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HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June		Change in percentage
	2021 RMB'000	2020 RMB'000	
Revenue	1,763,675	1,715,710	+2.8%
Gross profit	1,053,981	1,088,700	-3.2%
Gross profit margin	59.8%	63.5%	
Operating profit	733,573	185,778	+294.9%
EBITDA margin*	49.4%	47.6%	
EBIT margin**	41.6%	10.8%	
EBIT margin (adjusted figure for the same period in 2020)#	41.6%	39.7%	
Profit for the period	581,465	66,192	+778.5%
Profit for the period (adjusted figure for the same period in 2020)#	581,465	561,690	+3.5%
Profit/(loss) attributable to the equity holders of the Company	481,129	(45,434)	+1,159.0%
Profit attributable to the equity holders of the Company (adjusted figure for the same period in 2020)#	481,129	450,064	+6.9%
Net cash generated from operating activities	485,403	467,520	+3.8%
	RMB cents	RMB cents	
Basic and diluted earnings/(loss) per share	15.48	(1.46)	+1,159.0%
Basic and diluted earnings per share (adjusted figure for the same period in 2020)#	15.48	14.48	+6.9%
Proposed interim dividend per share (note 8)	HK 6.4 cents	—	
Special dividend per share (note 8)	—	HK 6.0 cents	

* "EBITDA margin" equals to "Earnings before taxes, interest, depreciation, amortisation, share-based compensation expenses and impairment of goodwill" divided by "Revenue".

** "EBIT margin" equals to "Earnings before taxes and interest" divided by "Revenue".

Excluding impairment of goodwill of RMB495,498,000 for the six months ended 30 June 2020.

* For identification purpose only

The board of directors (the “Board”) of Huabao International Holdings Limited (the “Company” or “Huabao”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 together with the comparative figures for the six months ended 30 June 2020.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		For the six months ended	
		30 June	
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	1,763,675	1,715,710
Cost of goods sold		(709,694)	(627,010)
Gross profit		1,053,981	1,088,700
Other income and other gains – net	4	222,074	149,935
Selling and marketing expenses		(135,821)	(161,248)
Administrative expenses		(404,789)	(390,920)
Impairment of goodwill		–	(495,498)
Net impairment losses on financial assets		(1,872)	(5,191)
Operating profit		733,573	185,778
Finance income		65,483	82,158
Finance costs		(49,628)	(79,480)
Finance income – net		15,855	2,678
Share of results of associates and a jointly controlled entity		3,936	14,890
Profit before income tax		753,364	203,346
Income tax expense	6	(171,899)	(137,154)
Profit for the period		581,465	66,192
Attributable to:			
Equity holders of the Company		481,129	(45,434)
Non-controlling interests		100,336	111,626
		581,465	66,192
Earnings/(loss) per share for profit attributable to the Company's equity holders for the period		RMB cents	RMB cents
Basic and diluted	7	15.48	(1.46)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	For the six months ended	
	30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	581,465	66,192
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Fair value changes of equity investments at fair value through other comprehensive income, net of tax	(195)	(1,669)
Currency translation differences of the Company and its non-foreign operations	(732)	(37,981)
<i>Items that may be reclassified to profit or loss</i>		
Currency translation difference of foreign operations	<u>3,887</u>	<u>(1,603)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>2,960</u>	<u>(41,253)</u>
Total comprehensive income for the period, net of tax	<u>584,425</u>	<u>24,939</u>
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	487,732	(86,678)
Non-controlling interests	<u>96,693</u>	<u>111,617</u>
	<u>584,425</u>	<u>24,939</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2021 <i>RMB'000</i> Unaudited	As at 31 December 2020 <i>RMB'000</i> Audited
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		1,471,535	1,388,257
Right-of-use assets		246,009	240,902
Intangible assets		6,184,435	6,226,362
Investments in associates		378,222	374,761
Investment in a jointly controlled entity		6,835	7,410
Financial assets at fair value through other comprehensive income		72,196	55,072
Financial assets at fair value through profit or loss		227,441	112,614
Deferred income tax assets		155,004	160,447
Other non-current assets		350	581
		<u>8,742,027</u>	<u>8,566,406</u>
Current assets			
Inventories		918,736	854,746
Trade and other receivables	9	1,165,751	1,351,750
Financial assets at fair value through profit or loss		2,012,266	569,556
Short-term time deposits		56,300	1,413,840
Cash and cash equivalents		3,890,200	4,921,756
		<u>8,043,253</u>	<u>9,111,648</u>
Total assets		<u><u>16,785,280</u></u>	<u><u>17,678,054</u></u>

		As at 30 June 2021 <i>RMB'000</i> Unaudited	As at 31 December 2020 <i>RMB'000</i> Audited
	<i>Note</i>		
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		318,636	318,636
Reserves		2,644,023	2,633,732
Retained earnings		9,169,654	8,918,688
		<u>12,132,313</u>	<u>11,871,056</u>
Non-controlling interests		<u>1,722,534</u>	<u>1,823,193</u>
Total equity		<u>13,854,847</u>	<u>13,694,249</u>
LIABILITIES			
Non-current liabilities			
Borrowings	10	688,751	1,806,477
Lease liabilities		43,748	39,345
Deferred income tax liabilities		168,975	170,536
Trade and other payables	11	800	800
		<u>902,274</u>	<u>2,017,158</u>
Current liabilities			
Borrowings	10	1,166,466	901,753
Lease liabilities		25,543	24,526
Trade and other payables	11	548,914	648,744
Current income tax liabilities		168,010	208,923
Contract liabilities		119,226	182,701
		<u>2,028,159</u>	<u>1,966,647</u>
Total liabilities		<u>2,930,433</u>	<u>3,983,805</u>
Total equity and liabilities		<u>16,785,280</u>	<u>17,678,054</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Cash generated from operations	694,332	721,708
Income tax paid	(208,929)	(254,188)
Net cash generated from operating activities	485,403	467,520
Cash flows from investing activities		
Acquisition of a subsidiary	–	(154)
Proceeds from disposal of subsidiaries	–	80
Refund of termination of the additional capital injection into an associate	–	14,560
Acquisition of equity interest in an associate	(18,152)	–
Proceeds from disposal of an associate	6,320	–
Purchases of financial assets at fair value through profit or loss	(2,803,379)	(512,000)
Proceeds from disposals of financial assets at fair value through profit or loss	1,346,203	878,729
Purchases of property, plant and equipment and intangible assets	(163,470)	(83,668)
Purchase of right-of-use assets for land use rights	(4,140)	–
Proceeds from disposal of property, plant and equipment and intangible assets	7,368	5,754
Short-term time deposits placed	–	(1,157,540)
Short-term time deposits released	1,357,540	1,511,784
Dividend received	4,696	9,114
Interest received	94,632	74,574
Net cash (used in)/generated from investing activities	(172,382)	741,233
Cash flows from financing activities		
Final dividend for the year ended 31 December 2019 paid to shareholders	–	(285,887)
Final dividend for the year ended 31 December 2020 paid to shareholders	(229,479)	–
Dividends paid to non-controlling interests	(193,624)	(238,451)
Proceeds from changes in ownership interests in a subsidiary without change of control	–	35,290
Capital injection from non-controlling interests	–	2,837
New bank borrowings raised	1,210,280	466,629
Repayment of bank borrowings	(2,056,935)	(618,750)
Principal elements of lease payments	(11,422)	(11,233)
Interest elements of lease payments	(1,188)	(2,325)
Interest paid related to bank borrowings and others	(50,574)	(80,044)
Net cash used in financing activities	(1,332,942)	(731,934)
Net (decrease)/increase in cash and cash equivalents	(1,019,921)	476,819
Cash and cash equivalents at the beginning of the period	4,921,756	3,387,780
Effects of currency translation on cash and cash equivalents	(11,635)	9,706
Cash and cash equivalents at the end of the period	3,890,200	3,874,305

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those financial statements.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) Impact of standards issued but not yet applied by the Group

The following new standards and amendments to standards have been issued but are not yet effective and have not been early adopted by the Group:

		Effective for the financial year beginning on or after
Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRS Standards 2018 to 2020	1 January 2022
Amendments to HKFRS 3	Reference to the conceptual framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment – proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contract	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The management is in the process of making an assessment of the impact of the above new and revised standards, amendments and interpretations to existing standards on the Group’s consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

The Group has organised its operations into four main operating segments:

- (1) Flavours and fragrances;
- (2) Tobacco raw materials;
- (3) Aroma raw materials; and
- (4) Condiment.

The chief operating decision-makers have been identified as the executive directors (the “Executive Directors”). The Executive Directors review the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors consider the business from the operation’s perspective and assess the performance of flavours and fragrances, tobacco raw materials, aroma raw materials and condiment segments.

- (1) Flavours and fragrances segment includes research and development, production and sale of flavours and fragrances products.
- (2) Tobacco raw materials segment includes research and development, production and sale of paper-making reconstituted tobacco leaves and new materials products that are innovative, functional and applicable to tobacco industry.
- (3) Aroma raw materials segment includes research and development, manufacture and sale of aroma raw materials products that are extracted from natural materials or generated from chemical process.
- (4) Condiment segment includes production, sales, marketing and distribution of condiments.

The segment information for the six months ended 30 June 2021 is presented below:

	Unaudited For the six months ended 30 June 2021					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	916,678	221,059	322,370	324,206	20	1,784,333
Inter-segment revenue	(6,241)	(12,312)	(2,105)	–	–	(20,658)
Segment revenue – net	<u>910,437</u>	<u>208,747</u>	<u>320,265</u>	<u>324,206</u>	<u>20</u>	<u>1,763,675</u>
Segment result	576,461	61,291	22,435	61,814	11,572	733,573
Finance income						65,483
Finance costs						(49,628)
Finance income – net						15,855
Share of results of associates and a jointly controlled entity						3,936
Profit before income tax						753,364
Income tax expense						(171,899)
Profit for the period						<u>581,465</u>
Depreciation	<u>19,041</u>	<u>42,334</u>	<u>13,524</u>	<u>5,951</u>	<u>3,520</u>	<u>84,370</u>
Amortisation	<u>833</u>	<u>4,496</u>	<u>7,580</u>	<u>36,895</u>	<u>11</u>	<u>49,815</u>
	Unaudited As at 30 June 2021					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>7,804,076</u>	<u>2,575,038</u>	<u>1,208,133</u>	<u>4,559,744</u>	<u>638,289</u>	<u>16,785,280</u>

The segment information for the six months ended 30 June 2020 is presented below:

	Unaudited For the six months ended 30 June 2020					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	935,649	309,718	305,798	177,344	1,577	1,730,086
Inter-segment revenue	(4,519)	(6,327)	(3,530)	–	–	(14,376)
Segment revenue – net	<u>931,130</u>	<u>303,391</u>	<u>302,268</u>	<u>177,344</u>	<u>1,577</u>	<u>1,715,710</u>
Segment result	581,880	115,140	38,818	(525,378)	(24,682)	185,778
Finance income						82,158
Finance costs						(79,480)
Finance income – net						2,678
Share of results of associates and a jointly controlled entity						14,890
Profit before income tax						203,346
Income tax expense						(137,154)
Profit for the period						<u>66,192</u>
Depreciation	<u>21,814</u>	<u>40,265</u>	<u>11,883</u>	<u>4,684</u>	<u>6,161</u>	<u>84,807</u>
Amortisation	<u>805</u>	<u>5,109</u>	<u>7,782</u>	<u>36,844</u>	<u>141</u>	<u>50,681</u>
	Audited As at 31 December 2020					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>8,346,729</u>	<u>2,762,317</u>	<u>1,082,892</u>	<u>4,800,859</u>	<u>685,257</u>	<u>17,678,054</u>

4. OTHER INCOME AND OTHER GAINS – NET

		Unaudited	
		For the six months ended	
		30 June	
		2021	2020
Note		RMB'000	RMB'000
	Changes in fair value of financial assets at fair value through profit or loss	(a) 100,845	1,310
	Gains on disposal of financial assets at fair value through profit or loss	200	173
	Gain on disposal of an associate	16,720	–
	Losses on disposal of subsidiaries	–	(1,433)
	Government grants	109,571	108,918
	Currency exchange (loss)/gain – net	(10,597)	41,205
	Net gains/(losses) on disposal of property, plant and equipment and intangible assets	4,659	(321)
	Others	676	83
		<u>222,074</u>	<u>149,935</u>

- (a) Changes in fair value originate from listed/unlisted equity investments and wealth management products. For the six months ended 30 June 2021, changes in fair value were mainly attributable to the successful listing of two underlying projects invested by one of the unlisted equity investments held by the Group during the period.

5. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing expenses and administrative expenses are analysed according to their nature (with the exception of “research and development expenses” which are shown as a single item and analysed according to their nature in note (a) below) as follows:

		Unaudited	
		For the six months ended	
		30 June	
		2021	2020
Note		RMB'000	RMB'000
	Depreciation	3 75,560	75,852
	Amortisation	3 48,735	48,335
	Employee benefit expenses	273,494	243,885
	Research and development expenses	(a) 108,511	108,597
	Short-term lease rentals	4,545	3,109
	Travelling expenses	14,466	18,509
	Utility expenses	28,994	29,607
	Delivery expenses	26,384	20,556
		<u>26,384</u>	<u>20,556</u>

- (a) Depreciation, amortisation and employee benefit expenses included in research and development expenses are set out below:

Unaudited			
For the six months ended			
30 June			
		2021	2020
	Note	RMB'000	RMB'000
Depreciation	3	8,810	8,955
Amortisation	3	1,080	2,346
Employee benefit expenses		54,374	55,270
		<u>54,374</u>	<u>55,270</u>

6. INCOME TAX EXPENSE

Unaudited			
For the six months ended			
30 June			
		2021	2020
	Note	RMB'000	RMB'000
Current income tax:			
– PRC corporate income tax	(a)	162,479	180,489
– Hong Kong profits tax	(b)	4,979	4,921
– Botswana company income tax	(c)	559	491
– Germany company income tax	(d)	–	–
Deferred income tax		3,882	(48,747)
		<u>171,899</u>	<u>137,154</u>

- (a) PRC corporate income tax has been calculated on the estimated assessable profit for the period at the tax rates applicable to respective companies of the Group.
- (b) Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2020: 16.5%) on the estimated assessable profit for the period.
- (c) Botswana company income tax has been provided at the rate of 15.0% (six months ended 30 June 2020: 15.0%) on the estimated assessable profit for the period.
- (d) Germany company income tax has been provided at the rate of 15.0% (six months ended 30 June 2020: 15.0%) on the estimated assessable profit for the period.
- (e) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the six months ended 30 June 2021 and 2020.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2021 and 2020.

	Unaudited For the six months ended 30 June	
	2021	2020
Profit/(loss) attributable to equity holders of the Company (RMB'000)	<u>481,129</u>	<u>(45,434)</u>
Weighted average number of ordinary shares in issue ('000)	<u>3,107,837</u>	<u>3,107,837</u>
Basic earnings/(loss) per share attributable to owners of the Company (RMB cents per share)	<u>15.48</u>	<u>(1.46)</u>

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the six months ended 30 June 2021 and 2020 was the same as basic earnings/(loss) per share, since the Company did not have any potential ordinary share outstanding that has dilution effect.

8. DIVIDENDS

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Paid special dividend of HK6.0 cents per share for the six months ended 30 June 2020	–	165,064
Proposed interim dividend of HK6.4 cents per share for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil)	<u>165,502</u>	<u>–</u>
	<u>165,502</u>	<u>165,064</u>

Special dividend of approximately HKD186,470,000 (equivalent to approximately RMB165,064,000) for the six months ended 30 June 2020 was paid in October 2020. Final dividend of approximately HKD279,705,000 (equivalent to approximately RMB229,479,000) for the year ended 31 December 2020 was paid in June 2021.

As the interim dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2021.

9. TRADE AND OTHER RECEIVABLES

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	<i>Note</i>		
Trade receivables	(a)	826,249	1,020,767
Less: provision for impairment of trade receivables		<u>(12,543)</u>	<u>(11,167)</u>
Trade receivables – net		813,706	1,009,600
Notes receivable		65,330	80,105
Advances to staff		15,195	4,409
Others		18,248	48,062
Prepayments and other receivables		288,275	244,428
Less: provision for impairment of other receivables		<u>(35,003)</u>	<u>(34,854)</u>
		<u>1,165,751</u>	<u>1,351,750</u>

Except for prepayments of RMB53,290,000 (31 December 2020: RMB70,727,000), trade and other receivables balances are financial assets categorised as “financial assets measured at amortised cost”. All trade and other receivables are either repayable within one year or on demand.

- (a) The credit period granted to customers generally ranges from 0 to 180 days. At 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice date was as follows:

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
0 – 90 days	667,215	883,425
91 – 180 days	114,790	93,287
181 – 360 days	28,990	22,568
Over 360 days	<u>15,254</u>	<u>21,487</u>
	<u>826,249</u>	<u>1,020,767</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For the six months ended 30 June 2021, a provision for impairment of RMB1,376,000 (six months ended 30 June 2020: RMB863,000) was made against the gross amounts of trade receivables and no amount was written off as uncollectible (six months ended 30 June 2020: RMB1,308,000 written off as uncollectible).

10. BORROWINGS

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	Note		
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	(a)	–	1,692,855
– Unsecured bank borrowings	(b)	983,930	227,243
Less: current portion		(295,179)	(113,621)
		<u>688,751</u>	<u>1,806,477</u>
Current			
Current portion of non-current liabilities			
– Unsecured bank borrowings	(b)	295,179	113,621
Short-term bank borrowings			
– Unsecured bank borrowings	(b)	871,287	788,132
		<u>1,166,466</u>	<u>901,753</u>
Total borrowings		<u>1,855,217</u>	<u>2,708,230</u>

(a) As at 30 June 2021, the Group's secured bank borrowings were fully repaid (31 December 2020: RMB1,692,855,000). During the period, the average interest rate of the loan was 5.7% (six months ended 30 June 2020: 5.7%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one to two years. For the six months ended 30 June 2021, the average interest rate was 2.2% (six months ended 30 June 2020: 3.0%) per annum.

Borrowings are financial liabilities categorised under “financial liabilities measured at amortised cost”.

Interest expense on bank borrowings for the six months ended 30 June 2021 amounted to approximately RMB48,300,000 (six months ended 30 June 2020: RMB76,703,000). No interest expense was capitalised during the six months ended 30 June 2021 and 2020.

11. TRADE AND OTHER PAYABLES

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	Note		
Trade payables	(a)	248,820	268,020
Dividends payable to non-controlling interests		3,728	–
Wages payable		72,924	96,145
Other taxes payable		50,258	102,179
Accruals for expenses		8,961	12,003
Other payables		165,023	171,197
		549,714	649,544

Except for other taxes payable of RMB50,258,000 (31 December 2020: RMB102,179,000) and wages payable of RMB72,924,000 (31 December 2020: RMB96,145,000), trade and other payables balances are financial liabilities categorised under “financial liabilities measured at amortised cost”.

The non-current and current portion of trade and other payables was as follows:

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
Non-current	800	800
Current	548,914	648,744
	549,714	649,544

- (a) As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on the invoice dates was as follows:

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
0 – 90 days	211,423	235,750
91 – 180 days	21,748	16,348
181 – 360 days	3,918	5,421
Over 360 days	11,731	10,501
	248,820	268,020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Overview of the tobacco industry

In the first half of 2021 (the “Reporting Period”), the Chinese government implemented large-scale and efficient vaccination programme, ensuring an effective control of the Novel Coronavirus Pneumonia pandemic (the “Pandemic”) and stable recovery of various economic activities. According to the data from National Bureau of Statistics, the cigarette production volume in China reached 25.808 million cases in the first half of 2021, representing an increase of 1.7% year-on-year, the production of the tobacco industry in the PRC was stable.

From a global perspective, innovative tobacco products have become increasingly popular and of interest to consumers because they have the efficacy of harm reduction and meet the demand of consumers for a healthy life. According to the data released by international tobacco companies, the share of innovative tobacco business in their revenue has been continuously increasing, and the trend is expected to continue and take up more market share of traditional tobacco products. In order to cope with this change in the tobacco industry, international tobacco companies further accelerate business transformation, increase research and development (“R&D”) investment in innovative tobacco products and personnel development, and continuously optimise product quality and performance, increase market share of innovative tobacco products, and reduce the harm of tobacco products to consumers’ health.

During the Reporting Period, the regulatory policy on innovative tobacco products became the focus of the capital market and companies in the tobacco industry chain. The regulatory authority issued a consultation paper to the public to amend the “Implementation Regulations of the Tobacco Monopoly Law of the People’s Republic of China” (“Implementation Regulations”) to discuss whether e-cigarettes should be enforced in accordance with the relevant provisions on cigarette in the Implementation Regulations. Although details of the regulations have not yet been released, the market generally believes that the consultation paper will further regulate the production and operation activities of e-cigarette enterprises so as to protect people’s health, ensure fiscal revenue and enable the healthy and sustainable development of the e-cigarette industry. With regard to heat-not-burn (“HNB”) cigarettes, the HNB tobacco products of Chinese tobacco companies are only sold in some overseas countries and regions, and are not allowed to be sold in China. They are only available for consumers to experience in the experience shops in some cities. Overall, the prospects for the development of innovative tobacco products are promising. However, due to the different regulatory policies in countries and regions, companies in the tobacco industry chain are required to formulate specific development strategies tailored to markets to reduce operational risks and achieve sustainable business development.

As for tobacco leaves, over the past few years, the State Tobacco Monopoly Administration of China (“STMA”) has made great efforts to advance the effectiveness of the structural reform on the supply side of the industry and thoroughly implemented the policy of “consolidation, enhancement, upgrade and facilitation”, while maintain to promote “capacity reduction, de-stocking, deleveraging, cost reduction and improvement of underdeveloped areas” with focus on inventory reduction. In addition, the STMA stressed the importance of basic protection of tobacco fields, accelerating the mechanisation of the entire tobacco leaves production process, optimising the layout of tobacco leaves production, improving the quality of tobacco leaves supply and optimising the supply structure of tobacco leaves, and making every effort to stabilise the supply foundation of tobacco leaves. (Source: Eastobacco.com)

Overview of the food and beverage industry and daily-use chemical industry

As one of the first countries to successfully combat the Pandemic, China’s economy grew by 12.7% year-on-year in the first half of the year. Amidst sluggish growth and slowing demand from major overseas economies, the Chinese government advocated policies to stimulate domestic consumption, and the food and beverage industry, which is a consumer staple industry, has benefited from the policies to recover. According to the National Bureau of Statistics, in the first half of 2021, the gross output of the agricultural product processing industry with enterprises of designated size or above grew by 10.7% year-on-year, while that of the food processing industry grew by 9.9% year-on-year. The output value of the alcohol, beverage and refined tea processing industry grew by 13.3% year-on-year. The food and beverage industry is in high demand with growing per capita consumer spending, leaving ample room for industry growth. However, competition in the industry has been fierce due to rapid changing consumer demand and the flock of new brands. Under the trend of “natural, healthy and nutritious”, food and beverage companies pursued to optimise their product mix, and enhance R&D and brand promotion of natural products. In the first half of 2021, high-end new tea and beverage companies successfully entered the capital market, further raising consumer awareness of the quality and healthiness of ingredients used by food and beverage companies. As raw material suppliers, flavours and fragrances companies also need to position themselves in the natural flavours and fragrances sector to complement their customers’ transformation and meet consumer demand.

In the daily-use chemical industry, the Pandemic has made consumers pay more attention to personal protection with increasing demand for personal protective products. With economy and consumer demand on the rise, consumers have increasing demand for room fragrance products, which can be used in homes, hotels and large complexes, indicating the products’ huge market potential. Furthermore, with the up-and-coming “pet economy”, daily-use chemical products for pets will be one of the next growth points for the industry.

Overview of the condiment industry

According to the National Bureau of Statistics, revenue from the catering industry reached RMB2,171.2 billion in the first half of 2021, representing an increase of 48.6% year-on-year. Revenue from the catering industry grew by 2% as compared to the same period in 2019 before the Pandemic. In the post-Pandemic era, customers' demand for fast foods and takeaways increased, which resulted in restaurants' increasing demand for pre-made products, semi-finished products and dishes that can be prepared quickly to improve operational efficiency and increase sales revenue. Facing the changes in the market, the condiment enterprises will need to adjust their product and operational strategies flexibly to consolidate their clients focusing on dine-in business, and develop more clients focusing on fast foods and takeaways. On top of that, upstream condiment enterprises need to consider how they can customise their condiment solutions for new product launches by catering companies to heighten the competitiveness of their products.

With the Chinese government's "dual circulation" strategy to stimulate domestic consumption, the outlook for the domestic catering market and condiment market is promising. With more and more new companies entering the condiment market to compete for business and more investment from investment institutions, competition in the condiment industry will become increasingly intense. Condiment companies will need to enhance their competitiveness in all aspects, including products, sales channels, marketing and service standards, in order to secure and expand their market share and boost business performance.

RESULTS

During the Reporting Period, the Group achieved a sales revenue of approximately RMB1,764 million, representing a year-on-year increase of 2.8%; gross profit margin of approximately 59.8%, representing a year-on-year decrease of 3.7 percentage points; operating profit of approximately RMB734 million, representing a year-on-year increase of 294.9%; operating profit margin of approximately 41.6%, representing a year-on-year increase of 30.8% percentage points; profit attributable to the equity holders of the Company of approximately RMB481 million, representing a year-on-year increase of 1,159.0%; basic earnings per share of approximately RMB15.48 cents, representing an increase of 1,159.0% year-on-year.

In the 2020 interim report, the Group recognised an impairment of RMB495,498,000 of the cash-generating unit of Jiahao Foodstuff Limited and its subsidiaries' ("Jiahao") goodwill ("Jiahao's Goodwill Impairment"). Excluding the impact of Jiahao's Goodwill Impairment, the operating profit increased by approximately 7.7% year-on-year; the operating profit margin increased by approximately 1.9 percentage points year-on-year; profit attributable to the equity holders of the Company increased by approximately 6.9% year-on-year; basic earnings per share increased by approximately 6.9% year-on-year.

BUSINESS REVIEW

Review of the flavours and fragrances business

During the Reporting Period, sales revenue of the flavours and fragrances business of the Group amounted to approximately RMB910 million, representing a decrease of approximately 2.2% year-on-year, and accounting for approximately 51.6% of the Group's total revenue. Operating profit of the business segment amounted to approximately RMB576 million, representing a decrease of 0.9% year-on-year; and EBIT margin was approximately 63.3%, representing an increase of approximately 0.8 percentage point year-on-year. The increase in EBIT margin of the flavours and fragrances segment was mainly due to the effective cost control measures.

(1) *Flavours*

In the area of tobacco flavours, the Group has been actively and promptly responding to the customised needs of customers to stabilise its market share in the traditional tobacco flavours business, and for HNB tobacco flavours, the Group has conducted sensory evaluation and selection of various aroma raw materials and developed different models of flavours and fragrances products according to customers' needs, and these products have been used in some customers' products. The Group proactively collects feedback from customers to improve the style of HNB tobacco flavours and enhances product stability. In terms of food flavours, the Group has developed popular flavours such as black garlic and vine pepper, bringing a different flavour experience to consumers and expanding the market scope. With the popularity of plant-based meat in the market, the Group also developed condiment scheme for plant-based meat and applied them in the products of a number of plant-based meat producers to inflate the taste of plant-based meat and meet the growing demand of consumers for healthy products.

(2) *Fragrances*

The Group's fragrance business is divided into four main categories, namely insect-repelling incenses, personal care, detergents and others. To better serve and meet the needs of different customers, the Group has further refined its business structure by introducing other sub-segments such as room fragrances, home cleaning, perfumes and cosmetics. In the first half of the year, the Group developed new customers and invested in new products, resulting in year-on-year revenue growth in the fragrance business.

Investment progress of the proceeds raised by the flavours and fragrances segment

During the Reporting Period, the Group adjusted the use of the funds raised from the initial public offering of Huabao Flavours and Fragrances Co., Ltd ("Huabao Flavours") in 2018 and the implementation plans for the investment projects so as to better to respond to the industry changes and the Group's development. The Group continued the construction of "Huabao Yingtan Flavours and Ingredients Production Base Project" ("Huabao Yingtan Project"), change the "Huabao H&K Food Flavours and Food Technology Development Project" to "Huabao Technology Innovation Centre and Supporting Facilities Project" ("Huabao TechInno Project"), and launched the new "Huabao Digital Transformation Project" ("Huabao Digital Project"), and ceased the "Lhasa Pure Land Healthy Food Project".

As at 30 June 2021, the cumulative amount of the funds raised from the initial public offering of Huabao Flavours in 2018 and dedicated for the Huabao Yingtan Project was approximately RMB109.5191 million, representing an investment progress of approximately 10.59%; the cumulative amount of IPO proceeds that was dedicated for the Huabao TechInno Project was approximately RMB114,000, representing an investment progress of approximately 0.03%; Huabao Digital Project is currently conducting relevant business activities and preliminary research work and the cumulative amount dedicated for the project was RMB0. The balance of the unused IPO proceeds amounted to approximately RMB1,710 million.

Review of the tobacco raw materials business

During the Reporting Period, sales revenue of the Group's tobacco raw materials business was approximately RMB209 million, representing a year-on-year decrease of 31.2%, and accounting for approximately 11.8% of the Group's total revenue. Operating profit of the business segment reached approximately RMB61.29 million, representing a year-on-year decrease of approximately 46.8%; and EBIT margin was approximately 29.4%, representing a year-on-year decrease of approximately 8.6 percentage points. The decrease in the sales revenue of this segment was mainly due to the imbalance between supply and demand in the reconstituted tobacco leaves ("RTL") industry and the intense competition in the cigarette capsule industry that results in a declining sales price of capsule.

(1) RTL

On the demand side, the demand for RTL remained weak due to the ongoing de-stocking of tobacco leaves and the increasing share of sales of slim and medium cigarettes. On the supply side, there is excess production capacity in the RTL industry, with supply far exceeds demand. The imbalance between supply and demand led to a decline in revenue in the Group's RTL business. In response to the sluggish market conditions in the traditional RTL business, the Group formulated and began to implement a strategy to develop HNB RTL. In the domestic market, the Group has leveraged its technology and experience in the field of RTL to provide HNB RTL products to some of its customers in the PRC. In the overseas market, the Group has completed the basic construction of HNB RTL plant in Southeast Asia and commenced the construction of ancillary facilities and installation of equipment. Meanwhile, the factory has successfully developed clients and reached sales commitment with them. The Group believes that as consumer demand changes and upgrades, the market for HNB RTL has a bright future and will gradually become a growth point for the RTL business in the future.

(2) Tobacco new materials

The market demand for capsule cigarettes has slowed down due to the impact of state regulations and a decline in consumer interests. With a large number of cigarette capsule suppliers in the PRC, competition in the market was intense and the downward pressure on product prices continued to increase. During the Reporting Period, the Group exported cigarette capsules to overseas markets to boost revenue. In addition, the Group promoted food capsules to food and beverage customers. The food capsules not only have a wide range of flavours, but can also be enriched with different nutrients such as probiotics, which has been recognised by food and beverage customers. In the first half of the year, food capsules accounted for approximately 10% of the Group's sales revenue from capsules. In terms of cigarette filters, Hunan Jishou Minzu Materials Co., Ltd ("Hunan Jishou") has optimised and upgraded its cigarette filter production line to improve product yield and quality and provide customers with quality products. Hunan Jishou has also been actively improving its technology and product reserves in the HNB cigarette filters, which aims to be well prepared for the HNB cigarette filter market.

The operating results of the tobacco raw materials segment declined in the short term. However, as the Group actively optimises its strategy, the Group is confident that it can seize the development opportunities brought by the innovative tobacco products, promote the management level of the segment, acquire more customers and businesses, and enable the segment to have good performance in the future.

Review of the aroma raw materials business

During the Reporting Period, sales revenue of the aroma raw materials business of the Group was approximately RMB320 million, representing a year-on-year increase of 6.0% and, accounting for approximately 18.2% of the Group's total revenue. Operating profit of the business segment reached approximately RMB22.44 million, a decrease of 42.2% year-on-year; and EBIT margin was approximately 7.0%, representing a decrease of approximately 5.8 percentage points year-on-year. The increase in revenue of the aroma raw materials segment was mainly due to the macroeconomic recovery and rebound in market demand, while the decrease in operating profit was mainly due to the increase in raw material prices and the less than expected market demand.

During the Reporting Period, domestic and international vaccination efforts were progressing and economic activities have been gradually recovering. However, the market demand did not restore to what it was before the Pandemic. In addition, the increase in commodity prices led to a rise in raw material prices for aroma raw material products, thus squeezing the profitability of aroma raw material products.

The production process of aroma raw materials involves the use and reaction of different types of chemical materials. Through education activities and drills organised in "Production Safety Month", the aroma raw materials segment raised the employees' awareness of production safety and the ability to deal with dangerous situations to ensure business operations in a safe, orderly, and standardised manner.

Review of the condiment business

During the Reporting Period, the sales revenue of the Group's condiment business was approximately RMB324 million, representing a year-on-year increase of 82.8%, and accounting for approximately 18.4% of the Group's total revenue. The operating profit was approximately RMB61.81 million and operating profit margin was approximately 19.1%. The increase in revenue of the condiment segment was mainly due to increased sales volume as demand in the catering industry recovered, and the operating profit increased accordingly.

In response to the demand of catering companies to reduce costs and increase efficiency in the post-Pandemic era, the Group's R&D team collaborated with celebrity chefs to launch a series of sauce products. These new products, which cover different flavours such as sour, spicy and fresh, can be applied to various types of cold dishes to enrich the flavour and colour of the dishes right away, saving the chefs' time in seasoning and offering speedy serving. The sauce products have been well-received by customers and sales revenue has doubled, becoming the product category that contributes the most revenue following the three core products: chicken sauce, mustard and juice.

In terms of sales channels, the Group optimised its distributor system and strengthened partnerships with distributors with strong sales capabilities, good reputation and extensive network coverage. The Group's own sales team actively communicated with distributors to assist them in product promotion, after-sales service and sales management, strengthening the sales capacity of distributors and enhancing the Group's sales revenue. As at 30 June 2021, there were over 350 Tier 1 distributors in the condiment segment. In terms of online sales channel, the flagship shop of Jiahao on Tmall mainly serves as a brand promotion to facilitate end consumers in need to better know about Jiahao's products.

In terms of brand marketing, after nearly three years of hard work, the brand image of Jiahao as the "China Flavour Expert" has left a deep impression among customers. Jiahao has been pushing the boundaries of its marketing strategy to meet the changing market trends on flavours. During the Reporting Period, Jiahao used Hunan cuisine as an entry point and organised an advertising campaign on the theme of "Making juicy Hunan dishes with chicken sauce" to promote the use of chicken sauce in Hunan stir fry by collaborating with Hunan chefs to boost the sales of Jiahao's core products. In addition, Jiahao provided chefs with mustard solutions for use in seafood and vegetable dishes, further broadening the application of mustard products.

During the Reporting Period, Jiahao's sales revenue has gradually recovered to the same level as the corresponding period in 2019. As competition in the condiment industry intensifies, Jiahao will continue to enhance its operational and management capabilities to meet the challenges. Meanwhile, the Group's management is establishing financing platform to provide solid protection for the future development of Jiahao.

The Group is confident in the development prospects of the catering market and condiment market in China and believes that Jiahao will contribute more to the Group's development in the future. At the end of the Reporting Period, the Group performed an impairment test on the goodwill of Jiahao's cash-generating unit as at 30 June 2021. Based on the results of the impairment test, there is no indication of further goodwill impairment of Jiahao's cash-generating unit as at 30 June 2021, except for the impairment of RMB495,498,000 which has already been recognised in mid-2020.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB109 million. R&D expenses accounted for approximately 6.2% of sales revenue, representing a decrease of 0.1 percentage point as compared to the corresponding period last year.

Human Resources and Corporate Culture Construction

As at 30 June 2021, the Group employed a total of approximately 3,448 employees in mainland China, Hong Kong and Germany, and etc.

In the first half of 2021, the Pandemic was gradually brought under control in mainland China and production and operations resumed to normal across the Group. In order to facilitate swift development in the post-Pandemic era, the Group conducted a management trainee recruitment and development programme. The management trainee programme consisted of five stages: training warm-up, training initiation, course learning, job rotation and debriefing, and was supervised and implemented by the Group's management and human resources department. Through the programme, the management trainees will have an in-depth understanding of the operation and management of various business segments of Huabao, preparing them for their future career on the Group's platform. In order to upgrade the working skills of the Group's staff, the Group organised an online course called "Huabao Lecture" to provide regular training on legal, investment, financial, corporate management, environmental, social and governance reporting to brush up the knowledge of the staff, enabling them to work with high proficiency in cross-departmental collaboration. For staff working overseas, the Group has also raised the level of allowances and benefits to motivate them to work harder. The Group continued to revamp its staff development mechanism and staff promotion system, setting out clear promotion criteria and feasible plans, further boosting staff motivation. The Group also arranged for staff to study the Anti-Fraud and Whistleblowing System and the Staff Handbook to regulate their work behaviour and collaboration with external parties, so as to clarify their job responsibilities and reinforce their moral and ethical standards.

Outlook

In the second half of 2021, the Group will continue to adhere to the concentric and diversified development strategy with flavours and fragrances sector as the core. Embracing the vision of "leader of a better life" and undertaking the mission of "green, healthy and nutritious", and steadily propel the Group to develop into a diversified industrial group for taste-based consumer goods by organic growth, mergers and acquisition as well as business model upgrading, digitalization, industry-finance integration and technological innovation as its four driving forces.

In terms of management system, the Group will implement the “Four Transformation” as its core measures, namely, enterprise conceptualisation, management digitalisation, asset securitisation and business globalisation, and work concertedly to promote the optimisation and upgrading of management system. In terms of corporate philosophy, the Group upholds the core values of “Customer first, Value creation, Sharing and Win-win” and the corporate spirit of “Innovation, Pragmatism, Loyalty and Collaboration”. Through strengthening the construction of corporate culture, the Group continuously enhances its internal cohesion and external competitiveness, embeds corporate culture in corporate values and business philosophy, and creates an international first-class corporate image that embodies profound cultural heritage, social responsibility, and the pursuit of green, healthy and nutritious lifestyle for customers and society. In terms of management digitalisation, through the construction of a digitalised management innovation platform and connecting internal and external resources, effective interaction between online and offline resources can be achieved, while efficient business operation can be accelerated through informatisation, and management upgrade of business segments can be promoted. As to asset securitisation, we will assist the quality business to establish financing platform to facilitate their development. For business globalisation, a global R&D and innovation system featuring Huabao’s own strengths and characteristics will be established based on its core technologies, and we will leverage global resources to realise R&D and technological innovation. Through coordinating global aroma and fragrance resources, we will complete a safe and reliable global production capacity layout plan, and the expansion of international footholds will be conducted selectively.

With the continuous improvement of consumers’ health awareness and increasing attention to health care, convenient, delicious and functional products are more favoured by consumers and gradually become the trend in the consumer goods industry. Consumers are concerned about natural ingredients, fat content, clean label and other factors in food. Under this consumption trend, each business segment of the Group will actively formulate strategies to enable products to keep up with the changes in consumption trend.

For flavours and fragrances, the Group will respond to market trends and strengthen the development, testing and application of HNB flavours technology, enhance its capabilities in the separation and purification of key ingredients, safety research and sensory evaluation, and enrich the relevant product sample bank and database, so as to prepare for the market opportunities of HNB tobacco products in the future. The Group will seize the opportunity of the healthy development trend of the food and beverage industry, improve its R&D capabilities in the fields of functional raw materials and plant-based food, and explore and develop more healthy products together with end customers to bring better experience to consumers.

In respect of tobacco raw materials business, the Group will focus on improving its R&D and manufacturing capabilities in HNB cigarette tobacco leaves and filters, and leverage quality products to develop the business opportunities in the innovative tobacco industry. Specifically, the Group will press on with the construction of the HNB RTL plant in Southeast Asia and strive to commence trial production by the end of the year. The Group will invest more resources to improve its technology and product reserves in the HNB cigarette filters. The signing and gradual implementation of the Regional Comprehensive Economic Partnership will result in closer economic cooperation in Southeast Asia and more convenient market access. The Group will

actively develop customers in the region and establish strong cooperation relationship with customers to provide more momentum for the development of tobacco raw materials business, so that this segment will create more value for the Group in the future and become one of the growth points of the Group's performance.

For aroma raw materials, the Group will continue to seize the opportunities arising from the recovery of the global economy to expand customer base and increase sales. The Group will continue to enhance its R&D and manufacturing capabilities in natural aroma raw material products to provide more high-quality aroma raw material products to customers. The Group will also continue to enhance the construction of safety facilities and the training of environmental protection education, so as to ensure the sustainable, stable and healthy development of the aroma raw materials business.

For condiment, the Group will introduce its key products through thematic marketing campaigns. At the same time, more top-notch and healthy seasoning products will be launched, so that consumers can enjoy tasty but more nutritious and healthy food. The Group will work closely with its distributors to do well in their inventory management, and amplify their sales efficiency and capability. The Group will work closely with distributors to assist them in inventory management and sales level, improve the sales efficiency and ability of distributors to achieve a win-win situation with distributors.

Vaccination is still being rolled out in many countries and regions around the world. However, as the virus has been evolving, there is increasing uncertainty as to when the Pandemic will be brought under control. The Group will organise its business and the human resources departments will strengthen the pandemic prevention and control measures, ensuring orderly and stable production and operation activities. The Group will cooperate with its business partners and staff to strive to achieve the Group's operating objectives of the year.

As mentioned in the Company's previous annual report, the Group's management and business teams have been exploring the feasibility of establishing a financing platform for Jiahao so as to enhance its competitive advantage and seize the growth opportunities in the condiment industry. The Group has been further assessing and reviewing the feasibility of establishing the financing platform in specific terms, including the possibility of a spin-off of the Group's condiment business for a separate listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). However, as at the date of this announcement, the Company has not yet made any formal application to the Stock Exchange in respect of the possible spin-off and proposed the listing of the Group's condiment business. The spin-off and the listing of the Group's condiment business on the Main Board of the Stock Exchange are subject to, among other things, the listing approval being granted by the Listing Committee in the future. No final decision has yet been made as to whether the possible spin-off will be launched or as to what the timing of the possible spin-off and the listing of the Group's condiment business would be. The Company wishes to remind shareholders of the Company and potential investors that there is no assurance whether the Company will proceed with the possible spin-off and the listing of the condiment business or not. Further announcements will be made as and when appropriate.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2021

Revenue

The Group's revenue amounted to RMB1,763,675,000 for the six months ended 30 June 2021, representing an increase of 2.8% as compared with RMB1,715,710,000 for the corresponding period last year. The increase in the revenue was mainly due to the successful prevention and control of the Pandemic in China after the outbreak of the Pandemic in the early 2020, the catering industry began to recover since the second half of 2020. As a result, revenue of condiment segment in the current reporting period reached RMB324,206,000, representing an increase of 82.8% as compared with the corresponding period last year. Also, due to the macroeconomic recovery and rebound in market demand, revenue of aroma raw materials reached RMB320,265,000, representing an increase of 6.0% as compared with the corresponding period last year. However, due to the imbalance between supply and demand in the RTL industry and intense competition in the cigarette capsule industry that resulted in a declining sales price of capsule, revenue of tobacco raw materials declined by 31.2% to RMB208,747,000, which partly offset the increase in revenue.

Cost of goods sold

The Group's cost of goods sold amounted to RMB709,694,000 for the six months ended 30 June 2021, representing an increase of 13.2% as compared with RMB627,010,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit decreased from RMB1,088,700,000 for the six months ended 30 June 2020 to RMB1,053,981,000 for the six months ended 30 June 2021, representing a decrease of approximately 3.2%. The decrease in gross profit was mainly attributable to the decrease in gross profit margin of the current reporting period. The Group's gross profit margin for the current reporting period was approximately 59.8%, representing a decrease of approximately 3.7 percentage points as compared with 63.5% for the same period last year. It was mainly attributable to the changes in products' mix of the Group and the adjustments of selling price of products in response to the fierce competition in the market.

Other income and other gains – net

Other income and other gains (net) of the Group was RMB222,074,000 for the six months ended 30 June 2021, representing an increase of RMB72,139,000 as compared with RMB149,935,000 for the corresponding period last year. The increase in other income and other gains was mainly due to the fair values gain on financial assets at fair value through profit or loss reached approximately RMB100,845,000 in the current period, representing an increase of RMB99,535,000 as compared with RMB1,310,000 of the corresponding period last year. However, it was partly offset by the currency exchange loss. The currency exchange loss of RMB10,597,000 was recorded in the current period while currency exchange gain of RMB41,205,000 was recorded in the corresponding period last year. The currency exchange loss for the current period was mainly due to the Group's long-term loan (balance as at 30 June 2021: RMB983,930,000) was borrowed and settled by the Company in RMB, whereas the functional currency of the Company was HKD. The exchange rate of RMB against Hong Kong dollar rose during the current reporting period, thus currency exchange loss was incurred.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, advertising and promotion expenses, salaries and office expenses, etc. The selling and marketing expenses of the Group for the six months ended 30 June 2021 was RMB135,821,000, representing a decrease of 15.8% as compared with RMB161,248,000 for the corresponding period last year. Selling and marketing expenses for the current reporting period accounted for approximately 7.7% of the total revenue, representing a decrease of 1.7 percentage points as compared with approximately 9.4% for the six months ended 30 June 2020. The decrease in such ratio and the decrease in the selling and marketing expenses were mainly attributable to the Group's proactive control of expenses and the delivery expenses of goods being accounted for in the cost of goods sold.

Administrative expenses

The Group's administrative expenses amounted to RMB404,789,000 for the six months ended 30 June 2021, representing an increase of 3.5% as compared with RMB390,920,000 for the corresponding period last year. It was mainly attributable to the increase in employee benefit expenses during the current reporting period. Administrative expenses for the current reporting period accounted for approximately 23.0% of the total revenue, which was basically the same as approximately 22.8% for the six months ended 30 June 2020.

Operating profit

The Group's operating profit for the six months ended 30 June 2021 was RMB733,573,000, representing an increase of approximately 294.9% as compared with RMB185,778,000 for the six months ended 30 June 2020. It was mainly because there was Jiahao's Goodwill Impairment of RMB495,498,000 recognized in the same period last year whereas no such loss was recorded in the current period. If Jiahao's Goodwill Impairment of the same period last year were excluded, the operating profit for the current reporting period would increase by 7.7% as compared with the corresponding period last year; the operating profit margin for the current period was approximately 41.6%, representing an increase of 1.9 percentage points as compared with approximately 39.7% for the corresponding period last year, which was mainly due to an increase in other income and other gains (net) for the current reporting period as compared with the same period last year, but it was partly offset by the decrease in gross profit.

Profit before income tax

Profit before income tax of the Group for the six months ended 30 June 2021 amounted to RMB753,364,000, increased by RMB550,018,000 as compared with RMB203,346,000 for the six months ended 30 June 2020. If Jiahao's Goodwill Impairment of the same period last year were excluded, the profit before income tax for the current reporting period would increase by RMB54,520,000, representing an increase of 7.8% as compared with the corresponding period last year, which was mainly due to the increase in operating profit.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 June 2021 was RMB171,899,000, representing an increase of 25.3% as compared with RMB137,154,000 for the six months ended 30 June 2020. Income tax rate of the current reporting period was approximately 22.8%. If Jiahao's Goodwill Impairment of the same period last year were excluded, income tax rate of the current reporting period would increase by approximately 3.2 percentage points as compared with approximately 19.6% for the six months ended 30 June 2020, which was mainly attributable to the increase in withholding income tax on dividends distribution by subsidiaries in mainland in the current reporting period.

Profit attributable to the equity holders of the Company

The profit attributable to the equity holders of the Company for the six months ended 30 June 2021 was RMB481,129,000, representing an increase of RMB526,563,000 as compared with the loss attributable to the equity holders of the Company of RMB45,434,000 in the same period last year. It was mainly because there was Jiahao's Goodwill Impairment of RMB495,498,000 recognized in the same period last year whereas no such loss was recorded in the current period. If Jiahao's Goodwill Impairment of the same period last year were excluded, profit attributable to the equity holders of the Company for the current period would increase by approximately 6.9% as compared with the same period last year.

Net current asset value and financial resources

As at 30 June 2021, the net current asset value of the Group was RMB6,015,094,000 (31 December 2020: RMB7,145,001,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2021, the Group's cash and bank balances amounted to RMB3,946,500,000 (31 December 2020: RMB6,335,596,000). In addition, the Group held bank wealth management products amounted to RMB1,969,078,000 (31 December 2020: RMB540,492,000) which was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 30 June 2021, the Group had bank borrowings of RMB1,855,217,000 (31 December 2020: RMB2,708,230,000), all of which were unsecured loans and due within one to two years. The Group had secured loan of RMB1,692,855,000 as at 31 December 2020 which had been fully repaid during the six months ended 30 June 2021. For the current reporting period, the average annual interest rate of the secured loan was 5.7% (six months ended 30 June 2020: 5.7%), and the average annual interest rate of the unsecured loans were 2.2% (six months ended 30 June 2020: 3.0%). As at 30 June 2021, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 15.3%, which was decreased significantly by 7.5 percentage points from 22.8% as of 31 December 2020.

Trade receivables turnover period

Trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and at the end of a relevant financial period divided by the total revenue for the corresponding period and multiplied by 180 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with the customers. For the six months ended 30 June 2021, the Group's average trade receivables turnover period was 94 days, representing an increase of 3 days as compared with 91 days for the last financial year ended 31 December 2020, while representing a decrease of 5 days as compared with 99 days of the corresponding period last year. The ratio basically remained stable.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 June 2021, the Group's average trade payables turnover period was 66 days, representing a decrease of 7 days as compared with 73 days for the last financial year ended 31 December 2020.

Inventory and inventory turnover period

As at 30 June 2021, the Group's inventory balance amounted to RMB918,736,000, representing an increase of RMB63,990,000 as compared with the balance of RMB854,746,000 as at 31 December 2020. For the six months ended 30 June 2021, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 180 days) was 225 days, which basically remained the same as 228 days for the last financial year ended 31 December 2020.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in Mainland China and the majority of the sales revenue is denominated in RMB, with the exception of only a certain amount of imported raw materials and equipment which are denominated in foreign currency such as USD or EUR. The Group's bank deposits are mainly denominated in RMB, USD and HKD. Management concurs with the views of the People's Bank of China on the RMB exchange rate, that is, the RMB exchange rate has the capability to continuously remain basically stable within reasonable range of equilibrium.

Pledge of assets

During the six months ended 30 June 2021, the Group's equity interest in Guangdong Jiahao Foodstuff Co., Ltd. and its land and buildings in Zhongshan China used as collateral for the secured bank loan had been released. Also, the secured bank loan was fully repaid by the Group as at 30 June 2021 and the related pledged equity interest in Jiahao Foodstuff Limited was formally released in July 2021. Apart from the above-mentioned, the Group had no pledged assets as at 30 June 2021.

Capital Commitments

As at 30 June 2021, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, contracted for but not provided in the financial statements amounted to approximately RMB319,197,000(31 December 2020: RMB177,040,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 June 2021.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Throughout the reporting period, the Company had complied with the code provisions in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and, where appropriate, adopted the recommended best practice as set out in the CG Code, except for code provisions A.2.1 and A.4.1:

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. CHU Lam Yiu, Chairlady of the Board and Executive Director of the Company, took up the position of Chief Executive Officer (“CEO”) since 9 April 2013. As the Board meets regularly to consider matters relating to business operations of the Group, the Board is of the view that the above arrangement will not impair the balance of power and authority of the Board and the executive management. The effectiveness of corporate planning and implementation of corporate strategies and decisions will generally not be affected.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The Independent Non-executive Directors (“INEDs”) of the Company were not appointed for a specific term as they are subject to retirement by rotation no later than the third annual general meeting of the Company since their last appointment or re-election and are eligible for re-election in accordance with the Company’s bye-laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those set out in the CG Code.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the directors of the Company. Having made specific enquiries of all Directors, the Company has received their written confirmations that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2021.

DIVIDEND

The Board has resolved to declare an interim dividend of HK6.4 cents per share in cash for the six months ended 30 June 2021 (six months ended 30 June 2020: no interim dividend and special dividend of HK6.0 cents per share), which is expected to be paid on or about 8 October 2021 to Shareholders whose names appear on the register of members of the Company on 17 September 2021.

CLOSE OF REGISTER OF MEMBERS

In order to determine Shareholders who qualify for the interim dividend, the register of members of the Company will be closed from 15 September 2021 to 17 September 2021, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 14 September 2021.

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

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

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprise all of the INEDs of the Company, namely Mr. LEE Luk Shiu, Ms. MA Yunyan, Mr. WU Chi Keung and Mr. Jonathan Jun YAN. The Audit Committee and the Board have reviewed and approved the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2021.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's auditor, PricewaterhouseCoopers, 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. The auditor's review report will be included in the Company's 2021 interim report to be dispatched to Shareholders.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2021 interim report will be dispatched to Shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
Huabao International Holdings Limited
CHU Lam Yiu
Chairlady and CEO

Hong Kong, 20 August 2021

As at the date of this announcement, the Board comprises four executive directors, namely Ms. CHU Lam Yiu (Chairlady and CEO), Messrs. LAM Ka Yu (Co-Chairman), XIA Liqun and POON Chiu Kwok, and four independent non-executive directors, namely Mr. LEE Luk Shiu, Ms. MA Yunyan, Mr. WU Chi Keung and Mr. Jonathan Jun YAN.