

SFC commences MMT proceedings against Health and Happiness (H&H) International Holdings Ltd and its Chairman for late disclosure of inside information

29 Nov 2018

The Securities and Futures Commission (SFC) has commenced proceedings in the Market Misconduct Tribunal (MMT) against Health and Happiness (H&H) International Holdings Ltd (Health and Happiness) for failing to disclose price sensitive information as soon as reasonably practicable.

Health and Happiness was known as Biostime International Holdings Ltd (Biostime) when the alleged breach of the statutory corporate disclosure requirements occurred (Note 1).

The SFC has also commenced proceedings in the MMT against Mr Luo Fei, Biostime's Chairman, Chief Executive Officer and Executive Director for his reckless or negligent conduct causing the alleged breach by Biostime of the provisions of the statutory corporate disclosure regime.

On 23 July 2015, Biostime issued a profit warning announcement in which it stated that the revenue and the profit of the Group for the six months ended 30 June 2015 were expected to decrease by approximately 11 per cent and 36 per cent, respectively, as compared with the corresponding period in 2014. Following the publication of the profit warning, Biostime's share price closed at \$16.94 on 24 July 2015, representing a decrease of 21.6 per cent when compared with the previous closing price.

The SFC found that in mid-June 2015, the consolidated management accounts of the Group for the first five months of 2015 became available which revealed that both the revenue and the net profit had significantly decreased by 13.7 per cent and 28.9 per cent, respectively, when compared with the corresponding period in 2014. This information about the financial deterioration came to the knowledge of Biostime and Luo on or around 23 June 2015. However, Biostime did not disclose such information to the public until 23 July 2015, when it issued the profit warning (Note 2).

The SFC alleges that the information about the financial deterioration was specific information regarding Biostime, price sensitive and not generally known to the public at the material time. Had the information been known to the investing public, it would have been likely to materially affect the share price of Biostime (Note 3).

Notes:

1. Biostime was listed on the Main Board of the Hong Kong Stock Exchange on 17 December 2010 and renamed as Health and Happiness on 8 June 2017.
2. The consolidated management accounts for the first five months of 2015 showed:
 - a drop in revenue by 54.5 per cent in May 2015 when compared with the revenue in April 2015;
 - a drop in revenue by 48.9 per cent in May 2015 when compared with the revenue in May 2014;
 - a drop in revenue by 13.7 per cent in the first five months of 2015 when compared with the revenue in the first five months of 2014;
 - a decrease in profit after tax by 28.9 per cent in the first five months of 2015 when compared with the profit after tax in the first five months of 2014.
3. The share price of Biostime fell 11.5 per cent from \$16.94 on 24 July 2015 to \$15 on the next trading day on 27 July 2015.
4. A copy of the SFC's Notice commencing the MMT proceedings is available on the MMT's website (www.mmt.gov.hk).

**IN THE MATTER OF THE LISTED SECURITIES OF
HEALTH AND HAPPINESS (H&H) INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS BIOSTIME INTERNATIONAL HOLDINGS LIMITED)
(STOCK CODE 1112)**

**NOTICE TO THE MARKET MISCONDUCT TRIBUNAL
PURSUANT TO SECTION 307I(2) OF AND SCHEDULE 9 TO THE
SECURITIES AND FUTURES ORDINANCE (CAP. 571)
("THE ORDINANCE")**

Whereas it appears to the Securities and Futures Commission ("**the Commission**") that a breach of the disclosure requirements within the meaning of sections 307B and 307G of Part XIVA of the Ordinance has or may have taken place in relation to the securities of Health and Happiness (H&H) International Holdings Limited (Stock Code 1112) listed on the Stock Exchange of Hong Kong Limited, the Market Misconduct Tribunal is hereby required to conduct proceedings and determine:-

- (a) whether a breach of a disclosure requirement has taken place; and
- (b) the identity of any person who is in breach of the disclosure requirement.

Persons and/or corporate bodies appearing to the Commission to have breached or may have breached a disclosure requirement

- (i) Health and Happiness (H&H) International Holdings Limited (健合(H&H)國際控股有限公司) (formerly known as Biostime International Holdings Limited) (the "**Company**")
- (ii) Luo Fei (羅飛) ("**Luo**")

(each a "Specified Person" and collectively, the "Specified Persons")

Statement of Institution of Proceedings

A. PARTIES

1. The Company (the 1st Specified Person) is a Cayman Islands incorporated company. At the material time, the Company and its subsidiaries (together the “**Group**”) were principally engaged in the manufacture and sale of premium paediatric nutritional and baby care products in China.
2. The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (“**SEHK**”) on 17 December 2010 (Stock code: 1112).
3. Luo (the 2nd Specified Person) was at all material times the Chairman, the Chief Executive Officer and an executive director of the Company.
4. Luo was at all material times an “*officer*” of the Company as defined in section 1 of Part 1 of Schedule 1 to the Ordinance.

B. THE TWO ANNOUNCEMENTS AND THE PROFIT WARNING

5. On 2 June 2015, the Company’s share price decreased by 13.1% from \$31.7 per share on 1 June 2015 to close at \$27.55 per share on 2 June 2015, with an increased trading volume from 1.1 million shares on 1 June 2015 to over 7.3 million shares on 2 June 2015.
6. Later that day at around 5:41 pm, the Company issued an announcement (“**1st Announcement**”), which stated, *inter alia*, that the board of the Company (“**the Board**”) confirmed that it was not aware of any reasons for the aforesaid price or volume movements, or of any information which must be announced to avoid a false market in the Company’s securities, or of any inside information that needed to be disclosed under Part XIVA of the Ordinance. The 1st Announcement further confirmed that the business operations of the Group were normal.
7. Subsequently on the same day, the Board resolved that, in order to increase transparency of the Company’s operational statistics and to be in line with the practice adopted by some companies in the market, the Company would start publishing unaudited quarterly results, disclosing the Company’s major financial statistics, in May and November every year. Since the financial statistics of the Company for the

first four months of 2015 were available at that time, the Board decided that they would be disclosed by way of an announcement.

8. Therefore, after the market closed on 3 June 2015, the Company issued another announcement (“**2nd Announcement**”). The 2nd Announcement provided details of the Company’s unaudited operational statistics, disclosing its revenue and net profit for the first four months of 2015 together with the figures of the corresponding period in 2014. The comparison between the said 2014 and 2015 figures showed that there was an increase of 7.5% in the Company’s net profit despite a drop of 5.5% in its revenue.
9. This was the first time that the Company published financial results, albeit unaudited, for a period other than in the interim or at year end. After the 2nd Announcement was issued, the Company’s share price closed up 0.19% at \$26.05 per share on 4 June 2015, and further increased 5.37% to close at \$27.45 per share on 5 June 2015.
10. In or around mid-June 2015, the consolidated management accounts of the Group for the first five months of 2015 (up to 31 May 2015) became available. The consolidated management accounts revealed a significant deterioration in the Company’s financial performance when compared with the corresponding period in 2014. These figures included:-
 - (1) A drop in revenue by 54.5% in May 2015 when compared with the revenue in April 2015;
 - (2) A drop in revenue by 48.9% in May 2015 when compared with the revenue in May 2014.
 - (3) A drop in revenue by 13.7% in the first five months of 2015 when compared with the revenue in the first five months of 2014;
 - (4) A loss after tax of HK\$45.9 million in May 2015 when compared with a profit after tax of HK\$19.2 million in May 2014; and
 - (5) A decrease in profit after tax by 28.9% in the first five months of 2015 when compared with the profit in the first five months of 2014.
11. The information relating to the financial performance of the Group for the first five months of 2015 as contained in the monthly consolidated management accounts for

the five months ending 31 May 2015 (“**2015 Jan-May Financial Performance**”) did, or alternatively, ought reasonably to have, come to the knowledge of Luo on or around 23 June 2015, when an email was sent by Xiao Xi Yun (“**Xiao**”), the Financial Reporting Manager (財務報告經理) to Luo (copied to Frank Cao (“**Cao**”), the Chief Financial Officer of the Company at the time) with the subject matter “*key performance data*” (“**the 23 June Email**”). In the 23 June Email, it was stated that the revenue of the Company for the first five months of 2015 dropped 13.7% when compared with the revenue of the corresponding period in 2014. Attached to the email was an excel spreadsheet showing the Company’s financial performance for the first five months of 2015 and a comparison with the corresponding figures for the first five months of 2014.

12. On 15 July 2015, the consolidated management accounts of the Group for the six months ending 30 June 2015 became available. The accounts revealed that, *inter alia*, the unaudited net profit of the Group for the first six months of 2015 had decreased by 34.6% when compared with the net profit of the corresponding period in 2014.
13. On 22 July 2015, Cao circulated to the Board the main financial statistics of the Group for the first six months of 2015 (including its revenue and profit figures), and a draft profit warning.
14. On 23 July 2015 at 8:00 am, a Board meeting was held to discuss, *inter alia*, the publication of the said draft profit warning. The Board resolved to publish the said draft profit warning.
15. After the market closed on 23 July 2015, the Company issued a profit warning (“**Profit Warning**”) at 5:08 pm, which stated, *inter alia*, that:-
 - (1) It was expected that the revenue and profit of the Group for the six months ended 30 June 2015 would decrease by approximately 11% and 36% respectively, as compared with the corresponding period in 2014.
 - (2) The Group planned to launch an upgraded infant formula series – SN-2 PLUS Balanced Formula at the end of June 2015.
 - (3) In order to coordinate the launch of the upgraded infant formula series, the Group carried out active promotional price discounting activities for the previous infant formula series in the first half of 2015.

- (4) The Board believed that the decrease in revenue and profit of the Group was due primarily to the exceptional active promotional price discounting activities, which led to a decrease in gross profit margin.
 - (5) Without the effect of this exceptional promotional activity, the key financial performances of the Group remain within normal range.
16. The decision to publish the Profit Warning was in accordance with a previous Board resolution dated 9 February 2015, in which it was resolved that the Company would issue a profit warning if there was a change of 20% or more in the profit in the corresponding period.
17. Following the publication of the Profit Warning, the share price of the Company on 24 July 2015 traded between \$16.90 and \$18.90 per share, and closed at \$16.94 per share. The closing price represented a decrease of 21.6% when compared with its closing price on 23 July 2015, and on an increased trading volume from 2.8 million shares on 23 July 2015 to over 19.4 million shares on 24 July 2015.
18. The Company's share price continued to drop 11.5% on the next trading day (i.e. 27 July 2015) and closed at \$15.00 per share on a slightly reduced trading volume of about 10.6 million shares.

C. FAILURE TO DISCLOSE INSIDE INFORMATION

19. The information relating to the 2015 Jan-May Financial Performance constituted "*inside information*" within the meaning of the definition of that term in section 307A(1) of the Ordinance in that:-
 - (1) It was specific information about the Company; and
 - (2) It was not generally known to the persons who were accustomed to or would be likely to deal in the listed securities of the Company but would if generally known to them have been likely to materially affect the price of the securities.
20. The information relating to the 2015 Jan-May Financial Performance did, or alternatively, ought reasonably to have, come to the knowledge of Luo, an officer of the Company, on or around 23 June 2015 (see §11 above).

21. A reasonable person, acting as an officer of the Company, would have considered that the information relating to the 2015 Jan-May Financial Performance was inside information in relation to the Company.
22. By reason of the aforesaid, the information relating to the 2015 Jan-May Financial Performance came to the knowledge of the Company through Luo as its officer on or around 23 June 2015. Once such information came to the Company's knowledge, the Company was obliged, under section 307B of the Ordinance, to disclose that information to the public as soon as reasonably practicable. However, no disclosure in respect of the significant deterioration in the Company's financial performance was made until the publication of the Profit Warning on 23 July 2015.

D. BREACH OF DISCLOSURE REQUIREMENT BY THE COMPANY

23. By reason of the matters set out above, the Company failed to disclose to the public information in relation to the 2015 Jan-May Financial Performance (which constituted "*inside information*" within the meaning of section 307A(1) of the Ordinance) as soon as reasonably practicable after the said inside information had come to its knowledge, contrary to section 307B(1) of the Ordinance.
24. Under section 307A(2) of the Ordinance, a breach of a disclosure requirement takes place if any of the requirements in, *inter alia*, section 307B is contravened in relation to a listed corporation.
25. Therefore, the Company was, or may have been, in breach of the disclosure requirement as provided for in section 307B of the Ordinance.

E. BREACH OF DISCLOSURE REQUIREMENT BY LUO

26. As an officer of the Company, Luo would also be in breach of the disclosure requirement if the breach by the Company was as a result of his reckless or negligent conduct (section 307G(2)(a) of the Ordinance).
27. By reason of the matters set out above, Luo was aware of, or alternatively ought reasonably to have, become aware of the inside information pertaining to the 2015 Jan-May Financial Performance (which revealed a significant deterioration in the Company's financial performance) on or around 23 June 2015, one month before the

publication of the Profit Warning on 23 July 2015. Luo failed to ensure timely disclosure of the information to the public after it had come to his knowledge. Such failure amounted to reckless or negligent conduct on the part of Luo.

28. In these circumstances, Luo was, or may have been, in breach of the disclosure requirement pursuant to section 307G(2)(a) of the Ordinance.

Dated this the 16th day of November 2018

Securities and Futures Commission