 to RMB255.3 million for the six months ended 30 June 2022. Selling and distribution costs of PNC business as a percentage of its revenue increased from 25.3% for the six months ended 30 June 2021 to 35.2% for the same period of 2022. The increase was mainly due to the consolidation of Zesty Paws' financial after the acquisition and the increased investment in Solid Gold business. Selling and distribution costs of Zesty Paws business as a percentage of revenue from sales of Zesty Paws products was 41.4% for the first half of 2022. Selling and distribution costs of Solid Gold business as a percentage of revenue from sales of Solid Gold products increased from 25.3% for the six months ended 30 June 2021 to 27.6% for the same period in 2022, mainly due to the investment in channel expansion and brand exposure in both online and offline markets in mainland China.

Advertising and marketing expense and selling and distribution costs other than advertising and marketing expense of PNC business as percentages of its revenue were 12.4% and 22.8%, respectively, for the six months ended 30 June 2022.

Administrative expenses

Administrative expenses increased by 1.2% from RMB311.1 million in the six months ended 30 June 2021 to RMB314.9 million for the six months ended 30 June 2022. Administrative expenses as a percentage of the Group's revenue decreased to 5.3% in the first half of 2022, as compared with 5.7% in the first half of 2021 thanks to the continued efforts made to optimize overall administrative cost structure.

Other expenses

Other expenses for the six months ended 30 June 2022 amounted to RMB101.0 million. Other expenses mainly included research and development ("**R&D**") expenditure of RMB68.5 million and others.

During the period under review, R&D expenditure increased by 14.7% 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 increased slightly from 1.1% in the six months end 30 June 2021 to 1.2% in the same period of 2022.

EBITDA and EBITDA margin

Adjusted EBITDA achieved RMB1,056.1 million in the six months ended 30 June 2022, decreased by 1.0% compared with the six months ended 30 June 2021. Adjusted EBITDA margin for the first half of 2022 was 17.7%, decreased from 19.7% for the same period of last year. The decrease in adjusted EBITDA margin was mainly due to (i) the dilution from lower-margin PNC business; and (ii) higher investment required to strengthen both channel and brand positioning particularly in mainland China market.

EBITDA for the six months ended 30 June 2022 amounted to RMB1,079.4 million, increased by 16.1% from RMB929.6 million in the six months ended 30 June 2021.

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	
	2022	2021
	RMB million	*RMB million*
EBITDA	**1,079.4**	929.6
Reconciled by:		
Non-cash items*:		
(1) Net foreign exchange (gains)/losses	**(15.5)**	98.8
(2) Net fair value (gains)/losses on financial instruments	**(31.3)**	52.9
Non-recurring items*:		
(3) 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**	–
(4) One-time restructuring costs including gains on early termination of leases	**–**	(14.9)
Adjusted EBITDA	**1,056.1**	1,066.4

* 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 2022, the Group incurred finance costs of RMB252.3 million, representing an increase of 94.2% compared with the same period of 2021. The finance costs for the six months ended 30 June 2022 included interests for the term loan and senior notes of RMB216.0 million, which increased by 107.4% compared with the same period of last year mainly due to the incremental interest-bearing bank loans with principle of US$550 million in relation to the acquisition of Zesty Paws. The finance costs for the six months ended 30 June 2022 also included the one-off write-off of unamortized transaction costs and losses on modification upon refinancing of the interest bearing bank loans of RMB31.1 million.

Income tax expense

Income tax expense increased from RMB168.8 million in the six months ended 30 June 2021 to RMB206.3 million in the six months ended 30 June 2022. The effective tax rate increased from 25.2% in the first half of 2021 to 30.3% in the first half of 2022, mainly due to the increase in non-deductible interest of the incremental interest-bearing bank loans with principle of US$550 million in relation to the acquisition of Zesty Paws.

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	
	2022	2021
	RMB million	*RMB million*
Net profit	**475.1**	501.4
Reconciled by:		
EBITDA adjusted items as listed above	**(23.3)**	136.8
Non-cash items*:		
One-off write-off of unamortized transaction costs and losses on modification upon refinancing of the interest bearing bank loans	**31.1**	–
One-off amortized loss of interest rate swap for previous term loan	**–**	22.0
Adjusted net profit	**482.9**	660.2

* 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 2022, the Group recorded net cash generated from operating activities of RMB555.8 million, resulting from pre-tax cash from operations of RMB956.4 million, minus income tax paid of RMB400.6 million.

Investing activities

For the six months ended 30 June 2022, net cash flows used in investing activities amounted to RMB46.2 million, primarily resulted from purchases of property, plant and equipment, intangible assets of RMB48.3 million, partially offset by interest received of RMB6.7 million.

Financing activities

For the six months ended 30 June 2022, net cash flows used in financing activities amounted to RMB817.6 million, primarily related to the net of repayment of existing interest-bearing bank loans and proceed from new term loan of RMB383.7 million, the interest paid for interest-bearing bank loans and senior notes of RMB193.2 million, the transaction costs in relation to the refinancing of the interest-bearing bank loans of RMB144.2 million, the purchase of the Company's shares of RMB61.8 million under the share award scheme adopted by the Company on 11 January 2022 (the "**2022 Share Award Scheme**"), and payment of lease liabilities of RMB21.1 million.

Cash and bank balances

As of 30 June 2022, cash and cash equivalents as stated in the interim condensed consolidated statement of financial position amounted to RMB2,111.8 million.

Term loan and senior notes

As of 30 June 2022, the Group's outstanding term loans amounted to RMB7,319.3 million, including current portion of RMB374.2 million. The total carrying amount of the senior notes was RMB2,039.1 million, including current portion of RMB20.4 million.

As of 30 June 2022, the net leverage ratio increased to 3.93 from 1.92 of the same period of last year, calculated by dividing the net debts[1] by accumulated adjusted EBITDA for the last twelve months ended 30 June 2022. Gearing ratio increased to 47.0% from 35.5% as of 30 June 2021, calculated by dividing the sum of the carrying amount of senior notes and interest-bearing term loan by total assets.

Working capital

Advance payment is normally required for the sale in mainland China, except for limited circumstances. The Group usually allows credit sales in oversea 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 decreased from 24 days for the six months ended 30 June 2021 to 22 days for the six months ended 30 June 2022, mainly due to the stricter credit terms control post COVID-19 pandemic. The average turnover days of trade payables increased from 62 days for the six months ended 30 June 2021 to 67 days for the six months ended 30 June 2022, mainly due to the different cut-off days.

The inventory turnover days were 159 days for the six months ended 30 June 2022, representing a decrease of 20 days from 179 days for the six months ended 30 June 2021. The inventory turnover days of BNC products decreased from 191 days for the six months ended 30 June 2021 to 175 days for the six months ended 30 June 2022. The inventory turnover days of ANC products decreased from 178 days for the six months ended 30 June 2021 to 143 days for the six months ended 30 June 2022. The decrease in inventory turnover days of BNC products and ANC products were mainly resulting from the continuous inventory management improvement efforts during the COVID-19 pandemic. The inventory turnover days of PNC products was 143 days for the six months ended 30 June 2022.

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

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 HKD0.25 per ordinary share, representing approximately 30.0% of the Group's Adjusted net profit for the period of six months ended 30 June 2022. The interim dividend will be paid on or about Thursday, 13 October 2022 to the shareholders whose names appear on the register of members of the Company on Friday, 16 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 14 September 2022 to Friday, 16 September 2022, 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, 13 September 2022.

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period and up to the approval date of the financial statements.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. The Company has complied with all the code provisions contained in the CG Code for the six months ended 30 June 2022.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2022.

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 2022.

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

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this interim results announcement complies with Appendix 16 to the Listing Rules. The Audit Committee has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022.

The interim condensed consolidated financial statements for the six months ended 30 June 2022 have not been audited but have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by the Hong Kong Institute of Certified Public Accountants.

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

During the six months ended 30 June 2022, based on the Company's instructions, the trustee of the 2022 Share Award Scheme has purchased a total of 6,536,500 ordinary shares of the Company on the open market of the Stock Exchange at a total consideration of HK$75,757,375. For more details, please refer to the Company's announcement dated 8 April 2022.

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 2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.hh.global) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2022 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board of
Health and Happiness (H&H) International Holdings Limited
Luo Fei
Chairman

Hong Kong, 29 August 2022

As at the date of this announcement, the executive directors of the Company are Mr. Luo Fei, Mrs. Laetitia Albertini and Mr. Wang Yidong; the non-executive directors of the Company are Dr. Zhang Wenhui and Mr. Luo Yun; and the independent non-executive directors of the Company are Mr. Tan Wee Seng, Mrs. Lok Lau Yin Ching and Mr. Wang Can.