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 2018

FINANCIAL HIGHLIGHTS

Compared with the corresponding period last year:

- Sales from continuing operations increased by approximately 9.1% to RMB1,651,556,000
- Gross profit from continuing operations increased by approximately 8.5% to RMB1,080,003,000, gross profit margin remained stable
- Operating profit from continuing operations increased by approximately 12.8% to RMB711,101,000
- Profit from continuing operations increased by approximately 14.0% to RMB614,473,000
- Profit attributable to the equity holders of the Company from continuing and discontinued operations increased by approximately 4.4% to RMB477,125,000
- Basic earnings per share increased by approximately 4.4% to RMB15.35 cents
- The Board proposed an interim dividend of HK10.0 cents per share for the six months ended 30 September 2018, dividend payout ratio reached approximately 57.3% for the period

* *For identification purpose only*

TABLE OF FINANCIAL HIGHLIGHTS			
	Unaudited For the six months ended 30 September		
	2018	2017	**Change in percentage**
	RMB'000	*RMB'000* (Restated)	
Continuing operations			
Sales	**1,651,556**	1,514,248	**+9.1%**
Gross profit	**1,080,003**	995,256	**+8.5%**
Gross profit margin	***65.4%***	*65.7%*	
Operating profit	**711,101**	630,515	**+12.8%**
EBITDA margin≠	***48.3%***	*47.1%*	
EBIT margin	***43.1%***	*41.6%*	
Profit before income tax	**789,384**	685,893	**+15.1%**
Profit from continuing operations for the period	**614,473**	539,143	**+14.0%**
Profit from continuing and discontinued operations attributable to the equity holders of the Company	**477,125**	456,894	**+4.4%**
Earnings/(loss) per share (basic and diluted)	***RMB cents***	*RMB cents*	
Continuing operations	***16.26***	*15.40*	**+5.6%**
Discontinued operation	***(0.91)***	*(0.70)*	
	15.35	*14.70*	**+4.4%**
Interim dividend per share *(note 10)*	***HK10.0 cents***	*HK10.3 cents*	
Special dividend per share *(note 10)*	**–**	*HK5.7 cents*	

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

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 2018 together with the comparative figures for the corresponding period in 2017.

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 2018

	Note	Unaudited For the six months ended 30 September **2018** *RMB'000*	2017 *RMB'000* (Restated)
Continuing operations:			
Sales	*4*	**1,651,556**	1,514,248
Cost of goods sold		**(571,553)**	(518,992)
Gross profit		**1,080,003**	995,256
Other income and other gains – net	*6*	**87,602**	63,770
Selling and marketing expenses		**(118,729)**	(85,644)
Administrative expenses		**(339,746)**	(342,326)
Net reversal gains/(impairment losses) on financial assets		**1,971**	(541)
Operating profit		**711,101**	630,515
Finance income		**103,521**	54,725
Finance costs		**(27,415)**	(986)
Finance income – net		**76,106**	53,739
Share of profit of associates and a jointly controlled entity		**2,177**	1,639
Profit before income tax		**789,384**	685,893
Income tax expense	*8*	**(174,911)**	(146,750)
Profit from continuing operations for the period		**614,473**	539,143
Discontinued operation:			
Loss from discontinued operation for the period	*5*	**(46,034)**	(35,164)
Profit for the period		**568,439**	503,979
Attributable to:			
Equity holders of the Company		**477,125**	456,894
Non-controlling interests		**91,314**	47,085
		568,439	503,979
Earnings/(loss) per share for profit from continuing operations and discontinued operation attributable to the Company's equity holders for the period		***RMB cents***	*RMB cents*
Basic and diluted:			
Continuing operations	*9*	**16.26**	15.40
Discontinued operation	*9*	**(0.91)**	(0.70)
		15.35	14.70

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2018

	Unaudited For the six months ended 30 September 2018 *RMB'000*	2017 *RMB'000* (Restated)
Profit for the period	**568,439**	503,979
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation difference on foreign operations	**102,132**	(89,559)
Other comprehensive income/(loss) for the period, net of tax	**102,132**	(89,559)
Total comprehensive income for the period, net of tax	**670,571**	414,420
Total comprehensive income attributable to:		
Equity holders of the Company	**573,904**	369,863
Non-controlling interests	**96,667**	44,557
	670,571	414,420
Total comprehensive income attributable to equity holders of the Company arises from:		
Continuing operations	**602,308**	391,175
Discontinued operation	**(28,404)**	(21,312)
	573,904	369,863

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	**As at 30 September 2018** ***RMB'000*** **Unaudited**	As at 31 March 2018 *RMB'000* Audited
Assets			
Non-current assets			
Property, plant and equipment		**1,188,855**	1,006,425
Land use rights		**194,411**	171,856
Intangible assets		**6,920,293**	2,531,828
Investments in associates		**392,066**	371,444
Investment in a jointly controlled entity		**4,105**	5,100
Financial assets at fair value through other comprehensive income		**129,754**	–
Available-for-sale financial assets		**–**	80,672
Deferred income tax assets		**99,385**	80,346
Other non-current assets		**16,061**	16,144
		8,944,930	4,263,815
Current assets			
Inventories		**809,352**	766,005
Trade and other receivables	*11*	**1,609,081**	1,456,484
Financial assets at fair value through profit or loss		**540,110**	–
Available-for-sale financial assets		**–**	102,000
Short-term time deposits		**2,109,722**	1,076,955
Cash and cash equivalents		**3,999,022**	6,635,651
Assets classified as held for sale	*5*	**225,216**	–
		9,292,503	10,037,095
Total assets		**18,237,433**	14,300,910

	Note	As at 30 September 2018 RMB'000 Unaudited	As at 31 March 2018 RMB'000 Audited
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital		**318,647**	318,647
Reserves		**2,442,195**	2,343,573
Retained earnings		**8,671,271**	8,601,342
		11,432,113	11,263,562
Non-controlling interests		**1,915,097**	1,854,775
Total equity		**13,347,210**	13,118,337
Liabilities			
Non-current liabilities			
Borrowings	*12*	**2,757,188**	–
Deferred income tax liabilities		**215,701**	81,386
Trade and other payables	*13*	**–**	25,326
		2,972,889	106,712
Current liabilities			
Borrowings	*12*	**848,776**	210,000
Trade and other payables	*13*	**539,101**	657,949
Current income tax liabilities		**193,052**	207,912
Contract liabilities		**120,280**	–
Liabilities directly associated with assets held for sale	*5*	**216,125**	–
		1,917,334	1,075,861
Total liabilities		**4,890,223**	1,182,573
Total equity and liabilities		**18,237,433**	14,300,910

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2018

	Unaudited For the six months ended 30 September 2018	2017
	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**570,803**	856,939
Income tax paid	**(200,222)**	(135,290)
Net cash generated from operating activities	**370,581**	721,649
Cash flows from investing activities		
Acquisition of subsidiaries	**(4,591,054)**	(17,646)
Acquisitions of associates	**(17,450)**	–
Purchases of financial assets at fair value through other comprehensive income	**(38,819)**	–
Purchases of financial assets at fair value through profit or loss	**(500,000)**	–
Purchases of available-for-sale financial assets	**–**	(108,000)
Proceeds from disposals of financial assets at fair value through profit or loss	**244,841**	–
Proceeds from disposals of available-for-sale financial assets	**–**	110,920
Purchases of property, plant and equipment, land use right and intangible assets	**(151,608)**	(32,714)
Proceeds from disposal of property, plant and equipment and intangible assets	**967**	290
Short-term time deposits placed	**(1,032,767)**	(79,680)
Dividend received	**10,161**	7,756
Interest received	**92,615**	48,851
Net cash used in investing activities	**(5,983,114)**	(70,223)
Cash flows from financing activities		
Dividends paid to shareholders	**(405,353)**	(576,800)
Dividends paid to non-controlling interests	**(39,623)**	(18,793)
Capital injection from non-controlling interest	**900**	–
Acquisition of additional interests in a subsidiary from non-controlling interests	**–**	(750)
New bank borrowings	**3,442,964**	47,000
Repayment of short-term bank borrowings	**(47,000)**	(75,500)
Interest paid	**(46,501)**	(10,895)
Net cash generated from/(used in) financing activities	**2,905,387**	(635,738)
Net (decrease)/increase in cash and cash equivalents	**(2,707,146)**	15,688
Cash and cash equivalents at 1 April	**6,635,651**	4,177,807
Cash and cash equivalents reclassified as assets held for sales	**(23,806)**	–
Effects of currency translation on cash and cash equivalents	**94,323**	(70,103)
Cash and cash equivalents at 30 September	**3,999,022**	4,123,392

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2018 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 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. KEY EVENTS

On 4 September 2018, the Group completed the acquisition of 100% equity interest in Jiahao Foodstuff Limited and its subsidiaries ("Jiahao"), for a consideration of USD695,985,000 (equivalent to approximately RMB4,745,437,000). Jiahao were principally engaged in the production, sales, marketing and distribution of condiment products predominantly to restaurants in China.

On 2 October 2018 (Florida time), VMR Products LLC ("VMR Products"), a non-wholly owned subsidiary of the Group, entered into an agreement to dispose all of the issued and outstanding units of VMR Products. The Group has approximately 62.7% indirect interest of the issued and outstanding units of VMR Products. The consideration of the disposal was USD31,352,380. VMR Products was engaged in the design, engineering, production, assembly, integration, marketing, sale and distribution of electronic cigarettes, independent from other segments of the Group. As the disposal of VMR Products occurred after the date of this statement of financial position, the associated assets and liabilities of VMR Products were consequently classified as held for sale at 30 September 2018 and its interim results were presented in the condensed consolidated income statement as a discontinued operation. The condensed consolidated income statement distinguish discontinued operation from continuing operations and the respective comparative figures have been restated. Further details are set out in Note 5 to the condensed consolidated interim financial information.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those financial statements, except for the adoption of new and amendments to HKFRSs effective for the financial year beginning 1 April 2018.

New and revised standards and amendments to existing standards that are effective for the first time for this interim period do not have a material impact on or are not relevant to the Group, except for HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15").

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments-Disclosures".

In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings. Provisions for impairment have not been restated in the comparative period, as well.

Impacts of adoption of HKFRS 9

Certain investments in bank financial products of the Group which were previously classified as available-for-sale financial assets ("AFS") under HKAS 39, were reclassified as financial assets at fair value through profit or loss ("FVPL") under HKFRS 9. Certain investments in unlisted securities which were previously classified as AFS under HKAS 39, were reclassified as financial assets at fair value through other comprehensive income ("FVOCI") under HKFRS 9. Except for the above, the application of HKFRS 9 did not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 1 April 2018 and 30 September 2018.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. The adoption of the expected loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade and other receivables as at 1 April 2018.

HKFRS 15 "Revenue from Contracts with Customers"

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 April 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 April 2018 and that comparative figures will not be restated.

Impacts of adoption of HKFRS 15

Contract liabilities previously presented as advances from customers in "trade and other payables" were reclassified as at 1 April 2018 to align with the terminology used under HKFRS 15.

Other than reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any impact to the retained earnings as at 1 April 2018 as the timing of revenue recognition on sales of products is not changed.

The impacts of the adoption of HKFRS 9 and HKFRS 15 on the condensed consolidated statement of financial position at 1 April 2018 are as follows:

	31 March 2018 As originally presented *RMB'000*	**HKFRS 9** *RMB'000*	**HKFRS 15** *RMB'000*	**1 April 2018 Restated** *RMB'000*
Condensed consolidated statement of financial position (extract)				
AFS	182,672	(182,672)	–	–
FVOCI	–	80,672	–	80,672
FVPL	–	102,000	–	102,000
Contract liabilities	–	–	25,590	25,590
Trade and other payables	683,275	–	(25,590)	657,685

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 16 "Leases"	1 January 2019
HK (IFRIC) 23 "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"	To be announced

The management is in the process of making an assessment of the impact of the above new standards and amendments to standards, and the result is consistent with assessment the management made and disclosed in the annual financial statements for the year ended 31 March 2018.

4. 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

– 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. This segment was established following the acquisition of Jiahao in September 2018.

The innovative tobacco products segment presented as an independent segment in the preceding period is classified as a discontinued operation.

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 2018 is presented below:

	Unaudited For the six months ended 30 September 2018							
	Flavours and fragrances	Tobacco raw materials	Aroma raw materials	Condiment	Others	Continuing operations (total)	Innovative tobacco products (Discontinued operation) *(Note 5)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total turnover	974,056	430,385	231,018	26,785	10	1,662,254	120,586	1,782,840
Inter-segment sales	(8,157)	–	(2,541)	–	–	(10,698)	–	(10,698)
Segment turnover – net	965,899	430,385	228,477	26,785	10	1,651,556	120,586	1,772,142
Segment result	520,591	186,108	34,203	(7,991)	(21,810)	711,101	(26,952)	684,149
Finance income						103,521	4	103,525
Finance costs						(27,415)	(19,086)	(46,501)
Finance income/(cost) – net						76,106	(19,082)	57,024
Share of profit of associates and a jointly controlled entity						2,177	–	2,177
Profit/(loss)before income tax						789,384	(46,034)	743,350
Income tax expense						(174,911)	–	(174,911)
Profit/(loss) for the period						614,473	(46,034)	568,439
Depreciation	14,937	41,971	7,591	702	793	65,994	1,786	67,780
Amortisation	1,296	4,401	8,085	6,134	203	20,119	15,106	35,225

	Unaudited As at 30 September 2018							
	Flavours and fragrances	Tobacco raw materials	Aroma raw materials	Condiment	Others	Continuing operations (total)	Innovative tobacco products (Discontinued operation) *(Note 5)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	9,088,067	2,943,708	787,642	5,052,367	140,433	18,012,217	225,216	18,237,433

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

	Unaudited For the six months ended 30 September 2017 (Restated)						
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Others *RMB'000*	Continuing operations (total) *RMB'000*	Innovative tobacco products (Discontinued operation) *(Note 5)* *RMB'000*	Total *RMB'000*
Total turnover	993,870	279,558	252,499	663	1,526,590	123,629	1,650,219
Inter-segment sales	(7,938)	(1,698)	(2,706)	–	(12,342)	–	(12,342)
Segment turnover – net	985,932	277,860	249,793	663	1,514,248	123,629	1,637,877
Segment result	522,004	109,575	49,328	(50,392)	630,515	(25,256)	605,259
Finance income					54,725	1	54,726
Finance costs					(986)	(9,909)	(10,895)
Finance income/(cost) – net					53,739	(9,908)	43,831
Share of profit of associates					1,639	–	1,639
Profit/(loss) before income tax					685,893	(35,164)	650,729
Income tax expense					(146,750)	–	(146,750)
Profit/(loss) for the period					539,143	(35,164)	503,979
Depreciation	16,975	39,435	6,012	561	62,983	1,602	64,585
Amortisation	6,743	3,831	7,090	1,715	19,379	15,653	35,032

The segment assets as at 31 March 2018 are presented below:

	Audited As at 31 March 2018					
	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	8,695,901	3,320,044	741,625	224,443	1,318,897	14,300,910

5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

On 2 October 2018 (Florida time), VMR Products LLC, a non-wholly owned subsidiary of the Group entered into a disposal agreement with, among others, JUUL Labs, Inc. and its subsidiary to effect the disposal of all of the issued and outstanding VMR Products units. The Group has approximately 62.7% indirect interest of the issued and outstanding VMR Products units. The consideration of the disposal was USD31,352,380.

The Group negotiated the disposal of VMR Products before 30 September 2018 and completed the transaction on 2 October 2018. The associated assets and liabilities of VMR were consequently classified as held for sale at 30 September 2018 and its interim results were presented in the condensed consolidated income statement as a discontinued operation.

(a) Assets and liabilities of disposal group classified as held for sale

	Unaudited As at 30 September 2018 *RMB'000*
Assets classified as held for sale:	
Property, plant and equipment	**9,063**
Intangible assets	**139,627**
Inventories	**34,653**
Trade and other receivables	**18,067**
Cash and cash equivalents	**23,806**
Total assets of disposal group held for sale	**225,216**
Liabilities directly associated with assets classified as held for sale:	
Borrowings	**89,566**
Trade and other payables	**126,559**
Total liabilities of disposal group held for sale	**216,125**

(b) Results and cash flow information of discontinued operation

The results and cash flow information presented reflects the discontinued operation of innovative tobacco products business for the six months ended 30 September 2018 and the respective comparative figures have been restated.

	Unaudited For the six months ended 30 September	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**120,586**	123,629
Cost of goods sold	**(63,436)**	(51,594)
Other income and other gains/(losses) – net	**2,302**	(34)
Administrative expenses	**(74,656)**	(79,390)
Selling and marketing expenses	**(11,748)**	(17,867)
Finance cost	**(19,082)**	(9,908)
Loss before income tax	**(46,034)**	(35,164)
Income tax expense	**–**	–
Loss from discontinued operation	**(46,034)**	(35,164)
Exchange differences on translation of discontinued operation	**(83)**	609
Other comprehensive income from discontinued operation	**(83)**	609
Net cash inflow from operating activities	**38,084**	48
Net cash outflow from investing activities	**(1,282)**	(3,017)
Net cash outflow from financing activities	**(19,727)**	(11,114)
Net increase/(decrease) in cash and cash equivalents generated from discontinued operation	**17,075**	(14,083)

6. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 September	
	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Government grants	**67,496**	59,044
Currency exchange gain – net	**16,401**	675
Gain on disposal of a subsidiary	**–**	454
Gain on disposal of available-for-sale financial assets	**–**	1,920
Gain on disposal of financial assets at fair value through profit or loss	**2,035**	–
Others	**1,670**	1,677
	87,602	63,770

7. 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:

	Note	**Unaudited For the six months ended 30 September 2018** *RMB'000*	2017 *RMB'000* (Restated)
Depreciation		**55,856**	51,706
Amortisation		**18,553**	18,010
Provision for impairment on other non-current assets		**–**	18,000
Employee benefit expenses		**162,624**	135,139
Research and development expenses	*(a)*	**125,768**	124,780
Lease rentals		**14,454**	14,639
Travelling expenses		**21,949**	24,468
Utility expenses		**30,589**	30,676
Delivery expenses		**17,836**	19,591

(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 2018 *RMB'000*	2017 *RMB'000* (Restated)
Depreciation	**10,138**	11,277
Amortisation	**1,566**	1,369
Employee benefit expenses	**63,795**	38,865

8. INCOME TAX EXPENSE

	Note	**Unaudited For the six months ended 30 September 2018** *RMB'000*	2017 *RMB'000* (Restated)
Current income tax:			
– PRC corporate income tax	*(a)*	**179,030**	124,204
– Hong Kong profits tax	*(b)*	**5,561**	4,845
– Botswana company income tax	*(c)*	**648**	538
– Germany company income tax	*(d)*	**121**	98
Deferred income tax		**(10,449)**	17,065
		174,911	146,750

(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% (2017: 16.5%) on the estimated assessable profit for the period.

(c) Botswana company income tax has been provided at the rate of 15% (2017: 15%) on the estimated assessable profit for the period.

(d) Germany company income tax has been provided at the rate of 15% (2017: 15%) 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 during the period.

9. EARNINGS/(LOSS) PER SHARE

Basic and diluted

Basic and diluted 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 during the period.

	Unaudited For the six months ended 30 September	
	2018	2017 (Restated)
Profit attributable to equity holders of the Company from continuing operations *(RMB'000)*	**505,478**	478,579
Loss attributable to equity holders of the Company from discontinued operation *(RMB'000)*	**(28,353)**	(21,685)
Profit attributable to equity holders of the Company *(RMB'000)*	**477,125**	456,894
Weighted average number of ordinary shares in issue *('000)*	**3,107,963**	3,107,963
Basic and diluted earnings/(loss) per share attributable to equity holders of the Company *(RMB cents per share)*:		
From continuing operations	**16.26**	15.40
From discontinued operation	**(0.91)**	(0.70)
	15.35	14.70

There was no outstanding share option during the period ended 30 September 2018. 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.

10. DIVIDENDS

	Unaudited For the six months ended 30 September	
	2018	2017
	RMB'000	*RMB'000*
Proposed interim dividend of HK10.0 cents (2017: HK10.3 cents) per share	**273,485**	271,993
Proposed special dividend: nil (2017: HK5.7 cents) per share	**–**	150,521
	273,485	422,514

Final dividend of HKD466,194,000 (equivalent to approximately RMB405,353,000) for the year ended 31 March 2018 was paid in September 2018.

As the interim dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 September 2018.

11. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 September 2018** ***RMB'000*** **Unaudited**	As at 31 March 2018 *RMB'000* Audited
Trade receivables	*(a)*	**1,158,948**	1,062,482
Less: provision for impairment of trade receivables		**(11,726)**	(12,925)
Trade receivables – net		**1,147,222**	1,049,557
Notes receivable		**163,914**	151,428
Prepayments and other receivables		**281,576**	240,919
Advances to staff		**6,265**	7,254
Others		**29,186**	28,437
Less: provision for impairment of other receivables		**(19,082)**	(21,111)
		1,609,081	1,456,484

Except for prepayments of RMB56,029,000 (31 March 2018: RMB41,623,000), trade and other receivables balances are financial assets categorised as those to be measured at amortised cost. 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 2018 and 31 March 2018, 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 September 2018 *RMB'000* **Unaudited**	As at 30 September 2017 *RMB'000* Audited
0 – 90 days	**1,024,500**	908,682
91 – 180 days	**83,076**	110,860
181 – 360 days	**27,520**	12,872
Over 360 days	**23,852**	30,068
	1,158,948	1,062,482

As at 30 September 2018, unbilled trade receivables of RMB462,661,000 (31 March 2018: RMB483,626,000) was categorised in the aging of 0-90 days.

12. BORROWINGS

	Note	**As at 30 September 2018** *RMB'000* **Unaudited**	As at 31 March 2018 *RMB'000* Audited
Non-current			
– Secured bank borrowings	*(a)*	**2,743,688**	–
– Unsecured bank borrowings	*(b)*	**13,500**	–
		2,757,188	–
Current			
– Secured bank borrowings	*(a)*	**144,405**	–
– Unsecured bank borrowings	*(b)*	**704,371**	210,000
		848,776	210,000
Total borrowings		**3,605,964**	210,000

(a) The Group entered into a bank loan agreement in August 2018 for a loan amount of approximately RMB2,888,000,000 for the payment of the consideration for the acquisition of Jiahao and related expenses. The loan is repayable within five years and is secured by the equity interest in Jiahao Foodstuff Limited and Guangdong Jiahao Foodstuff Co., Ltd, and its land and buildings in Zhongshan. During the period, the average interest rate of the loan was 5.70% per annum.

(b) The unsecured bank borrowings are repayable within one to two year. During the period, the average interest rate was 3.83% (30 September 2017: 3.98%) per annum.

Borrowings are financial liabilities categorised under "financial liabilities measured at amortised cost". The fair values of the Group's borrowings approximate their carrying amounts.

Interest expense on bank borrowings for the six months ended 30 September 2018 amounted to RMB27,415,000 (30 September 2017: RMB986,000).

13. TRADE AND OTHER PAYABLES

	Note	As at 30 September 2018 RMB'000 Unaudited	As at 31 March 2018 RMB'000 Audited
Trade payables	*(a)*	**238,445**	348,522
Wages payable		**53,842**	46,797
Other taxes payable		**116,422**	90,452
Accruals for expenses		**10,185**	23,435
Advances from customers		**–**	25,590
Payable for license fee		**–**	27,744
Other payables		**120,207**	120,735
		539,101	683,275

Except for other taxes payable of RMB116,422,000 (31 March 2018: RMB90,452,000) and wages payable of RMB53,842,000 (31 March 2018: RMB46,797,000), 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 2018 and 31 March 2018, 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 September 2018 RMB'000 Unaudited	As at 31 March 2018 RMB'000 Audited
0 – 90 days	**206,202**	312,436
91 – 180 days	**18,028**	23,887
181 – 360 days	**4,264**	2,067
Over 360 days	**9,951**	10,132
	238,445	348,522

MANAGEMENT DISCUSSION AND ANALYSIS

Recent Acquisitions and Disposals

Acquisition of Jiahao Foodstuff Limited

On 4 September 2018, the Group successfully acquired 100% interest of Jiahao Foodstuff Limited and its subsidiaries ("Jiahao") in a final consideration of approximately USD$696 million. Driven by the development of the domestic economy, increasing urbanization, consumption upgrade, and change of consumption environment and patterns, China's foodservice market enjoys a rapid growth. As the foodservice industry further develops towards to chainstore and customized direction, restaurants' demand for condiments of high quality, high stability and high-customization grows significantly. Established in 1994, Jiahao has advantages in the niche market. Jiahao's two major products, chicken bouillon and wasabi paste, are widely known and recognized in China's foodservice industry and possessed a leading market share. At present, Jiahao has a nationwide distribution network aiming at foodservice clients. Jiahao would leverage innovative strategic sales platform to strengthen its sales power. Jiahao positions itself as "Professional brand for the professional chef", its "Close Connection" marketing strategies enables the company's salespersons to better understand the chefs and restaurants' demand, thereby developing products that could meet the market's demand and preference. In addition, Jiahao is located in the trade centre Zhongshan, a city that has easy access to all means of transportation with an advantage over production cost. The management of Jiahao have extensive operating and managing experience in the condiment industry. After the acquisition, the Group will gradually implement the synergies of the acquisition in terms of distribution channel, cost control and research and development. The acquisition of Jiahao is an implementation of the Group's strategy "Concentric Diversification based on Consumers' Demand in the Taste-based Fast-moving Products Industry". Jiahao offers an opportunity to the Group to break into the RMB100 billion condiment market. Jiahao will expand the Group's business operation scope, optimize business structures, and create more value for our shareholders.

Acquistion of Hunan Jishou Mingzu Materials Co. Ltd. ("Hunan Jishou")

In September 2018, Smart Sino (Shanghai) Investment Management Co., Ltd., a subsidiary of the Group, acquired 85% equity interest in Hunan Jishou, a company incorporated in China. The consideration of the acquisition was RMB13,498,000 in cash. Hunan Jishou mainly engages in the production and sales of cigarette materials and cigarette filters. The Group will strengthen its layout in the cigarette materials industry and expand its scope of operation.

Disposal of the E-cigarette Business

On 2 October 2018 (Florida Time, United States), the Group reached a disposal agreement with JUUL Labs, Inc. and its subsidiary and completed the disposal of the controlling interest in VMR Products LLC (" VMR Products") held by the Group's subsidiary. The consideration was US$31,352,380 and the cash have already been received by the Group. VMR Products is engaged in the design, engineering, production, assembly, integration, manufacture, marketing, sale, supply and distribution of electronic cigarettes. As the disposal of VMR Products occurred after 30 September 2018 (the end of the reporting period), the results of VMR Products is categorized as the "Discontinued operation" in the condensed consolidated income statement and VMR Products' assets and liabilities are categorized as "Disposal group held for sale". In order to separately show the results of "Discontinued operation" and "Continuing operations", the figures in the condensed consolidated income statement have been restated. The successful disposal of VMR Products significantly minimized the policy and regulatory risks of the Group in the e-cigarette business and further enhanced the Group's financial position.

INDUSTRY OVERVIEW

Overview of the tobacco industry

In the first half of 2018, China continued to propel its economy restructuring. The dynamics, innovation and competitive power of the economy continued to strengthen and the economy is developing towards a high-quality direction. Thanks to the stable economy environment, the tobacco industry continued to be stable and improved. In the first half of 2018, cigarettes production volume was approximately 23.50 million cases, representing an increase of 4.52% year-on-year. Cigarettes sales volume was approximately 25.13 million cases, representing an increase of 1.54% year-on-year. The sales volume recorded 1.62 million more cases than production volume. Sales was approximately RMB826.7 billion, representing an increase of 6.99% year-on-year. Industrial and commercial inventories at the end of June reduced by approximately 167,400 cases as compared to that in June 2017. Industrial and commercial tax and profit were RMB646.9 billion, representing an increase of 9.11% year-on-year. All the figures above were the best for the same period over the past three years, the tobacco industry consistently move forwards. Due to the acceleration of trade friction between China and the U.S. and the slowdown of China's economy growth, the tobacco industry took the initiative to adjust production to respond to the changes in the market. Cigarette production volume for the third quarter slightly dropped by approximately 1.7% year-on-year, commercial sales volume slightly rose 1.3% year-on-year, commercial sales increased by 5.3% year-on-year. The inventory level and product structure were optimised and quality of products was improved.

In terms of cigarette consumption, self-use consumption, rational consumption, and personalized consumption are increasingly popular in the cigarette industry. Consumers' demand for personalized products such as thin cigarette, short cigarette, medium-length cigarette and capsule cigarette consistently rose, tobacco enterprises would need to follow with the consumption trends, thereby developing high-quality products that could meet clients' particular demand. In the first half of 2018, thin cigarette sales volume amounted to approximately 1.84 million cases, representing an increase of 690,000 cases or 60.1% year-on-year. Short and capsule cigarette remained robust growth, short cigarettes sales volume amounted to 223,000 cases, representing an increase of 115,000 cases or 106.5% year-on-year. Medium-length cigarettes amounted to 276,000 cases. Capsule cigarette amounted to 383,000 cases, representing an increase of 248,000 cases or 183.7% year-on-year. The thin, medium-length, short, and capsule cigarettes continued to optimise the structure of the tobacco industry and positively propel the sales volume of cigarettes. (Source: China Cigarettes Website)

In terms of tobacco leaves, due to the bounce-back of cigarette sales, tobacco leaves inventory was reduced slightly but the overall inventory remained high. The tobacco industry persists to be demand-oriented and optimises in quality supply system with strengthened inventory management and improved efficiency in asset allocation, the management of the tobacco inventory will be further optimised (Source: Tobacco Market).

Overview of food and beverage industry and fragrances industry

In the first half of 2018, China's gross domestic product increased by 6.8% year-on-year, the overall economy was generally stable. Despite the challenges brought forth by the trade friction between China and the U.S., Chinese government determined to reform and restructure its economy, stimulate consumption, and seek high-quality development, which empowered the economy to go forward. As daily necessities, the food and beverage industry is expected to benefit from the reform and make further development.

With the further acceleration in consumption upgrade and the increasing health awareness, consumers' demand for natural, healthy and delicious products have been increasing. Food and beverage manufacturers should grasp the opportunity of "consumption upgrade", and consistently optimize their product mix and quality so as to produce products that meet customers' preference and demand.

In respect of fragrances industry, in the first half of 2018, the sales of China's daily necessities amounted to RMB253.9 billion, representing an increase of 12.6% year-on-year, and 3.2 percentage points higher than the total sales growth of the social consumption goods of the same period. Competition among daily necessities is fierce, consumers' requirements for daily chemical products are higher and higher. Consumers demand daily chemical products to be safe and eco-friendly, harmless to skin and clothes, and of high functionality. The structure of the fragrances industry will be gradually optimised. Green, safe, eco-friendly and healthy products will more likely to capture the hearts of consumers and gain more room for development.

RESULTS

For the six months ended 30 September 2018, the Group's sales revenue from continuing operations reached RMB1,652 million, representing an increase of approximately 9.1%; gross profit margin was approximately 65.4%, remaining almost at the same level in comparison to 65.7% of the same period last year. EBIT margin was approximately 43.1%, representing an increase of approximately 1.5 percentage points year-on-year. Profit from continuing operations and discontinued operation attributable to the equity holders of the Company was approximately RMB477 million, representing an increase of approximately 4.4% year-on-year. Basic earnings per share was RMB15.35cents, representing an increase of approximately 4.4% year-on-year.

BUSINESS REVIEW

Review of flavours and fragrances business

For the six months ended 30 September 2018, sales revenue of the flavours and fragrances business of the Group amounted to approximately RMB966 million, remaining almost the same as compared to RMB986 million for the corresponding period last year and accounting for 58.5% of the Group's sales revenue. Operating profit of the segment amounted to approximately RMB521 million, remaining almost the same as compared to approximately RMB522 million of the same period last year. EBIT margin was approximately 53.9%, representing an increase of 1 percentage point as compared to approximately 52.9% for the corresponding period last year. The flavours and fragrances segment of the Group remained in stable development and won clients' favour with its high-quality products and reputation.

a) Flavours

In the first half of the year, the tobacco industry was on the rise and the Group's tobacco flavours gained mild recovery. As consumers' demand and recognition for new innovative cigarettes improved during the period, the Group strengthened its research and development in relevant products. In the first half of the year, the Group conducted research and product development in the non-combustible flavouring technology. At present, the Group has accomplished the development of hundreds of non-combustible products that mainly applied to capsules, these products have been widely used in the products for customers. In addition, the Group nurtured a number of flavour technology specialists to meet the demand for development in non-combustible flavour products, Meanwhile, in response to the changing trend of cigarette consumption, the Group established a marketing team to research cigarette consumption trend and conduct product planning strategies to help clients with cigarettes marketing.

In terms of food and beverage business, Huabao Flavours is implementing its projects with the funds raised from its IPO. Food flavours and ingredients production plant of Yingtan Huabao is under construction. Yingtan Huabao will expand the Group's business scope in the food industry, enhance Huabao Flavours' product class and accelerate the upgrade of the Group's products. Huabao Lhasa Pure Land healthy food project is still under construction. The project combines Huabao Flavours' existing products and local special food in Tibet, which could not only expand Huabao Flavours' business scope, but also meet the demand for high-quality, healthy and nutritious products in domestic and overseas markets.

b) Fragrances

The Group is one of the market leaders of fragrance for incense and household disinfection and insecticide products. The business covers those main fragrance markets such as Fujian, Guangdong, Zhejiang, Shangdong, Hebei, Sichuang, etc. Due to the Chinese government's intensifying environmental policies and some safety incidents in the upper stream, the price of raw materials rose significantly, resulting in the rise in fragrance price and the demand by small and medium-sized clients' in the downstream decreased, which resulted in the decrease in the fragrances business.

Review of tobacco raw materials business

For the six months ended 30 September 2018, sales revenue of the tobacco raw materials segment of the Group amounted to approximately RMB430 million, representing an increase of approximately 54.9% from RMB278 million of the corresponding period last year, accounting for approximately 26.1% of the Group's sales revenue. The operating profit of the segment was about RMB186 million, representing an increase of 69.8% as compared to the corresponding period last year. EBIT margin of the segment was approximately 43.2%, representing an increase of 3.8 percentage points as compared to approximately 39.4% for the corresponding period last year. The increase in the segment's sales revenue of tobacco raw materials is primarily contributed by the high-speed growth of the Group's tobacco raw materials business.

a) Reconstituted Tobacco Leaves ("RTL")

Since the implementation of total scale control in 2013, the national procurement of tobacco leaves declined from 54.88 million dans at the peak in 2012 to 38.00 million dans in 2017. Meanwhile, affected by factors such as the decrease of the production, sales volume, and the decline in the consumption of single-case tobacco leaves, the inventory of tobacco leaves increased rather than declined, and the inventory of tobacco leaves still remains in a high level. (Source: East Tobacco)

Faced with the pressure of inventory, during the reporting period, Guangdong Golden Leaf, a major subsidiary of the Group, on one hand, actively promoted the "Going Out" strategy of the RTL and strived to tap into the overseas market; on the other hand, Guangdong Golden Leaf implemented the principles of raw material development and production in non-key producing areas of inventory, which developed both direct customers and channel customers.

b) Tobacco new materials

During the reporting period, represented by flavour capsule, the tobacco new materials business developed rapidly. Due to the significant increase in market demand, more competitors entered into the industry and the supply of flavour capsule increased, thus causing the price declined accordingly. With advanced manufacturing process, technologies and high-quality services, the Group is in the leading position in the flavour capsule market. In order to cope with the situation of short supply, the Group will continue to expand production capacity. At the same time, the Group adhered to customer-oriented principles, grasped the changing trend of product demand, conducted customer satisfaction surveys on a regular basis, strived to improve service quality, expanded sales network, and maintained a dominant position in the competition.

Review of aroma raw materials business

For the six months ended 30 September 2018, sales revenue of the aroma raw materials segment reached approximately RMB228 million, representing a decrease of approximately 8.5% from RMB250 million of the corresponding period last year, accounting for approximately 13.8% of the Group's revenue. Operating profit of the segment reached approximately RMB34.2 million, representing a decrease of approximately 30.7% from the corresponding period last year. The EBIT margin of the segment was approximately 15.0%, representing a decrease of 4.7 percentage points as compared to approximately 19.7% for the corresponding period last year. The decrease of sales revenue and operating profit was mainly due to the adjustment in production capacity, which was to respond to the State's administrative and economic policies.

During the reporting period, the main plants of Jiangxi Xianghai production base have been formulated and are currently in trial production. Jiangxi Xianghai is expected to officially put into production in January 2019. By then, the production capacity will be gradually released and is expected to generate revenue for the Group on a large-scale. During the reporting period, the Group launched strategic collaboration with Givaudan on litsea cubeba in Yongzhou, which is the origin of listea cubeba. Thanks to the collaboration, the production and sales volume of litsea cubeba oil and its derivatives increased. In addition, increase in market demand for citral contributed to the profit increase of Yongzhou Shanxiang. In terms of Yancheng Chunzhu, both the sales and profit increased due to the expansion of market needs. In terms of Guangdong Zhaoqing, sales revenue and operating profit declined slightly as compared to the corresponding period last year, which was mainly due to its internal adjustment. The operating situation will be improved after the completion of the adjustment.

The Group is committed to improving and optimizing the production process, and actively enriching the production lines, which not only improves production efficiency and reduces production costs, but also enables the products of the aroma raw materials to become the leader in the aroma raw materials industry in terms of quality and product mix. In addition to actively optimizing products, the Group also strives to consolidate existing overseas customers. On top of the original Southeast Asian market, the Group has also maintained a relatively good partnerships with customers in Europe and America such as Firmenich, IFF and Givaudan.

Review of the condiment business

On 4 September 2018, the Group completed the acquisition of Jiahao. From 4 September to 30 September 2018, Jiahao realised sales revenue of RMB26.78 million, operating loss of Jiahao amounted to approximately RMB7.99 million. If the amount of approximately RMB17.41 million relating to the one-off expenses of acquisition, currency exchange gain, and the armortisation expenses of intangible assets were excluded, the operating profit of Jiahao would be approximately RMB9.42 million. If the acquisition were completed on 1 April 2018, the segment's sales revenue and net profit after tax would have increased to approximately RMB292 million and RMB46.95 million, respectively.

Review of the innovative tobacco products business

For the six months ended 30 September 2018, the Group's sales revenue from the discontinued operation of the innovative tobacco products business was approximately RMB121 million, representing a decrease of approximately 2.5% as compared to the corresponding period last year. Operating loss of the segment reached approximately RMB26.95 million, increased by approximately RMB1.7 million from the corresponding period last year. During the reporting period, the innovative tobacco products business continued to suffer losses. In light of the regulatory and market development of e-cigarettes in domestic and foreign markets, the Group disposed of VMR Products in the early October to optimise the Group's business segments and resources allocation.

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

The Group has been convinced that R&D and innovation are the vitality of enterprises and an important measure to keep up with the industry's development. The Group will continue to strive to improve its R&D capabilities. For the six months ended 30 September 2018, the Group's R&D expenses amounted to approximately RMB126 million, remaining almost at the same level in comparison to approximately RMB125 million for the corresponding period last year. R&D expenses accounted for approximately 7.6% of the total sales revenue, representing a slight decline of 0.6 percentage point as compared to approximately 8.2% of the corresponding period last year.

In terms of tobacco flavours, during the reporting period, the Group co-operated with China Tobacco Yunnan Industrial Co., Ltd. ("Yunnan Tobacco") to conduct the R&D of "non-combustible flavouring technology research and application in Yunnan-made cigarettes", which realized breakthrough and innovation of non-combustible flavouring in theory and practice, and also established the non-combustible flavouring technical and theoretical system. At present, the Group has completed the development of a batch of non-combustible flavours and fragrances, covering a variety of aroma compensation channels, and initially formed the basic technical system, product system and product application system of Yunnan Tobacco non-combustible flavouring technology. Based on the research of non-combustible flavouring, the Group successfully developed a series of branded cigarettes' such as Yun tobacco (Life of hundreds of tastes), Yuxi tobacco (108), Honghe tobacco (A7).

In terms of food flavours, during the reporting period, the Group's subsidiary obtained an authorised invention patent "a preparation method of water-soluble capsicum oleoresin". As the food industry is developing towards the direction of "Natural, healthy and delicious", the Group will follow the industry trend and develop products that are favoured by the market and continue to head for the vision of "leader to a better life".

In terms of RTL, during the reporting period, Guangdong Golden Leaf obtained an authorised patent "a device of hot-water-soluble material detection". Under the pressure of clearing the inventory, on the basis of clearing the inventory, the Group strived to seek more developments, developing new overseas customers.

In terms of tobacco new materials, based on current business, the Group will introduce advanced equipment for pilot test, testing and analysis, and establish a research centre that is research and development oriented. Meanwhile, the Group will collaborate with research institutes to conduct quality standards research on major products to make them conform to industry standards and international standards.

In terms of aroma raw materials, the Group focused on product process optimisation, and guaranteed product quality steadfastly. On this basis, the Group conducted R&D investment in products and strives to be the leader of the industry. During the reporting period, Yancheng Chunzhu obtained an authorised patent "a preparation method of a phenylacetaldehyde".

FUTURE PROSPECTS

Although the current domestic and international economic and business environment is complex, the management is still optimistic about the Group's operating prospects. The Group will focus on the taste-based fast-moving consumer goods products and break into the foodservice market by leveraging the condiment business, aiming to provide Chinese consumers with comprehensive food solutions to create the new growth curve for the Group.

DIVIDEND POLICY

The Group is committed to sharing its development and achievements with shareholders through proactive, stable and sustainable dividend policy. The Group would strive to strike a balance between meeting shareholder's expectations and managing funds prudently. When considering the dividend policy, the Group will comprehensively observe the macro-economic operation, the competition pattern of the industry and the Group's own development strategy. Under the premise of ensuring that the Group has sufficient working capital to implement the development strategy, the Group will distribute surplus funds to shareholders and reward their support for the Group. If the company pays dividends, the dividend payout ratio will remain at 50% or above.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 September 2018

Sales revenue

The Group's sales revenue from continuing operations amounted to RMB1,651,556,000 for the six months ended 30 September 2018, representing an increase of 9.1% as compared with RMB1,514,248,000 (restated) for the corresponding period last year. The increase in the sales revenue is mainly attributable to the increase of sales revenue of new material products under tobacco raw materials segment. For the six months ended 30 September 2018, sales revenue from flavours and fragrances decreased by 2.0% to RMB965,899,000; sales revenue from tobacco raw materials increased by 54.9% to RMB430,385,000; sales revenue from aroma raw materials decreased by 8.5% to RMB228,477,000; sales revenue of Jiahao acquired in current period was consolidated into the Group on 4 September 2018, bringing sales revenue of RMB26,785,000 to the condiment segment.

Cost of goods sold

The Group's cost of goods sold for continuing operations amounted to RMB571,553,000 for the six months ended 30 September 2018, representing an increase of 10.1% as compared with RMB518,992,000 (restated) for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit from continuing operations increased from RMB995,256,000 (restated) for the six months ended 30 September 2017 to RMB1,080,003,000 for the six months ended 30 September 2018, representing an increase of 8.5%. The Group's gross profit margin for the first half of the year is about 65.4%, which was similar with 65.7% (restated) for the corresponding period of last year.

Other income and other gains – net

Other income and other gains – net of the Group from continuing operations was RMB87,602,000 for the six months ended 30 September 2018, representing an increase of RMB23,832,000 as compared with RMB63,770,000 (restated) for the six months ended 30 September 2017. The increase in other income and other gains was mainly due to the increase in currency exchange gain and government grants for current period as compared with corresponding period last year.

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 from continuing operations for the six months ended 30 September 2018 was RMB118,729,000, representing an increase of 38.6% as compared with RMB85,644,000 (restated) for the corresponding period last year. Selling and marketing expenses to total sales revenue for the six months ended 30 September 2018 and 2017 amounted to approximately 7.2% and 5.7% (restated) respectively. The increase in such ratio was mainly attributable to the increase in expenses for developing its business and markets.

Administrative expenses

The Group's administrative expenses from continuing operations amounted to RMB339,746,000for the six months ended 30 September 2018, which was similar to RMB342,326,000 (restated) for the corresponding period last year. The ratio of administrative expenses to total sales was approximately 20.6%, representing a decrease of 2.0 percentage points as compared with 22.6% (restated) for the corresponding period last year. The decrease in such ratio was mainly attributable to the streamlined structure of the Group to increase efficiency.

Operating profit

The Group's operating profit from continuing operation for the six months ended 30 September 2018 was RMB711,101,000, representing an increase of approximately 12.8% as compared with RMB630,515,000 (restated) for the corresponding period last year, while the operating profit margin increased by 1.5 percentage points to approximately 43.1% during current period from approximately 41.6% (restated) for the corresponding period last year. The increase in operating profit was mainly attributable to the Group's business growth and effective control of administrative expenses.

Income tax expenses

The income tax expenses of the Group from continuing operations for the six months ended 30 September 2018 was RMB174,911,000, representing an increase of 19.2% as compared with RMB146,750,000 (restated) for the corresponding period last year. Income tax rate of the current period was approximately 22.2%, representing a slight increase of 0.8 percentage point 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 from continuing and discontinued operations was RMB477,125,000 for the six months ended 30 September 2018, representing an increase of 4.4% as compared with RMB456,894,000 for the corresponding period last year.

Net current asset value and financial resources

As at 30 September 2018, the net current asset value of the Group was RMB7,375,169,000 (31 March 2018: RMB8,961,234,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 September 2018, the Group's cash and bank balances amounted to RMB6,108,744,000 (31 March 2018: RMB7,712,606,000). The Group held structured investment products of RMB540,110,000 (31 March 2018: RMB102,000,000), which were reclassified as financial assets at fair value through profit or loss in the current period.

Bank borrowings and gearing ratio

As at 30 September 2018, the Group had bank borrowings of RMB3,605,964,000 (31 March 2018: RMB210,000,000), of which secured loan amounted to RMB2,888,093,000 (31 March 2018: nil) was due within five years, and the unsecured loans amounted to RMB717,871,000 (31 March 2018: RMB210,000,000) were due within one to two years. For the six months ended 30 September 2018, the average annual interest rate of the secured loan was 5.70%, and the average annual interest rate of the unsecured loans were 3.83% (2017: 3.98%). As at 30 September 2018, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests) was 31.5%, which was increased from 1.9% as of 31 March 2018. It was mainly attributable to the new secured merger and acquisition loan of approximately RMB2.888 billion used to finance the acquisition of Jiahao during current period.

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 2018, the Group's average trade receivables turnover period was 121 days, representing an increase of 17 days as compared with 104 days (adjusted by excluding financial figures of discontinued operation) for the last financial year ended 31 March 2018, and it was basically consistent with the 116 days (adjusted by excluding financial figures of discontinued operation) for the corresponding period last year.

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. The Group's average trade payables turnover period was 86 days, remained basically stable as compared with 89 days (adjusted by excluding financial figures of discontinued operation) for the last financial year ended 31 March 2018.

Inventory and inventory turnover period

As at 30 September 2018, the Group's inventory balance amounted to RMB809,352,000 (31 March 2018: RMB735,930,000 (adjusted by excluding financial figures of discontinued operation)). For the six months ended 30 September 2018, 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 243 days, representing an increase of 27 days as compared with 216 days for the last financial year ended 31 March 2018 (adjusted by excluding financial figures of discontinued operation) and an increase of 7 days as compared with 236 days (adjusted by excluding financial figures of discontinued operation) for the corresponding period last year. The increase in inventory was mainly for the Group's business development.

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 2018, the Group's equity interest in Jiahao Foodstuff Limited and Guangdong Jiahao Foodstuff Co., Ltd, and its land and buildings in Zhongshan China were used as collateral for a bank loan of approximately RMB2.888 billion.

Capital Commitments

As at 30 September 2018, the Group had capital commitments in respect of the purchase of property, plant, equipment, financial assets at fair value through other comprehensive income and investments in associates, contracted for but not provided in the financial statements amounted to approximately RMB273,802,000 (31 March 2018: RMB259,877,000), which was mainly investments in domestic and overseas funds amounted to RMB136,740,000.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 September 2018.

HUMAN RESOURCES

As at 30 September 2018, the Group employed over 3,200 employees in the PRC, Hong Kong, Germany, U.S., Botswana and Korea. During the reporting period, the Group recruited talents based on its value, actively accelerated the upgrade of the organization and furthered the partnership models in multiple ways.

The Group adhered to the value of "People Matter Most" and deepened employees' understanding and recognition of the Group's value through cross-department interaction. The Group also collaborated with external consulting firms and universities to provide employees with training to strengthen their professional skills while leverage the opportunity to let those social organisations to better know the Group's brand. The Group will continue to adhere to the spirit of "Innovative, pragmatic, loyal and cooperative" and implement a number of diverse cultural and ongoing public service activities to facilitate progress in education and the environment so that it could win the trust of the society and make sustainable development.

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 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 2018.

DIVIDEND

The Company's final dividend of HK15 cents per share (2017: HK22 cents) in cash, amounting to approximately HKD466 million (equivalent to approximately RMB405 million) in aggregate, for the year ended 31 March 2018 were paid to shareholders on 28 September 2018.

The Board has resolved to declare an interim dividend of HK10.0 cents per share (2017: interim and special dividend of HK16.0 cents) in cash for the six months ended 30 September 2018, which are expected to be paid on or about 11 January 2019 to shareholders whose names appear on the register of members of the Company on 17 December 2018.

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 12 December 2018 to 17 December 2018, 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 11 December 2018.

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

During the six months ended 30 September 2018, 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 comprise 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 2018.

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 2018-19 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, 22 November 2018

As at the date of this announcement, the Board comprises five executive directors, namely Ms. CHU Lam Yiu (Chairwoman and CEO), Messrs. XIA Liqun, 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.