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 SEPTEMBER 2017

FINANCIAL HIGHLIGHTS

Compared with the corresponding period last year:

- Sales increased by approximately 3.7% to RMB1,637,877,000
- Gross profit increased by approximately 3.7%, gross profit margin remained stable
- Operating profit increased by approximately 7.5% to RMB605,259,000
- Profit for the period increased by approximately 8.5% to RMB503,979,000
- Profit attributable to the equity holders of the Company decreased by approximately 3.6% to RMB456,894,000
- Basic earnings per share decreased by approximately 3.7% to RMB14.70 cents
- Net cash+ reached RMB4,880,220,000
- The Board proposed an interim dividend of HK10.30 cents per share and a special dividend of HK5.70 cents per share for the six months ended 30 September 2017, representing a dividend payout ratio of approximately 92.5%

\+ *"Net cash " means "Short-term time deposits" and "Cash and cash equivalents" and minus "Borrowings".*

* *For identification purpose only*

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)	Change in percentage
Sales	**1,637,877**	1,580,110	**+3.7%**
Gross profit	**1,067,291**	1,028,926	**+3.7%**
Gross profit margin	***65.2%***	*65.1%*	
Operating profit	**605,259**	563,013	**+7.5%**
EBITDA margin[≠]	***43.0%***	*42.4%*	
EBIT margin	***37.0%***	*35.6%*	
Profit before income tax	**650,729**	583,358	**+11.5%**
Profit for the period	**503,979**	464,556	**+8.5%**
Profit attributable to the equity holders of the Company	**456,894**	473,956	**-3.6%**
Adjusted profit attributable to the equity holders of the Company[#]	**474,894**	473,956	**+0.2%**
Earnings per share			
– Basic	***RMB 14.70 cents***	*RMB 15.26 cents*	**-3.7%**
– Diluted	***RMB 14.70 cents***	*RMB 15.26 cents*	**-3.7%**
Adjusted basic earnings per share[#]	***RMB 15.28 cents***	*RMB 15.26 cents*	**+0.1%**
Interim dividend per share *(note 8)*	***HK 10.30 cents***	–	
Special dividend per share *(note 8)*	***HK 5.70 cents***	–	

≠ *"EBITDA margin" equals to "Earnings before taxes, interest, depreciation, and amortisation" divided by "Sales".*

Excluding provision for impairment on other non-current assets of RMB18,000,000.

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 September 2017 together with the comparative figures for the corresponding period in 2016.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's Audit Committee and 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 "HKICPA"). The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2017

	Note	Unaudited For the six months ended 30 September **2017** *RMB'000*	2016 *RMB'000* (Restated)
Sales	*3*	**1,637,877**	1,580,110
Cost of goods sold		**(570,586)**	(551,184)
Gross profit		**1,067,291**	1,028,926
Other income and other gains – net	*4*	**63,736**	118,050
Selling and marketing expenses	*5*	**(103,511)**	(130,922)
Administrative expenses	*5*	**(422,257)**	(453,041)
Operating profit		**605,259**	563,013
Finance income		**54,726**	20,885
Finance costs		**(10,895)**	(2,214)
Finance income – net		**43,831**	18,671
Share of profit of associates		**1,639**	1,674
Profit before income tax		**650,729**	583,358
Income tax expense	*6*	**(146,750)**	(118,802)
Profit for the period		**503,979**	464,556
Attributable to:			
Equity holders of the Company		**456,894**	473,956
Non-controlling interests		**47,085**	(9,400)
		503,979	464,556
Earnings per share for profit attributable to the Company's equity holders for the period			
Basic	*7(a)*	**RMB14.70 cents**	RMB15.26 cents
Diluted	*7(b)*	**RMB14.70 cents**	RMB15.26 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Unaudited For the six months ended 30 September	
	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Profit for the period	**503,979**	464,556
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Fair value changes on available-for-sale financial assets, net of tax	**–**	807
Currency translation difference on foreign operations	**(89,559)**	64,603
Other comprehensive (loss)/income for the period, net of tax	**(89,559)**	65,410
Total comprehensive income for the period, net of tax	**414,420**	529,966
Total comprehensive income attributable to:		
Equity holders of the Company	**369,863**	537,056
Non-controlling interests	**44,557**	(7,090)
	414,420	529,966

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Note	**As at 30 September 2017** ***RMB'000*** **Unaudited**	As at 31 March 2017 *RMB'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**982,452**	995,622
Land use rights		**147,063**	150,713
Intangible assets		**2,627,524**	2,657,656
Investments in associates		**380,745**	379,106
Available-for-sale financial assets		**110,965**	115,938
Deferred income tax assets		**67,836**	66,744
Other non-current assets		**38,258**	–
		4,354,843	4,365,779
Current assets			
Inventories		**732,146**	693,490
Trade and other receivables	*9*	**1,232,871**	1,425,527
Available-for-sale financial assets		**110,000**	111,000
Short-term time deposits		**803,828**	724,148
Cash and cash equivalents		**4,123,392**	4,177,807
		7,002,237	7,131,972
Total assets		**11,357,080**	11,497,751
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**318,647**	318,647
Reserves		**892,509**	979,764
Retained earnings		**8,408,260**	8,528,166
		9,619,416	9,826,577
Non-controlling interests		**807,868**	780,335
Total equity		**10,427,284**	10,606,912
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**73,349**	56,307
Trade and other payables	*10*	**29,982**	16,721
		103,331	73,028
Current liabilities			
Borrowings		**47,000**	75,500
Trade and other payables	*10*	**603,397**	561,604
Current income tax liabilities		**176,068**	180,707
		826,465	817,811
Total liabilities		**929,796**	890,839
Total equity and liabilities		**11,357,080**	11,497,751

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2017

	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)
Cash flows from operating activities		
Cash generated from operations	**856,939**	376,679
Income tax paid	**(135,290)**	(98,492)
Net cash generated from operating activities	**721,649**	278,187
Cash flows from investing activities		
Acquisition of a subsidiary	**(17,646)**	–
Acquisition of associates	**–**	(127,328)
Purchases of available-for-sale financial assets	**(108,000)**	(138,033)
Proceeds from disposal of available-for-sale financial assets	**110,920**	239,000
Purchases of property, plant and equipment, land use right and intangible assets	**(32,714)**	(26,120)
Proceeds from disposal of property, plant and equipment and intangible assets	**290**	163
Release in restricted bank deposits	**–**	100,845
Short-term time deposits (placed)/released	**(79,680)**	128,168
Dividend received	**7,756**	8,905
Interest received	**48,851**	12,934
Net cash (used in)/generated from investing activities	**(70,223)**	198,534
Cash flows from financing activities		
Dividends paid to shareholders	**(576,800)**	–
Dividends paid to non-controlling interests	**(18,793)**	(9,602)
Proceeds from the issue of new shares to non-controlling interests	**–**	846,924
Acquisition of additional interests in a subsidiary from non-controlling interests	**(750)**	–
New short-term bank borrowings	**47,000**	81,500
Repayment of short-term bank borrowings	**(75,500)**	(21,000)
Interest paid	**(10,895)**	(2,202)
Net cash (used in)/generated from financing activities	**(635,738)**	895,620
Net increase in cash and cash equivalents	**15,688**	1,372,341
Cash and cash equivalents at 1 April	**4,177,807**	2,653,110
Effects of currency translation on cash and cash equivalents	**(70,103)**	61,308
Cash and cash equivalents at 30 September	**4,123,392**	4,086,759

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACCOUNTING POLICIES

The Group changed its presentation currency from HKD to RMB since 1 October 2016. Please refer to the Group's annual financial statement for the year ended 31 March 2017 for details. The comparative figures in this condensed consolidated income statement were translated from HKD to RMB using applicable average rates that approximated to actual rates.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2017, as described in those financial statements.

(a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(b) There are no other standards or interpretations that are effective for the first time for this interim period that have a material impact on the Group.

(c) 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 annual periods beginning on or after
HKFRS 9 "Financial instruments"	1 January 2018
HKFRS 15 "Revenue from contracts with customers"	1 January 2018
HKFRS 4 (Amendments) Insurance contracts "Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts"	1 January 2018
HKFRS 1 (Amendments) "First time adoption of HKFRS"	1 January 2018
HKAS 28 (Amendments) "Investments in associates and joint ventures"	1 January 2018
HK (IFRIC) 22 "Foreign currency transactions and advance consideration"	1 January 2018
HKFRS 16 "Leases"	1 January 2019
HKFRS 10 and HKAS 28 (Amendments) "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be confirmed

Management is currently assessing the impact of the above new and amended standards to the Group's consolidated financial statements.

(d) The above new standards and amendments to standards and interpretations are effective for periods beginning after 1 April 2017 and have not been applied in preparing this Interim Financial Information. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

HKFRS 9, "Financial instruments" (effective for the financial year beginning on or after 1 January 2018).

HKFRS 15, "Revenue from contracts with customers" (effective for the financial year beginning on or after 1 January 2018).

HKFRS 16, "Leases" (effective for the financial year beginning on or after 1 January 2019).

3. TURNOVER AND SEGMENT INFORMATION

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

– Flavours and fragrances;

– Tobacco raw materials;

– Aroma raw materials; and

– Innovative tobacco products.

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 innovative tobacco products 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) Innovative tobacco products segment includes research and development, production and sale of e-cigarette.

The Executive Directors assess the performance of the operating segments based on a measure of operating profit.

The segment information for the six months ended 30 September 2017 is presented below:

	Unaudited For the six months ended 30 September 2017					
	Flavours and fragrances *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Innovative tobacco products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total turnover	**993,870**	**279,558**	**252,499**	**124,292**	**–**	**1,650,219**
Inter-segment sales	**(7,938)**	**(1,698)**	**(2,706)**	**–**	**–**	**(12,342)**
Segment turnover – net	**985,932**	**277,860**	**249,793**	**124,292**	**–**	**1,637,877**
Segment result	**522,004**	**109,575**	**49,328**	**(26,045)**	**(49,603)**	**605,259**
Finance income						**54,726**
Finance costs						**(10,895)**
Finance income – net						**43,831**
Share of profit of associates						**1,639**
Profit before income tax						**650,729**
Income tax expense						**(146,750)**
Profit for the period						**503,979**
Depreciation	**16,975**	**39,435**	**6,012**	**2,093**	**70**	**64,585**
Amortisation	**6,743**	**3,831**	**7,090**	**15,653**	**1,715**	**35,032**

	Unaudited As at 30 September 2017					
	Flavours and fragrances *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Innovative tobacco products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**5,683,697**	**1,979,576**	**636,063**	**276,252**	**2,781,492**	**11,357,080**

The segment information for the six months ended 30 September 2016 is presented below:

	Unaudited For the six months ended 30 September 2016 (Restated)					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total turnover	937,391	341,325	199,066	136,907	1,245	1,615,934
Inter-segment sales	(27,532)	(6,022)	(2,246)	(24)	–	(35,824)
Segment turnover – net	909,859	335,303	196,820	136,883	1,245	1,580,110
Segment result	517,902	111,330	31,317	(57,500)	(40,036)	563,013
Finance income						20,885
Finance costs						(2,214)
Finance income – net						18,671
Share of profit of associates						1,674
Profit before income tax						583,358
Income tax expense						(118,802)
Profit for the period						464,556
Depreciation	19,393	39,643	5,909	2,143	136	67,224
Amortisation	11,141	3,726	8,090	16,066	1,283	40,306

The segment assets as at 31 March 2017 are presented below:

	Audited As at 31 March 2017					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Innovative tobacco products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	5,580,878	1,956,731	589,854	310,422	3,059,866	11,497,751

Segment result represents the profit earned by each segment without inclusion of unallocated expenses, finance costs, finance income and share of results of associates. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

4. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)
Changes in fair value of financial assets at fair value through profit or loss	**–**	50,958
Government grants	**59,044**	72,701
Currency exchange gain/(loss) – net	**672**	(5,222)
Profit on disposal of a subsidiary	**454**	–
Gain on disposal of available-for-sale financial assets	**1,920**	–
Others	**1,646**	(387)
	63,736	118,050

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 the nature in note (a) below) as follows:

	Note	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)
Depreciation		**53,308**	56,417
Amortisation		**33,663**	39,060
Provision for impairment on other non-current assets		**18,000**	–
Employee benefit expenses		**165,734**	193,708
Research and development expenses	*(a)*	**126,126**	110,890
Lease rentals		**19,199**	21,490
Travelling expenses		**26,397**	47,472
Utility expenses		**30,705**	30,948
Delivery expenses		**19,591**	18,959

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

	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)
Depreciation	**11,277**	10,807
Amortisation	**1,369**	1,246
Employee benefit expenses	**38,865**	40,507

6. INCOME TAX EXPENSE

	Note	Unaudited For the six months ended 30 September 2017 RMB'000	2016 RMB'000 (Restated)
Current income tax:			
– PRC corporate income tax	*(a)*	**124,204**	116,655
– Hong Kong profits tax	*(b)*	**4,845**	3,961
– Botswana company income tax	*(c)*	**538**	512
– Germany company income tax	*(d)*	**98**	106
Deferred income tax		**17,065**	(2,432)
		146,750	118,802

(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% (2016: 16.5%) on the estimated assessable profit for the period.

(c) Botswana company income tax has been provided at the rate of 15% (2016: 15%) on the estimated assessable profit for the period.

(d) Germany company income tax has been provided at the rate of 15% (2016: 15%) on the estimated assessable profit for the period.

(e) The subsidiary in U.S. is a limited partnership and is not chargeable for income tax at partnership level. The corporate owners of the partnership pay tax on its share of the partnership's taxable income at the rate of 35% for the period.

(f) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions during the period.

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited For the six months ended 30 September 2017	2016 (Restated)
Profit attributable to equity holders of the Company (*RMB'000*)	**456,894**	473,956
Weighted average number of ordinary shares in issue (*'000*)	**3,107,963**	3,106,658
Basic earnings per share (*RMB cents per share*)	**14.70**	15.26

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the period ended 30 September 2017, the share options granted by the Company have no potential dilutive effect on the basic earnings per share.

	Unaudited For the six months ended 30 September	
	2017	2016 (Restated)
Profit attributable to equity holders of the Company (*RMB'000*)	**456,894**	473,956
Weighted average number of ordinary shares used to calculate basic earnings per share (*'000*)	**3,107,963**	3,106,658
Adjustment for:		
– Grant of awarded shares (*'000*)	**–**	88
Weighted average number of ordinary shares for diluted earnings per share (*'000*)	**3,107,963**	3,106,746
Diluted earnings per share (*RMB cents per share*)	**14.70**	15.26

8. DIVIDENDS

	Unaudited For the six months ended 30 September	
	2017	2016
	RMB'000	*RMB'000* (Restated)
Proposed interim dividend of HK10.30 cents (2016:nil) per share	**271,993**	–
Proposed special dividend of HK5.70 cents (2016: nil) per share	**150,521**	–
	422,514	–

As the interim dividend and special dividend were declared after the balance sheet date, the financial statements do not reflect this dividend payable.

9. TRADE AND OTHER RECEIVABLES

	Note	As at 30 September 2017 RMB'000 Unaudited	As at 31 March 2017 RMB'000 Audited
Trade receivables	(a)	**920,463**	1,049,955
Less: Provision for impairment on trade receivables		**(11,835)**	(14,558)
Trade receivables – net		**908,628**	1,035,397
Notes receivable		**145,949**	180,758
Prepayments and other receivables		**165,721**	190,266
Advances to staff		**5,405**	5,740
Others		**11,486**	13,366
Less: Provision for impairment on other receivables		**(4,318)**	–
		1,232,871	1,425,527

Except for prepayments of RMB33,246,000 (31 March 2017: RMB28,229,000), trade and other receivables balances are financial assets categorised under "loans and receivables". All trade and other receivables are either repayable within one year or on demand. Accordingly, the fair values of the trade and other receivables approximate their carrying amounts.

(a) The credit period granted to customers generally ranges from 0 to 180 days. At 30 September 2017 and 31 March 2017, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice dates were as follows:

	As at 30 September 2017 RMB'000 Unaudited	As at 31 March 2017 RMB'000 Audited
0 – 90 days	**810,817**	934,268
91 – 180 days	**68,341**	77,758
181 – 360 days	**17,431**	15,899
Over 360 days	**23,874**	22,030
	920,463	1,049,955

As at 30 September 2017, unbilled trade receivables of RMB305,876,000 (31 March 2017: RMB449,225,000) was categorized in the aging of 0-90 days.

10. TRADE AND OTHER PAYABLES

	Note	**As at 30 September 2017** *RMB'000* **Unaudited**	As at 31 March 2017 *RMB'000* Audited
Trade payables	*(a)*	**284,364**	288,422
Dividends payable		**–**	2,251
Wages payable		**78,803**	49,619
Other taxes payable		**72,180**	84,345
Accruals for expenses		**17,171**	23,860
Advance from customers		**48,428**	23,773
Payable for licence fee		**29,548**	30,481
Payable for acquisition of a subsidiary		**7,563**	–
Other payables		**95,322**	75,574
		633,379	578,325

Except for other taxes payable of RMB72,180,000 (31 March 2017: RMB84,345,000), wages payable of RMB78,803,000 (31 March 2017: RMB49,619,000) and advances from customers of RMB48,428,000 (31 March 2017: RMB23,773,000), trade and other payables balances are financial liabilities categorised under "financial liabilities measured at amortised cost". The fair values of trade and other payables approximate their carrying amounts.

(a) As at 30 September 2017 and 31 March 2017, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	As at 30 September 2017 *RMB'000* **Unaudited**	As at 31 March 2017 *RMB'000* Audited
0 – 90 days	**235,816**	231,307
91 – 180 days	**21,441**	33,747
181 – 360 days	**9,383**	2,425
Over 360 days	**17,724**	20,943
	284,364	288,422

MANAGEMENT DISCUSSION AND ANALYSIS

Recent Cooperations and Acquisitions

During the reporting period, the Group invested RMB25.208 million to acquire 95% equity interest of Jiangxi Xianghai Biotechnology Co., Ltd. ("Jiangxi Xianghai"). The Group will utilize its mastered core technologies to build Jiangxi Xianghai as an important production base for the aroma raw materials segment, which will be principally engaged in the production, research and development and sales of natural and various synthetic aroma raw materials. The completion of building and commencement of the production base would not only meet the environmental protection requirements of China, but also improve the operating efficiency of the aroma raw materials segment, which has great significance to put forward the strategic layout of the Group's aroma raw materials segment.

INDUSTRY OVERVIEW

Tobacco Industry Overview

In the first half of 2017, the global economy recovered moderately. Benefited from the solid progress of the supply-side structural reform, China's economy continued to grow steadily. With the economic operation indicators turning better thoroughly, the operation quality and efficiency of the tobacco industry improved progressively. The tobacco industry maintained a steady growth trend.

In the first half of this year, the total sales volume of cigarettes was about 24.75 million cases, representing an increase of approximately 0.38 million cases or 1.6% as compared to the corresponding period last year, completing the annual sales target of 52.3%. The total cigarette production volume was about 22.49 million cases, representing a decrease of 0.75 million cases or 3.2% as compared to the corresponding period last year. The volume of sales was greater than production by 2.26 million cases, creating a favorable condition for the industry to destock the industrial and commercial inventories. Industrial and commercial inventories fell below 5 million cases in May for the first time this year, and even dropped to 4.7 million cases at the end of June, representing a decrease of 0.79 million cases as compared to the corresponding period last year. In the first half of this year, the tobacco industry realised profit and tax of RMB592.9 billion, representing an increase of RMB10.35 billion or 1.8% as compared to the corresponding period last year, and completed 53.9% of the full-year target on profit and tax, which successfully achieved the result that "more than half of the task was finished by using half of the time".

In terms of the niche markets, the cigarette consumption showed a new trend of development. First of all, sales volume of slim cigarettes continued to maintain high growth. In the first half of this year, sales volume of slim cigarettes reached 1.148 million cases, representing an increase of approximately 0.521 million cases or 83.0% as compared to the corresponding period last year, which accounted for 4.6% of the national sales volume, representing an increase of 2.0 percentage points as compared to the corresponding period last year. Secondly, short cigarettes and flavour capsule cigarettes developed rapidly. In the first half of this year, sales volume of short cigarettes reached 0.108 million cases, representing an increase of 180.1% as compared to the corresponding period last year; sales volume of flavour capsule cigarette reached 0.135 million cases, representing an increase of 0.101 million cases as compared to the corresponding period last year, which became the largest sales volume product, except slim cigarettes, in the niche markets. The rapid development of slim cigarettes, short cigarettes and flavour capsule cigarettes played a positive role in stabilizing the sales and improving the structure for tobacco industry. In addition, with the recovery of the premium cigarette market, the sales volume of premium cigarettes in the first half of this year reached 1.67 million cases, representing an increase of 0.146 million cases or 9.6% as compared to the corresponding period last year, which was 8 percentage points higher than the national average. Premium cigarettes became the main force in the structural upgrade of the industry.

In terms of tobacco leaves, after three years of macro regulation and control, the total output of tobacco leaves has been effectively controlled. However, affected by the decrease in tobacco production and the drop of tobacco leaves consumption and other multiple factors, the total amount of tobacco leaves is still facing a situation of significant oversupply and the inventory level of tobacco leaves still remains high. Starting from this April, the tobacco industry actively carried out inventory verification work to reduce oversupply by comprehensively checking and verifying the quantity, grade and value of the tobacco leaves stored in stock. This verification process provided an effective safeguard for optimizing the structure of tobacco leaves inventory and expanding the effective supply of tobacco leaves. (Source: Tobacco Online and China Tobacco Market)

Overview of food and beverage industry and fragrances industry

In the first half of 2017, the food manufacturing developed steadily and rapidly, and the profitability of the food industry tends to be stable. Among them, the dairy beverage market picked up, and the production of dairy products turned better stably. The beverage market introduced innovative beverage products and the demand for healthier beverages, such as fruit and vegetable juice beverages, plant-based protein and milk beverages, increased rapidly. Products with more nutrients, diversification, high added-value and miniaturization became the new trends, and demand for intelligent, small-batched and customized products continued to increase. Bakeries maintained a good upward trend, and its development will be closely integrated with the individual needs of consumers. The pursuit of high added-value and high growth is the main direction for the industry's future development.

Snack food has salient ready-to-eat feature, which is highly compatible with current trend of convenience, showing a good momentum of development. In addition to the demand for taste, the market demand for health also increased gradually. Puffed food, with affordable prices, various product forms and varied tastes, is still one of the favorite products for consumers. The prefabricated food market is in strong demand. The demand for standardized and convenient delicacies are not only from the catering, but also extended to the family kitchens to meet the needs of fast-paced life for urban residents. Benefit from the recovery of the catering industry and the upgrading of household consumption, the condiment industry is expected to grow persistently.

In terms of fragrance industry, with the increase of residents' disposable income, the consumption of fragrance products in China also increased year by year. The per capita disposable income of Chinese residents in effect increased by 7.3% in the first half of this year. The consumption structure continued to upgrade, and the market scale of consumer goods expanded further. The different segments of fragrance industry show various development trends. The product structure of household disinfectant market has a big change and the market for traditional coiled mosquito-repellent incense and insecticide spray has been shrinking year by year. Clean, convenient, non-fragrant liquid mosquito coils are still popular and maintain a growth trend. Personal cleaning and care products grow rapidly.

Overview of the innovative tobacco products industry

In recent years, due to the gradually strengthened tobacco control by the government, the heightened tax burden and the increased awareness of consumers' health, the innovative tobacco products have developed rapidly. According to the "World Tobacco Development Report 2016", the global e-cigarette market in 2016 was estimated to be about 10 billion U.S. dollars, mainly in the United States, Europe and Southeast Asia, where the United States accounted for about 43% of the market share. (Source: China Tobacco)

Innovation is an increasingly important growth driver for the tobacco industry. With the rapid growth of sales, major tobacco companies have stepped up their investments in innovation and development of innovative tobacco products. As one of the major markets for the innovative tobacco products, Asia has great potential. Among them, the Heat-Not-Burn ("HNB") products which do not produce smoke and soot, after accumulated years of research and development, gained high praise when it was launched in Japan in 2015. As shown in the related materials, the market share of the HNB products is expected to rise significantly from 4% in 2016 to 15% in 2017 and its penetration will accelerate further in the next couple of years. (Source: Goldman Sachs "Future of Tobacco")

In the future, the development of low-harm innovative tobacco products will be a big trend, and the international market has great market potential, but the development and growth of domestic market will depend on more clarity in the regulatory control and policy.

RESULTS

For the six months ended 30 September 2017, the Group's sales revenue reached approximately RMB1,638 million, representing an increase of approximately 3.7% over the corresponding period last year. Gross profit margin reached approximately 65.2%, which is similar with that of the corresponding period last year. EBIT margin reached approximately 37.0%, representing an increase of 1.4 percentage points as compared with the corresponding period last year. Profit attributable to equity holders of the Company was approximately RMB457 million, representing a decrease of approximately 3.6% over the corresponding period last year. Basic earnings per share was RMB14.70 cents, representing a decrease of approximately 3.7% over the corresponding period last year.

BUSINESS OVERVIEW

Review of flavours and fragrances business

For the six months ended 30 September 2017, sales revenue of the flavours and fragrances business of the Group amounted to RMB986 million, representing an increase of approximately 8.4% as compared to approximately RMB910 million for the corresponding period last year, accounting for approximately 60.1% of the Group's sales revenue. The operating profit of the segment was about RMB522 million, representing an increase of 0.8% as compared to the corresponding period last year. The EBIT margin was approximately 52.9%, representing a decrease of 4.0 percentage points as compared to approximately 56.9% for the corresponding period last year. The increase of sales revenue was mainly due to the recovery of the tobacco industry and increase of sales volume. The decrease of the operating profit was mainly due to the decrease of other income in the reporting period.

a) Flavours

In the first half of the year, with the stabilization of China's economy, the tobacco industry began to "pick up" after suffering from "sales winter" and the consumption of cigarettes gradually returned to become rational. Driven by the economy rebound, the Group's tobacco flavours business has gradually stabilized and its sales revenue rose steadily. After years of efforts and through the possession of high-quality raw material resources, the Group has gradually established its own core raw material system, has trained flavourists team with first class international standard, and transformed from a simple flavour supplier to a system service solution provider gradually. At the same time, it has actively carried out a series of work in the aspects of overall marketing design of cigarettes and product system solution.

In terms of the food and beverage business, Shanghai H&K Flavors & Fragrances Co. Ltd., under the adverse circumstance where the price of raw material rose sharply, made efforts to control costs and improve operating efficiency and stabilized gross profit margin during the reporting period. While developing the domestic market, it actively went abroad to develop Southeast Asian markets and expand exports. Guangzhou Huabao Food Co. Ltd. was actively involved in technological innovation and product upgrades, and formed a new production line. Against the background of the overall rising prices for some raw materials, it actively controlled its costs through different procurement strategies and achieved good results.

In response to the increasingly stringent requirements of the new environmental protection situation, the Group will establish a new production base of food flavours and food ingredients in Yingtan, Jiangxi Province.

b) Fragrances

During the reporting period, due to the substantial increase in price of some natural raw materials and imported raw materials from overseas, the cost of raw materials procurement of the Group increased significantly. Also, due to the decrease in the demand of detergent fragrances by some big clients and the impact of environmental protection factors, the sales of detergent fragrances of the Group declined as compared with the same period of last year. In addition, the suspension of production during the 2017 BRICS summit held in Xiamen had certain impacts on half-year performance. In the second half of the year, with the advent of the sales season of fragrances and the improvement of the performance of traditional customers, it is expected that the performance of Xiamen Amber Daily Chemical Technology Co. Ltd. will be improved.

Overview of tobacco raw materials business

For the six months ended 30 September 2017, sales revenue of the tobacco raw material segment of the Group amounted to RMB278 million, representing a decrease of approximately 17.1% from RMB335 million of the corresponding period last year, accounting for approximately 17.0% of the Group's sales revenue. The operating profit of the segment was about RMB110 million, representing a decrease of 1.6% as compared to the corresponding period last year. The EBIT margin was approximately 39.4%, representing an increase of 6.2 percentage points as compared to approximately 33.2% for the corresponding period last year. The main reason for the decline in sales revenue of tobacco raw materials was due to the high inventory of tobacco leaves and the impacts of the production fluctuations caused by the periodic destocking of the industry. However, due to the remarkable results of the expense control by Guangdong Golden Leaf Technology Development Co. Ltd ("Guangdong Jinye"), EBIT margin increased as compared to the corresponding period last year.

During the reporting period, faced with the unfavorable situation in the industry, Guangdong Jinye, on one hand, strengthened its awareness of product quality, optimised the procurement structure of raw materials and actively expanded its exports. On the other, it endeavored to control costs and expenses and adopted a way of combining target costs and overall budget, so that it effectively controlled the increase of costs when the market price of some raw materials rose, and improved the company's cost-effectiveness. Although the current industry situation is difficult, the resonstituted tobacco leaves ("RTL") has an indispensable role in the future tobacco market. In particular, after the industry has achieved "three eliminations and one reduction" (de-capacity, de-stocking, de-leveraging, and cost reduction) and the real de-stocking of tobacco leaves, the development outlook of the RTL still remains good.

Driven by the recovery of the industry, the development momentum of tobacco new material business was very gratifying during the reporting period. Among them, the sales of capsules increased dramatically. Currently, the Group is actively expanding production capacity to meet the situation of short supply. In the second half of the year, with the completion of the new production line for capsules, the sales volume of capsules is expected to increase further. In addition, other products of the Group's new materials business, including wired conductors and smiley paper, etc., have shown various degrees of growth.

Review of aroma raw materials business

For the six months ended 30 September 2017, sales revenue of the aroma raw materials segment reached RMB250 million, representing an increase of 26.9% from RMB197 million of the last year, accounting for approximately 15.3% of the Group's revenue. Operating profit of the segment reached RMB49.3 million, representing a significant increase of approximately 57.5% from the corresponding period last year. The EBIT margin was approximately 19.7%, representing an increase of 3.8 percentage points as compared to approximately 15.9% for the corresponding period last year. The increases of sales revenue and operating profit were mainly due to the elimination of some industry capacity resulting from the increasingly stringent of the environmental protection requirements and the upgrade in production of this segment, resulted in the overall increase of the aroma raw materials business.

In order to better adapt to the new requirements of the environmental protection, during the reporting period, the Group successfully acquired 95% equity interest of Jiangxi Xianghai. In the future, it will build Jiangxi Xianghai as an important production base for the aroma raw materials segment, which will be principally engaged in the production, research and development and sales of aroma raw materials.

During the reporting period, faced with the unfavorable situation of price increase and short supply of raw materials, the Group actively upgraded its manufacturing processes, which increased its production efficiency and decreased production costs. As a result, the aroma raw material segment maintained rapid growth, sales revenue and operating profit both achieved good results. At the same time, the Group actively expanded exports to consolidate the original southeast market and successfully entered into new markets of Europe and the U.S., so that the overall aroma raw materials business is in the rising trend of development.

The aroma raw materials industry belongs to the fine chemical industry. With the improvement of the national standards on environmental protection and safety production standards, some small and medium-sized chemical manufacturers will gradually be eliminated from the market. The Group will seize the opportunity of the industry consolidation and vigorously develop the aroma raw materials business. On the one hand, it will continue to upgrade existing products, reduce costs and increase efficiency. On the other, it will continue to develop new products and new technologies and strive to develop new customers to enrich product lines and create greater profit margins.

Review of the innovative tobacco products business

For the six months ended 30 September 2017, sales revenue of the Group's innovative tobacco products was RMB124 million, representing a decrease of approximately 9.2% as compared with RMB137 million of the corresponding period last year and accounting for approximately 7.6% of the Group's total revenue. Operating loss of the innovative tobacco products business amounted to RMB26.0 million, representing a decrease of loss of RMB31.5 million as compared to the corresponding period last year, and the segment was still in loss position during the reporting period. The decline in the sales revenue was mainly due to the adjustments of suppliers and product structure. Regarding the domestic business in China, due to the unclear regulatory framework in China's market, the management voluntarily slow down the domestic business promotion after cautious valuation.

In August 2016, the U.S. Food and Drug Administration (FDA), for the first time, added the production, promotion and sales of e-cigarette products into institutional regulation in its newly published Tobacco Products Control Act. The introduction of the new legislation clarified the legality of the sales of e-cigarettes, imposed legal supervision on e-cigarettes that was in a grey area in the past, and provided consumers with an extra layer of protection. When the news came out, the market responded positively. The Group will actively promote building up the capital platform for e-cigarette in the future.

Research and development ("R&D") and innovation capabilities

The Group has a leading R&D platform and a R&D team with international experience in the fields of tobacco, flavour and aroma raw materials. The Group established a state-level enterprise technical center and a post-doctoral scientific research station in Shanghai, and has established joint laboratories with several major tobacco enterprises. It has also established a designated RTL production and R&D base authorized by the State Tobacco Monopoly Administration in Shantou, Guangdong Province, and an overseas R&D center in Germany. The Group owns a R&D team consisting of experienced Chinese and foreign experts and its R&D strength continues to lead its peers in the domestic counterparts. For R&D investment, the R&D expenses of the Group for the six months ended 30 September 2017 amounted to approximately RMB126 million, accounting for approximately 7.7% of the total sales revenue, which increased further from that of approximately 7.0% for the corresponding period last year.

FUTURE PROSPECTS

In June 2017, the China Security Regulatory Commission has formally accepted the application of the initial public offering of RMB ordinary shares (A shares) and listing on the Growth Enterprise Market of Shenzhen Stock Exchange by the Group's proposed spin-off company Huabao Flavours & Fragrances Co. Ltd.. At present, the application for the proposed spin-off is still in progress.

In the second half of this year, with the further digestion of inventory of tobacco leaves and cigarettes, the Group's business will continue to develop steadily. The Management is confident in the full year's operation prospects. With the acceleration of consumption structure upgrade and the continuous increase of consumer health awareness, the Group will actively focus on the emerging potential markets and regard such markets as an important direction for R&D.

At present, the increasingly stringent environmental protection standards have brought new opportunities and challenges to enterprises. Some of the obsolete production capacity that cannot meet the environmental protection requirements will be eliminated. Under the triple opportunities of consumption upgrade, industry consolidation and tightening environmental protection, the Group will actively upgrade its products structure, improve the products chain and strengthen the core competitiveness. At the same time, the Group will actively focus on the emerging potential markets, focus on the complementary products in the field of "tasty fast-moving consumer goods", and, through a dual engine strategy of business model upgrade and industry consolidation, continue to be the leader to a better life.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2017

Sales revenue

The Group's sales revenue amounted to RMB1,637,877,000 for the six months ended 30 September 2017, representing an increase of 3.7% as compared with RMB1,580,110,000 for the corresponding period last year. The increase in the sales revenue is mainly attributable to the increase of sales revenue of flavours and fragrances and aroma raw materials as compared with the corresponding period last year. It was, however, partly offset by the decrease of sales revenue of tobacco raw materials and innovative tobacco products. For the six months ended 30 September 2017, sales revenue from flavours and fragrances increased by 8.4% to RMB985,932,000; sales revenue from tobacco raw materials decreased by 17.1% to RMB277,860,000; sales revenue from aroma raw materials increased by 26.9% to RMB249,793,000; and sales revenue from innovative tobacco products decreased by 9.2% to RMB124,292,000.

Cost of goods sold

The Group's cost of goods sold amounted to RMB570,586,000 for the six months ended 30 September 2017, representing an increase of 3.5% as compared with RMB551,184,000 for the corresponding period last year.

Gross profit and gross profit margin

The gross profit of the Group increased from RMB1,028,926,000 for the six months ended 30 September 2016 to RMB1,067,291,000 for the six months ended 30 September 2017, representing an increase of 3.7%. The Group's gross profit margin for the first half of the year is about 65.2%, which was similar with 65.1% for the corresponding period last year. This was mainly due to the Group's effective control of cost.

Other income and other gains – net

Other income and other gains – net of the Group was RMB63,736,000 for the six months ended 30 September 2017, representing a decrease of RMB54,314,000 as compared with RMB118,050,000 for the six months ended 30 September 2016. The decrease in other income and other gains was mainly due to the fact that the Group did not hold any financial assets at fair value through profit or loss during the six months ended 30 September 2017, and therefore no relevant income were generated during the period.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, transportation cost, advertising and promotion expenses, salaries and office expenses. The selling and marketing expenses of the Group for the six months ended 30 September 2017 were RMB103,511,000, representing a decrease of 20.9% as compared with RMB130,922,000 for the corresponding period last year. Selling and marketing expenses to total sales revenue for the six months ended 30 September 2017 and 2016 amounted to approximately 6.3% and 8.3% respectively, representing a decrease of 2.0 percentage points. The decrease in such ratio was mainly attributable to the effective control of expenses.

Administrative expenses

The Group's administrative expenses amounted to RMB422,257,000 for the six months ended 30 September 2017, representing a decrease of 6.8% as compared with RMB453,041,000 for the corresponding period last year. The ratio of administrative expenses to total sales was approximately 25.8%, representing a decrease of 2.9 percentage points as compared with 28.7% for the corresponding period last year. The decrease in such ratio was mainly attributable to the streamlined structure of the Group to increase efficiency and effective control of expenses.

Operating profit

The operating profit of the Group for the six months ended 30 September 2017 was RMB605,259,000, representing an increase of approximately 7.5% as compared with RMB563,013,000 for the corresponding period last year, while the operating profit margin increased by 1.4 percentage points to approximately 37.0% during the first half of the year from approximately 35.6% for the first half of last year. The increase in operating profit was mainly attributable to the Group's business growth and effective control of administrative and selling expenses.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 September 2017 was RMB146,750,000, representing an increase of 23.5% as compared with RMB118,802,000 for the corresponding period last year. Income tax rate of the current period was approximately 22.6%, representing an increase of 2.2 percentage points as compared with the corresponding period last year. It was mainly attributable to the increase in provision of withholding income tax for current period.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was RMB456,894,000 for the six months ended 30 September 2017, representing a decrease of 3.6% as compared with RMB473,956,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2017, the net current asset value of the Group was RMB6,175,772,000 (31 March 2017: RMB6,314,161,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2017, the Group's cash and bank balances amounted to RMB4,927,220,000 (31 March 2017: RMB4,901,955,000). The Group held structured investment products of RMB110,000,000 (31 March 2017: RMB111,000,000), which were classified as available-for-sale financial assets.

Bank borrowings and gearing ratio

As at 30 September 2017, the Group had bank borrowings of RMB47,000,000 (31 March 2017: RMB75,500,000), all of which were due within one year and unsecured loan. For the six months ended 30 September 2017, the average annual interest rate of such unsecured loan was 3.98% (2016: 4.05%). As at 30 September 2017, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 0.5%, which was further lowered from 0.8% as of 31 March 2017.

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 sales 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 September 2017, the Group's average trade receivables turnover period was 108 days, representing an increase of 11 days as compared with 97 days for the last financial year ended 31 March 2017, and it was basically consistent with the trade receivables turnover period of 107 days for the corresponding period last year. The indicator 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 September 2017, the Group's average trade payables turnover period was 90 days, remained basically stable as compared with 89 days for the last financial year ended 31 March 2017.

Inventory and inventory turnover period

As at 30 September 2017, the Group's inventory balance amounted to RMB732,146,000 (31 March 2017: RMB693,490,000). For the six months ended 30 September 2017, the 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, representing an increase of 19 days as compared with 206 days for the last financial year ended 31 March 2017. However, it was lower than the inventory turnover period of 232 days of the corresponding period last year. The increase in inventory was mainly due to the appropriate increase in stock for aroma raw materials segment and new materials segment to meet the business development needs.

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 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

As at 30 September 2017, the Group had no pledged assets.

Capital Commitments

As at 30 September 2017, the Group had capital commitments in respect of the purchase of property, plant, equipment, available-for-sale financial assets and investments in associates, contracted for but not provided in the financial statements amounted to approximately RMB142,302,000 (31 March 2017: RMB149,329,000), with investment in high-tech fund amounted to RMB87,709,000.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2017.

HUMAN RESOURCES

As at 30 September 2017, the Group employed over 2,100 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea. During the reporting period, in line with the business objective for the year, the Group made the work objective of strengthening management, optimizing system, improving efficiency and reducing cost, and did a good job in basic aspects of system implementation, management improvement, personnel optimization and supervision and implementation. In the meantime, the Group started from the internal human resources department to strengthen its management and strive to improve its ability to work in the department and its overall quality. In terms of recruitment, the Group has established a sound mechanism for diversification of recruitment forms, optimization of quality, and minimization of costs and humanization of services.

In terms of the construction of corporate culture, the Group adhered to the people-oriented principle, and dedicated itself to building a solid and passionate staff team. With the vision of “leader to a better life”, the Group adhered to the corporate spirit of innovation, pragmatism, loyalty and collaboration, promoted culture landing through a variety of cultural activities and ongoing public welfare projects, and promoted continuous improvement of education and the environment so as to win social trust and sustainable development. During the reporting period, the Group helped poor pupils in poverty-stricken areas in poverty relief donations through “Huabao Action and Passing Love”, which was highly evaluated and praised by peers and the government of Tibet. In the future, the Group will continue to play the leadership role in the industry and actively reward society while developing its business.

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 of Hong Kong Limited ("Listing Rules") and, where appropriate, adopted the recommended best practice as set out in the code provisions, 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, Chairwoman of the Board and Executive Director of the Company, took up the position of Chief Executive Officer ("CEO") starting from 9 April 2013. As the Board meets regularly to consider the 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 September 2017.

DIVIDENDS

The Company's final dividend of HK22 cents per share (2016: Nil) in cash (amounting to RMB577 million in aggregate) for the year ended 31 March 2017 were paid to shareholders on 18 August 2017.

The Board has resolved to declare an interim dividend of HK10.30 cents per share (2016: Nil) and a special dividend of HK5.70 cents per share (2016: Nil) both in cash for the six months ended 30 September 2017, which are expected to be paid on or about 12 January 2018 to shareholders whose names appear on the register of members of the Company as at 8 December 2017.

CLOSE OF REGISTER OF MEMBERS

In order to determine shareholders who qualify for the interim and special dividends, the register of members of the Company will be closed from 6 December 2017 to 8 December 2017, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 5 December 2017.

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

During the six months ended 30 September 2017, neither the Company nor any of its subsidiaries had 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 comprises all of the INEDs of the Company, namely Mr. LEE Luk Shiu, Ms. MA Yun Yan, Dr. DING Ningning and Mr. WU Chi Keung. 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 September 2017.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of HKExnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2017-18 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
Chairwoman and CEO

Hong Kong, 21 November 2017

As at the date of this announcement, the Board comprises five executive directors, namely Ms. CHU Lam Yiu (Chairwoman and CEO), Messrs. XIA Li Qun, POON Chiu Kwok, XIONG Qing and LAM Ka Yu, and four independent non-executive directors, namely Mr. LEE Luk Shiu, Ms. MA Yun Yan, Dr. DING Ningning and Mr. WU Chi Keung.