HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended		
	30 June 2019 *RMB'000*	30 September 2018 *RMB'000*	**Change in percentage**
Continuing operations			
Revenue	**2,069,317**	1,651,556	**+25.3%**
Gross profit	**1,310,461**	1,080,003	**+21.3%**
Gross profit margin	***63.3%***	*65.4%*	
Operating profit	**806,098**	711,101	**+13.4%**
EBITDA margin≠	***45.4%***	*48.3%*	
EBIT margin	***39.0%***	*43.1%*	
Profit before income tax	**805,290**	789,384	**+2.0%**
Profit from continuing operations for the period	**609,173**	614,473	**-0.9%**
Profit from continuing and discontinued operations attributable to the equity holders of the Company	**480,289**	477,125	**+0.7%**
Earnings/(loss) per share (basic and diluted)	***RMB cents***	*RMB cents*	
– Continuing operations	**15.45**	16.26	
– Discontinued operation	–	(0.91)	
	15.45	15.35	**+0.7%**
Interim dividend per share *(note 9)*	**HK 8.8 cents**	HK 10.0 cents	

≠ *"EBITDA margin" equal to "Earnings before taxes, interest, depreciation, amortisation and share-based compensation expenses" divided by "Revenue".*

* *For identification purpose only*

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019 together with the comparative figures for the six months ended 30 September 2018.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

		Unaudited For the six months ended	
		30 June 2019	30 September 2018
	Note	***RMB'000***	*RMB'000*
Continuing operations:			
Revenue	*4*	**2,069,317**	1,651,556
Cost of goods sold		**(758,856)**	(571,553)
Gross profit		**1,310,461**	1,080,003
Other income and other gains – net	*5*	**106,582**	87,602
Selling and marketing expenses		**(187,160)**	(118,729)
Administrative expenses		**(416,160)**	(339,746)
Net (impairment losses)/reversal gains on financial assets		**(7,625)**	1,971
Operating profit		**806,098**	711,101
Finance income		**96,591**	103,521
Finance costs		**(99,775)**	(27,415)
Finance (costs)/income – net		**(3,184)**	76,106
Share of results of associates and a jointly controlled entity		**2,376**	2,177
Profit before income tax		**805,290**	789,384
Income tax expense	*7*	**(196,117)**	(174,911)
Profit from continuing operations for the period		**609,173**	614,473
Loss from discontinued operation for the period		**–**	(46,034)
Profit for the period		**609,173**	568,439
Attributable to:			
Equity holders of the Company		**480,289**	477,125
Non-controlling interests		**128,884**	91,314
		609,173	568,439
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	*8*	**15.45**	16.26
Discontinued operation	*8*	**–**	(0.91)
		15.45	15.35

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited For the six months ended 30 June 2019 RMB'000	30 September 2018 RMB'000
Profit for the period	**609,173**	568,439
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Fair value changes of equity investments at fair value through other comprehensive income, net of tax	**(8,476)**	–
Items that may be reclassified to profit or loss		
Currency translation difference on foreign operations	**10,070**	102,132
Other comprehensive income for the period, net of tax	**1,594**	102,132
Total comprehensive income for the period, net of tax	**610,767**	670,571
Total comprehensive income attributable to:		
Equity holders of the Company	**481,883**	573,904
Non-controlling interests	**128,884**	96,667
	610,767	670,571
Total comprehensive income attributable to equity holders of the Company arises from:		
Continuing operations	**481,883**	602,308
Discontinued operation	**–**	(28,404)
	481,883	573,904

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**As at 30 June 2019** *RMB'000* **Unaudited**	As at 31 December 2018 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**1,339,874**	1,244,569
Right-of-use assets	*3*	**260,822**	–
Land use rights	*3*	**–**	187,310
Intangible assets		**6,852,513**	6,899,997
Investments in associates		**388,179**	396,685
Investment in a jointly controlled entity		**1,954**	7,085
Financial assets at fair value through other comprehensive income		**174,535**	159,197
Deferred income tax assets		**107,841**	111,593
Other non-current assets		**15,836**	15,874
		9,141,554	9,022,310
Current assets			
Inventories		**905,926**	896,243
Trade and other receivables	*10*	**1,541,506**	1,540,188
Financial assets at fair value through profit or loss		**449,245**	574,298
Short-term time deposits		**1,309,074**	1,606,790
Cash and cash equivalents		**4,569,724**	5,535,601
		8,775,475	10,153,120
Total assets		**17,917,029**	19,175,430

	Note	As at 30 June 2019 RMB'000 Unaudited	As at 31 December 2018 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**318,636**	318,647
Reserves		**2,574,975**	2,571,885
Retained earnings		**8,584,373**	8,863,604
		11,477,984	11,754,136
Non-controlling interests		**1,644,038**	1,991,282
Total equity		**13,122,022**	13,745,418
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**2,714,807**	2,756,438
Lease liabilities	*3*	**60,053**	–
Deferred income tax liabilities		**176,350**	254,520
Trade and other payables	*12*	**800**	800
		2,952,010	3,011,758
Current liabilities			
Borrowings	*11*	**978,107**	933,701
Lease liabilities	*3*	**19,835**	–
Trade and other payables	*12*	**581,125**	996,866
Current income tax liabilities		**171,665**	264,598
Contract liabilities		**92,265**	223,089
		1,842,997	2,418,254
Total liabilities		**4,795,007**	5,430,012
Total equity and liabilities		**17,917,029**	19,175,430

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Unaudited For the six months ended 30 June 2019 RMB'000	30 September 2018 RMB'000
Cash flows from operating activities		
Cash generated from operations	**661,133**	570,803
Income tax paid	**(363,033)**	(200,222)
Net cash generated from operating activities	**298,100**	370,581
Cash flows from investing activities		
Acquisition of subsidiaries	**–**	(4,591,054)
Acquisition of an associate	**–**	(17,450)
Purchases of financial assets at fair value through other comprehensive income	**(23,142)**	(38,819)
Purchases of financial assets at fair value through profit or loss	**(200,000)**	(500,000)
Proceeds from disposals of financial assets at fair value through profit or loss	**318,070**	244,841
Purchases of property, plant and equipment, land use right and intangible assets	**(177,703)**	(151,608)
Proceeds from disposal of property, plant and equipment and intangible assets	**5,465**	967
Short-term time deposits released/(placed)	**297,716**	(1,032,767)
Dividend received	**10,485**	10,161
Interest received	**103,927**	92,615
Net cash generated from/(used in) investing activities	**334,818**	(5,983,114)
Cash flows from financing activities		
Final dividend for the year ended 31 March 2018 paid to shareholders	**–**	(405,353)
Interim dividend for the six months ended 30 September 2018 paid to shareholders	**(275,620)**	–
Final and special dividend for the nine months ended 31 December 2018 paid to shareholders	**(756,818)**	–
Dividends paid to non-controlling interests	**(478,607)**	(39,623)
Capital injection from non-controlling interests	**3,024**	900
New bank borrowings	**625,787**	3,442,964
Repayment of bank borrowings	**(627,395)**	(47,000)
Principal elements of lease payments	**(9,651)**	–
Interest paid	**(97,213)**	(46,501)
Net cash (used in)/generated from financing activities	**(1,616,493)**	2,905,387
Net decrease in cash and cash equivalents	**(983,575)**	(2,707,146)
Cash and cash equivalents at the beginning of the period	**5,535,601**	6,635,651
Cash and cash equivalents reclassified as assets held for sales	**–**	(23,806)
Effects of currency translation on cash and cash equivalents	**17,698**	94,323
Cash and cash equivalents at the end of the period	**4,569,724**	3,999,022

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 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 nine months ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the nine months ended 31 December 2018, as described in those financial statements, except for the adoption of new and amendments to HKFRSs effective for the financial year beginning 1 January 2019.

(a) 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 16 "Lease" ("HKFRS 16").

The impact of the adoption of HKFRS 16 are disclosed in Note 3 and the new accounting policies adopted are set out in Note 2(c) below.

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

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

		Effective for the financial year beginning on or after
Amendments to HKFRS 3	"Definition of a business"	1 January 2020
Amendments to HKAS 1 and HKAS 8	"Definition of material"	1 January 2020
Revised Conceptual Framework for Financial Reporting		1 January 2020
HKFRS 17	"Insurance contract"	1 January 2021
Amendments to HKFRS 10 and HKAS 28	"Sale or contribution of assets between an investor and its associates or joint ventures"	To be determined

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

(c) HKFRS 16 Lease – Accounting policies applied from 1 January 2019

The Group leases various land, properties and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Leases of land were classified as land use rights.

From 1 January 2019, leases of property, plant and equipment are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, leases of land are reclassified as right-of-use for land.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 2(c).

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged between 3.11% to 4.33%. There were no leases classified as finance leases across the Group as at 1 January 2019 and 30 June 2019.

	2019 ***RMB'000***
Discounted using the lessee's incremental borrowing rate at the date of initial application	**80,151**
(Less): short-term leases recognised on a straight-line basis as expense	**(7,816)**
Lease liability recognised as at 1 January 2019	**72,335**
Of which are:	
Current lease liabilities	**14,950**
Non-current lease liabilities	**57,385**
	72,335
Lease liability recognised as at 30 June 2019	**79,888**
Of which are:	
Current lease liabilities	**19,835**
Non-current lease liabilities	**60,053**
	79,888

The associated right-of-use assets for all leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	As at 30 June 2019 RMB'000	As at 1 January 2019 RMB'000
Right-of-use for land *(Note a)*	**184,220**	187,310
Properties	**76,458**	69,092
Motor vehicles	**144**	230
Total right-of-use assets	**260,822**	256,632

(a) Right-of-use for land

	For the six months ended 30 June 2019 RMB'000
At 31 December 2018	–
Reclassify from land use rights to right-of-use assets	187,310
At 1 January 2019	187,310
Amortisation	(3,097)
Currency translation differences	7
At 30 June 2019	184,220

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB256,632,000
- land use rights – decrease by RMB187,310,000
- deferred income tax assets – increase by RMB446,000
- lease liabilities – increase by RMB72,335,000
- non-controlling interests – decrease by RMB545,000

The net impact on retained earnings on 1 January 2019 was a decrease of RMB2,022,000.

(i) Impact on earnings per share

The impact on the earnings per share for the six months to 30 June 2019 as a result of the adoption of HKFRS 16 was immaterial.

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

4. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours and fragrances;

(2) Tobacco raw materials;

(3) Aroma raw materials; and

(4) Condiment.

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

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

(1) Flavours and fragrances segment includes research and development, production and sale of flavours and fragrances products.

(2) Tobacco raw materials segment includes research and development, production and sale of paper-making reconstituted tobacco leaves and new materials products that are innovative, functional and applicable to tobacco industry.

(3) Aroma raw materials segment includes research and development, manufacture and sale of aroma raw materials products that are extracted from natural materials or generated from chemical process.

(4) Condiment segment includes production, sales, marketing and distribution of condiments.

The Innovative tobacco products segment has been classified as a discontinued operation in the interim report for the six month ended 30 September 2018.

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 June 2019 is presented below:

	Unaudited For the six months ended 30 June 2019					
	Flavours and fragrances *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total revenue	**976,060**	**366,925**	**363,054**	**376,141**	**206**	**2,082,386**
Inter-segment revenue	**(8,652)**	**(816)**	**(3,601)**	**–**	**–**	**(13,069)**
Segment revenue – net	**967,408**	**366,109**	**359,453**	**376,141**	**206**	**2,069,317**
Segment result	**581,089**	**132,068**	**63,573**	**103,695**	**(74,327)**	**806,098**
Finance income						**96,591**
Finance costs						**(99,775)**
Finance cost – net						**(3,184)**
Share of results of associates and a jointly controlled entity						**2,376**
Profit before income tax						**805,290**
Income tax expense						**(196,117)**
Profit for the period						**609,173**
Depreciation	**20,125**	**43,390**	**10,395**	**4,184**	**2,915**	**81,009**
Amortisation	**644**	**5,098**	**8,325**	**36,809**	**120**	**50,996**

	Unaudited As at 30 June 2019					
	Flavours and fragrances *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**7,654,893**	**3,006,288**	**959,736**	**5,182,825**	**1,113,287**	**17,917,029**

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 *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Continuing operation (total) *RMB'000*	Innovative tobacco products (Discontinued operation) *RMB'000*	Total *RMB'000*
Total revenue	974,056	430,385	231,018	26,785	10	1,662,254	120,586	1,782,840
Inter-segment revenue	(8,157)	–	(2,541)	–	–	(10,698)	–	(10,698)
Segment revenue – 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 results 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

	Audited As at 31 December 2018					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	9,625,781	3,089,171	890,893	5,201,045	368,540	19,175,430

5. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended	
	30 June 2019	30 September 2018
	RMB'000	*RMB'000*
Changes in fair value of financial assets at fair value through profit or loss	**(12,986)**	–
Government grants	**117,857**	67,496
Currency exchange (loss)/gain – net	**(1,462)**	16,401
Gain on disposal of financial assets at fair value through profit or loss	**6,070**	2,035
Others	**(2,897)**	1,670
	106,582	87,602

6. EXPENSES BY NATURE

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

		Unaudited For the six months ended	
		30 June 2019	30 September 2018
	Note	***RMB'000***	*RMB'000*
Depreciation	*4*	**71,756**	55,856
Amortisation	*4*	**49,286**	18,553
Employee benefit expenses		**198,572**	162,624
Research and development expenses	*(a)*	**133,907**	125,768
Lease rentals		**8,812**	14,454
Travelling expenses		**36,607**	21,949
Utility expenses		**45,920**	30,589
Delivery expenses		**28,830**	17,836

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

		Unaudited For the six months ended	
		30 June 2019	30 September 2018
	Note	***RMB'000***	*RMB'000*
Depreciation	*4*	**9,253**	10,138
Amortisation	*4*	**1,710**	1,566
Employee benefit expenses		**73,458**	63,795

7. INCOME TAX EXPENSE

		Unaudited For the six months ended	
		30 June	30 September
		2019	2018
	Note	***RMB'000***	*RMB'000*
Current income tax:			
– PRC corporate income tax	*(a)*	**264,663**	179,030
– Hong Kong profits tax	*(b)*	**5,169**	5,561
– Botswana company income tax	*(c)*	**268**	648
– Germany company income tax	*(d)*	**–**	121
Deferred income tax		**(73,983)**	(10,449)
		196,117	174,911

(a) PRC corporate income tax has been calculated on the estimated assessable profit for the period at the tax rates applicable to respective companies of the Group.

(b) Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2018: 16.5%) on the estimated assessable profit for the period.

(c) Botswana company income tax has been provided at the rate of 15% (six months ended 30 September 2018: 15%) on the estimated assessable profit for the period.

(d) Germany company income tax has been provided at the rate of 15% (six months ended 30 September 2018: 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 for the six months ended 30 June 2019 and 30 September 2018.

8. 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 for the six months ended 30 June 2019 and 30 September 2018.

	Unaudited For the six months ended 30 June 2019	**Unaudited For the six months ended** 30 September 2018
Profit attributable to equity holders of the Company from continuing operations *(RMB'000)*	**480,289**	505,478
Loss attributable to equity holders of the Company from discontinued operation *(RMB'000)*	**–**	(28,353)
Profit attributable to equity holders of the Company *(RMB'000)*	**480,289**	477,125
Weighted average number of ordinary shares in issue *('000)*	**3,107,837**	3,107,963
Basic and diluted earnings/(loss) per share attributable to owners of the Company *(RMB cents per share)*:		
From continuing operations	**15.45**	16.26
From discontinued operation	**–**	(0.91)
	15.45	15.35

For the six months ended 30 June 2019, the outstanding share options granted by the Company have no potential dilutive effect on the basic earnings/(loss) per share.

9. DIVIDENDS

	Unaudited For the six months ended 30 June 2019 *RMB'000*	**Unaudited For the six months ended** 30 September 2018 *RMB'000*
Proposed/paid interim dividend of HK 8.8 cents (six months ended 30 September 2018: HK10.0 cents) per share	**240,578**	275,620

Interim dividend of approximately HKD310,796,000 (equivalent to approximately RMB275,620,000) for the six months ended 30 September 2018 was paid in January 2019. Final and special dividend of approximately HKD860,871,000 (equivalent to approximately RMB756,818,000) for the nine months ended 31 December 2018 was paid in May 2019.

As the interim dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2019.

10. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2019 Unaudited *RMB'000*	As at 31 December 2018 Audited *RMB'000*
Trade receivables	*(a)*	**1,089,109**	1,159,052
Less: provision for impairment of trade receivables		**(12,446)**	(9,334)
Trade receivables – net		**1,076,663**	1,149,718
Notes receivable		**222,473**	128,312
Prepayments and other receivables		**230,984**	244,977
Advances to staff		**8,905**	4,092
Others		**26,445**	33,782
Less: provision for impairment of other receivables		**(23,964)**	(20,693)
		1,541,506	1,540,188

Except for prepayments of RMB50,547,000 (31 December 2018: RMB54,214,000), trade and other receivables balances are categorised as "financial assets 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 June 2019 and 31 December 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 June 2019 Unaudited *RMB'000*	As at 31 December 2018 Audited *RMB'000*
0 – 90 days	**895,964**	1,029,914
91 – 180 days	**106,080**	88,053
181 – 360 days	**62,514**	23,781
Over 360 days	**24,551**	17,304
	1,089,109	1,159,052

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For the six months ended 30 June 2019, a provision of RMB4,381,000 (six months ended 30 September 2018: a reversal of RMB218,000) were made against the gross amounts of trade receivables.

11. BORROWINGS

	Note	As at 30 June 2019 Unaudited *RMB'000*	As at 31 December 2018 Audited *RMB'000*
Non-current			
– Secured bank borrowings	*(a)*	**2,859,212**	2,888,092
– Unsecured bank borrowings	*(b)*	**–**	12,751
Less: current portion		**(144,405)**	(144,405)
		2,714,807	2,756,438
Current			
– Secured bank borrowings	*(a)*	**144,405**	144,405
– Unsecured bank borrowings	*(b)*	**833,702**	789,296
		978,107	933,701
Total borrowings		**3,692,914**	3,690,139

(a) The Group's secured bank borrowings as at 30 June 2019 of RMB2,859,212,000 (31 December 2018: RMB2,888,092,000) were repayable within five years and secured by certain buildings, right-of-use for land and the equity interest in Jiahao Foodstuff Limited and Guangdong Jiahao Foodstuff Co., Ltd, of the Group with total carrying values of RMB93,527,000 (31 December 2018: RMB95,197,000). For the six months ended 30 June 2019, the average interest rate of the loan was 5.70% (six months ended 30 September 2018: 5.70%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one to two year. For the six months ended 30 June 2019, the average interest rate was 3.67% (six months ended 30 September 2018: 3.83%) 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 June 2019 amounted to RMB98,250,000 (six months ended 30 September 2018: RMB27,415,000).

12. TRADE AND OTHER PAYABLES

	Note	**As at 30 June 2019 Unaudited** *RMB'000*	As at 31 December 2018 Audited *RMB'000*
Trade payables	*(a)*	**330,083**	338,697
Dividends payable		**–**	272,320
Wages payable		**56,163**	93,537
Other taxes payable		**56,176**	144,941
Accruals for expenses		**14,644**	17,931
Other payables		**124,859**	130,240
		581,925	997,666

Except for other taxes payable of RMB56,176,000 (31 December 2018: RMB144,941,000) and wages payable of RMB56,163,000 (31 December 2018: RMB93,537,000), 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 June 2019 and 31 December 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 June 2019 Unaudited *RMB'000*	As at 31 December 2018 Audited *RMB'000*
0 – 90 days	**263,933**	296,844
91 – 180 days	**32,696**	24,839
181 – 360 days	**23,763**	5,678
Over 360 days	**9,691**	11,336
	330,083	338,697

INDUSTRY OVERVIEW

Overview of the tobacco industry

Due to the slowdown of the growth rate of Chinese economy, implementation of smoking control, and the people's increasing awareness towards living a healthy life, the tobacco industry continued its downward trend. According to industry data, the production volume of cigarettes started to decrease since 2015. In 2017, production volume of cigarettes declined to 2,345.07 billion sticks, representing a decrease of 1.6% year-over-year. As at the end of 2018, the production volume of cigarettes nationwide was 2,335.62 billion sticks, representing a slight decrease of 0.4% year-over-year. The development of the tobacco industry remains stable and is declining. (Source: Tobacco Online)

In the area of innovative cigarettes, short cigarettes, thin cigarettes, medium-length cigarettes and flavour capsule cigarettes maintained the development momentum. From 1 January to 20 June 2019, sales volume of thin cigarettes was 2.287 million cases, representing a year-on-year growth of 541,300 cases or a 31% increase; sales volume for medium-length cigarettes was 491,900 cases, representing a year-on-year growth of 231,900 cases or a 23% increase; sales volume of flavour capsule cigarettes was 579,200 cases, representing a year-on-year growth of 193,500 cases or a 50% increase. While the old-timer smokers do maintain a relatively higher brand loyalty towards the traditional cigarettes, the innovative cigarettes such as thin, short, medium-length and flavour capsule cigarettes have an advantage in attracting new smokers and play an important role in optimising the product mix of cigarettes. (Source: Tobacco Online)

In addition, due to the increased public awareness towards health and the desire for change in smoking experience, some smokers have started to take on innovative cigarette products. While the development of innovative tobacco products is relatively more mature in Europe and America, it is still at an early stage of experiment due to unclear regulatory policies, intense competition and lack of proprietary brands in China.

As for tobacco leaves, the volume of planting and procurement have been stable under the condition of steady sales of cigarettes. The State Tobacco Monopoly Administration will continue to strengthen the management of tobacco leaves inventory by improving the turnover rate of tobacco leaves inventory in order to achieve cost reduction and improve efficiency.

Overview of the food and beverage industry and fragrances industry

In the first half of 2019, impacted by the slowdown of global economy and US-China trade war, Chinese GDP increased by 6.3% year-over-year. In comparison to the same period last year, the GDP growth rate slowed, and consumer confidence declined by a certain degree. Chinese government introduced and implemented "cutting taxes and fees" policy to encourage consumption, which achieved decent results. According to the Ministry of Industry and Information Technology of the People's Republic of China, in the first half of 2019, the gross industrial output of enterprises of industrial scale remained stable growth, among which the agricultural product processing industry rose by 4.7% year-over-year, the food processing industry rose by 5.5% year-over-year, and the alcohol, beverage and refined tea processing industry jumped by 6.5% as compared to the same period last year. During the Reporting Period, the consumers continuously raised their concerns about raw materials, production processes, environmental responsibility and other issues in the food and beverage industry. More and more food and beverage companies are developing, producing and marketing products using "health" as a selling point. As the expectation for global and Chinese economy is lowering, the food and beverage industry will be impacted by consumer confidence in the coming days and face uncertainties.

In respect of the fragrances industry, the major economic indicators for soap, synthetic detergent, cosmetics and other segments, according to the figures of National Bureau of Statistics on enterprises above designated size, from January to May 2019 were as follows: the revenue of those with soap and detergent as main business was RMB50.4 billion, representing a drop of 2.84% as compared with the same period in the previous year; the revenue of those with cosmetics as main business was RMB54.4 billion, representing a drop of 7.26% as compared with the same period in previous year; the revenue of those with oral cleansing products as main business was RMB9.5 billion, representing an increase of 4.2% as compared with the same period in the previous year. Soap and detergent accounted for the largest market share in the fragrances industry. Despite the slip of revenue of the cosmetics segment from January to May, there is still a lot of room for market expansion, driven by new commercial models such as beauty makeup, new retail experience and social e-commerce.

Overview of the condiment industry

According to the data of National Bureau of Statistics, the total revenue of the catering industry reached RMB2,127.9 billion with a year-on-year growth of 9.4% in the first half of 2019. However, the growth rate of the catering industry decreased as compared to the 9.9% of the same period last year. In the Chinese food market, hot pot, Sichuan cuisine and Chinese fast food accounted for the largest market segment. Meanwhile, a characteristic of having a large quantity of newly opened stores and a large quantity of closed door within a short period of time emerged in the catering industry, indicating that there was a swift change of palate preference of the consumers which resulted in intense competition in the industry.

Faced with the same challenge as the catering industry, condiment enterprises have been paying more attention to the judgement of market trend and the study of end-consumers' habits, while at the same time focusing on the expansion and deepening of sales channels. Condiment enterprises are no longer satisfied to be the suppliers of their customers. They also take the initiative to provide their customers with innovative solutions in catering as well as assistance to launch hot-selling products, so as to boost the sales of their customers. Enterprises with research and development capabilities of customers' palate preferences, expansion capabilities of sales channels and capabilities of optimising product mix will take the lead in the fierce competition. Market concentration in the condiment industry will continue to strengthen.

RESULTS

For the six months ended 30 June 2019 ("Reporting Period"), the Group achieved a sales revenue of approximately RMB2,069 million, representing an increase of approximately 25.3% as compared with the six months ended 30 September 2018 ("2018-2019 Interim Report"); a gross profit margin of approximately 63.3%, representing a slight decline of 2.1 percentage points as compared with the 2018-2019 Interim Report; an EBIT margin of approximately 39.0%, representing a decrease of 4.1 percentage points as compared with the 2018-2019 Interim Report. Profit attributable to the equity holders of the Company was approximately RMB480 million, while the basic earnings per share was approximately RMB15.45 cents, representing an increase of approximately 0.7% as compared with the 2018-2019 Interim Report.

In comparison to the sales revenue from the continuing operations of approximately RMB1,738 million (unreviewed management accounts) for the six months ended 30 June 2018 ("Corresponding Period Last Year"), sales revenue for the Reporting Period up 19.1%. Profit before tax in the Reporting Period reached approximately RMB805 million, down 11.9% in comparison to RMB914 million (unreviewed management accounts) of the Corresponding Period Last Year.

BUSINESS REVIEW

Review of the flavours and fragrances business

For the six months ended 30 June 2019, sales revenue of the flavours and fragrances business of the Group amounted to approximately RMB967 million, representing a slight increase of approximately 0.2% as compared with the 2018-2019 Interim Report and accounting for approximately 46.8% of the Group's revenue. Operating profit of the segment amounted to approximately RMB581 million, representing an increase of approximately 11.6% as compared with the 2018-2019 Interim Report. EBIT margin was approximately 60.1%. The flavours and fragrances segment has maintained stable revenue, which was in line with expectation. The increase in operating profit was mainly attributable to the effective control of expenses, the improvement of management efficiency and the increase in government subsidies.

(1) Food flavours

During the Reporting Period, the Group continued to provide customers with customised and stable tobacco flavour products according to their demands, assisting them to come up with customised cigarette flavours. In accordance with the overall strategic deployment of the Group for food flavours and ingredients, as well as the construction requirements of the investment project of the "manufacturing base of Huabao Yingtan's Flavours and Ingredients", the Company established Jiangxi Province Huabao Kongque Food Technology Development Co., Ltd. ("Jiangxi Kongque") in Yingtan, Jiangxi as the entity for implementing investment project. Following the continuous progress of the investment project, Shanghai H&K Flavours & Fragrances Co., Ltd. ("Huabao Kongque") will migrate its complete production operation to Jiangxi Kongque and commence production. Huabao Kongque is mainly engaged in the production of sweet flavours. Jiangxi Kongque will become more standardised, regulated and environmentally friendly in terms of its procurement, inventory management and production processes, which will improve the Group's competitive edge in the area of food flavours. With the completion of the investment project in the future, there will be better integration of resources and synergy effect for the Group's food flavours business.

*(2) **Fragrances***

The revenue and profit of the fragrances business recorded relatively substantial growth as compared with those from the 2018-2019 Interim Report. The performance improvement was mainly attributable to the Group's successful development of a certain number of new customers, the lower production costs of daily use chemical fragrances due to the lower costs of fragrance raw materials, as well as the implementation of the national tax cuts and lowered administration fees policy. While the use of insect-repelling incenses and household disinfection and insecticide products have decreased somewhat in the PRC, there are still relatively large overseas markets in Southeast Asia. During the Reporting Period, the Group continued to strengthen its research and development in the field of insect repelling and insecticide incenses, and sell the products to overseas developing countries. In addition, with further strengthening of the demands for customisation and individualisation of personal care products, the Group is developing small and medium-sized personal care corporate customers locally, with an aim to enhance its development strength in this field and to diversify its income sources.

As of 30 June 2019, the cumulative amount of the funds raised from the initial public offering of Huabao Flavours & Fragrames Co. Ltd. ("IPO Proceeds") and dedicated for the "Huabao Yingtan Flavours and Ingredients production base project" was approximately RMB94.7585 million, representing an investment progress of approximately 9.16%; the cumulative amount of IPO Proceeds and dedicated for the "Lhasa Pure Land Healthy Food project" was approximately RMB11.4580 million, representing an investment progress of approximately 2.4%; the cumulative amount of IPO Proceeds and dedicated for the "Huabao H&K Food Flavours and Food Technology Development project" was approximately RMB169,700, representing an investment progress of approximately 0.11%. As of 30 June 2019, the balance of IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,622 million.

The construction progress of the "Huabao Yingtan Flavours and Ingredients production base project" was not as expected because of the excessive rainfalls during the initial stage of the project. Meanwhile, the Company adopted an optimised approach of gradual investment with an aim to adapt to changes in market demands and control project investment risks. During the reporting period, the construction work for Food Flavours Phase I was basically completed. The Company is currently implementing specific optimisation designs for the subsequent construction works. As the initial construction progress of the "Huabao Yingtan Flavours and Ingredients production base project" was not satisfactory, Huabao Kongque was only able to complete the corresponding production transition in February 2019, resulting in the delay of the commencement of the "Huabao H&K Food Flavours and Food Technology Development project". During the reporting period, the Company further optimised the design of the specific implementation plan of the project by integrating market demands with change of development trend, in order to prepare for the commencement of the project's construction work. The progress of the initial stage of the "Lhasa Pure Land Healthy Food project" was slow because of the high-altitude climate in Tibet and that the time available for construction work was short. At the same time, there were factors such as market and raw materials, as well as the Company's controlled investments, resulting in slowdown of project constructions.

Huabao Flavours & Fragrances Company Limited will continue to implement investment projects using the raised funds, and make appropriate adjustments in accordance with the project implementation status.

Review of the tobacco raw materials business

For the six months ended 30 June 2019, sales revenue of Group's tobacco raw materials business was approximately RMB366 million, representing a decrease of 14.9% as compared with the 2018-2019 Interim Report, accounting for approximately 17.7% of the Group's revenue. The operating profit of the segment amounted to approximately RMB132 million, representing a decrease of 29.0% as compared with the 2018-2019 Interim Report. EBIT margin was approximately 36.1%, representing a decrease of 7.1 percentage points as compared with the 2018-2019 Interim Report. The decrease in the sales revenue of this segment and the decrease in EBIT margin were mainly attributable to the decrease in the sales volume of reconstituted tobacco leaves ("RTL") and the downward pressure on the price of flavour capsules.

(1) RTL

With the stable and declining production volume of cigarettes, the optimised cigarette product mix, and the overcapacity in the RTL industry, the sales volume of the Group's RTL declined, resulting in a decline in the performance of the segment as compared with the 2018-2019 Interim Report. In response to the challenge to the RTL industry, the Group is selling RTL to Southeast Asia and part of Europe through direct sales and distribution. Compared with the 2018-2019 Interim Report, overseas sales of RTL recorded growth in both sales volume and sales amount, as compared with the 2018-2019 Interim Report.

The market has a lot of anticipation for the heat-not-burn ("HNB") tobacco products. During the Reporting Period, the Group's research and development as well as its marketing team have performed a comprehensive analysis on the competitive landscape, opportunities and risks of HNB tobacco products, in order to develop the necessary capabilities to capture new opportunities and enhance performance when the regulatory authorities permit the use of such products.

(2) Tobacco new materials

In the first half of 2019, the competition in the flavour capsule market continued to be intense and the growth in flavour capsule capacity exceeded the demand in growth for flavour capsule, causing the price of flavour capsule subject to downward pressure. The government also took actions to regulate and control the promotion of flavour capsules, which played a part in slightly cooling down the heated market of flavour capsules. The revenue from flavour capsules declined as compared with the 2018-2019 Interim Report. Nevertheless, the Group has maintained a steady profit margin in flavour capsules by leveraging on its advantages in industry chain, scale of operation, technology, sales channels and its brand name.

Review of aroma raw materials business

For the six months ended 30 June 2019, the Group's aroma raw materials business recorded a sales revenue of RMB359 million, representing an increase of 57.3% as compared with the 2018-2019 Interim Report, accounting for approximately 17.4% of the Group's total revenue. The operating profit for the segment reached approximately RMB63.57 million, representing an increase of approximately 85.9% as compared with the 2018-2019 Interim Report. EBIT margin was approximately 17.7%, representing an increase of 2.7 percentage points as compared with the 2018-2019 Interim Report. The increase in sales revenue was attributable to the launch of new products and business expansion, while the increase in operating profit was attributable to the enhancement of management efficiency.

During the Reporting Period, the Jiangxi Xianghai Biological Technology Co., Ltd. ("Jiangxi Xianghai") Phase I Project was completed smoothly. Furanone and sulfurol are the core products of the Phase I project, and furanone has already been put into production, contributing a decent revenue to the Group. Pilot production for sulfurol, an intermediate for food flavours, has also been completed successfully and mass production is expected to commence in the second half of the year. Part of the Jiangxi Xianghai Phase II Project has been completed and it is expected to produce a lot more varieties of aroma raw materials products. The construction for the Phase III Project has also commenced. With the completion of the Jiangxi Xianghai projects, the Group's aroma raw materials business will achieve centralised and large-scale production.

Leveraging on the strategic partnership established with internationally renowned flavours and fragrances companies, Yongzhou Shanxiang Flavour Co., Ltd. ("Yongzhou Shanxiang")'s production and sales of citral products have been stable. During the Reporting Period, Yongzhou Shanxiang invested in the construction of new facilities to meet the high demands of customers for product quality. In addition, Yongzhou Shanxiang also optimised its production lines for the production of products such as benzaldehyde, further increasing its source of revenue and improving its profit margins.

The price of maltol declined in the first half of the year as some well-known chemical companies resumed their production while other chemical companies joined the competition in maltol products. Zhaoqing Perfumery Co., Ltd. (Guangdong) has maintained its revenue and profit at a reasonable level due to its exquisite craftsmanship, formula and brand name.

In addition, affected by the chemical incidents, chemical enterprises will face more and more pressure in terms of environmental protection and safety inspection. The US-China trade war also caused uncertainties to the business development of chemical enterprises.

Review of condiment business

For the six months ended 30 June 2019, the sales revenue of the Group's condiment business was approximately RMB376 million, representing an increase of approximately 1,304.3% as compared with the 2018-2019 Interim Report, accounting for approximately 18.2% of the Group's total revenue. Its operating profit reached approximately RMB104 million and EBIT margin was approximately 27.6%. The increase of sales revenue was mainly attributable to the fact that the 2018-2019 Interim Report included the revenue of Jiahao Foodstuff Limited and its subsidiaries ("Jiahao Foodstuff") only for the period from 4 September 2018 (the date of completion of acquisition) to 30 September 2018 as well as other factors such as the expansion of sales channels and optimisation of marketing strategies.

In particular, the Group carried out the integration of Jiahao Foodstuff after its acquisition in three areas, namely adjustment of product mix, integration of brands and sale channels as well as human resources. In terms of product mix, the Group not only maintained the existing core products such as chicken bouillon and wasabi pastes, but also launched products including fragrant chicken bouillon, lightly salted chicken powder and chili liquid seasoning, based on its research on regional tastes preferences and market trends in China. These products have enriched the product portfolio of Jiahao Foodstuff and started to contribute to Jiahao Foodstuff's revenue. In terms of upstream sales channels, the Group optimised its sales team through the implementation of new incentive plans and strengthening the cooperation relationship with distributors. In terms of downstream sales channels, the Group repackaged the Jiahao brand name and reposition it as the "Chinese tastes expert", which further strengthened the professional brand image of Jiahao Foodstuff. As for strategic collaboration, the Jiahao Foodstuff team has carried out intimate cooperation with Yingtan Weizhijia Food Co. Ltd. ("Weizhijia") since its entering into an entrusted management agreement with Weizhijia in November 2018. With experience and insights in the field of consumer goods, Weizhijia has provided the Jiahao Foodstuff sales team with channel network, talent introduction and sales system support, and expanded Jiahao Foodstuff's sales network from the original second- and third-tier cities to first-tier cities. The collaboration between Weizhijia and Jiahao Foodstuff has effectively improved the performance of the Jiahao Foodstuff sales team.

All in all, the development of the condiment business in the first half of 2019 was in line with the Group's expectation.

Review of research and development (R&D)

For the six months ended 30 June 2019, the Group's investment in R&D was approximately RMB134 million, representing an increase of 6.5% as compared to the 2018-2019 Interim Report. R&D expense accounts for approximately 6.5% of sales revenue or a decrease of 1.1 percentage points as compared with that for the 2018-2019 Interim Report.

Outlook

In the area of flavours and fragrances, the Group will put efforts to maintain the quality of the traditional tobacco flavour products, while at the same time expedite the construction of investment projects for early commencement of production. For tobacco raw materials, the Group will work with qualified sales organisations to further expand the export of RTL and at the same time stabilise the market share and profit margin of flavour capsules. The Group will also keep an eye on the raw materials of HNB in order to capture the market opportunity if it arises. For aroma raw materials, under the increasingly competitive environment, the Group will not adopt price competition, but will align precisely with market demand, and apply a product differentiation strategy to gain market edge and improve profitability. As for condiments, the Group will optimise its supply chain, reduce its costs and improve its speed in business development by taking advantage of its brand name in the field of condiments. In addition, the Group will continue to communicate the brand positioning of Jiahao Foodstuff as the "Chinese tastes expert" to the sales team as well as the customers, with an aim to enhance the brand value of Jiahao Foodstuff in the hearts of the customers and generate brand premium through quality products and services in the future. To further improve the distribution system, the Group will deploy more sales personnel to assist the distributors in product sales, and also consolidate the secondary sales systems and the E-commerce system of Weizhijia to achieve development of the distributors as well as the Group.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2019

Sales revenue

The Group's sales revenue amounted to RMB2,069,317,000 for the six months ended 30 June 2019, representing an increase of 25.3% as compared with RMB1,651,556,000 for the six months ended 30 September 2018 from continuing operations. The increase in the sales revenue is mainly attributable to the consolidation of the results of Jiahao Foodstuff (newly acquired in September 2018) to the Group and the increase in sales revenue of aroma raw materials, which was partly offset by the decrease in sales revenue of tobacco raw materials. Comparing the current reporting period with the six months ended 30 September 2018, sales revenue from flavours and fragrances remained stable, amounting to RMB967,408,000 for the current reporting period; sales revenue from tobacco raw materials decreased by 14.9% to RMB366,109,000; sales revenue from aroma raw materials increased by 57.3% to RMB359,453,000; sales revenue of condiment increased by RMB349,356,000 to RMB376,141,000 as compared with that for the period from 4 September 2018 (acquisition date) to 30 September 2018.

While the sales revenue for the current reporting period was increased by 19.1% as compared with RMB1,738,121,000 (unreviewed management accounts) for the six months ended 30 June 2018 from continuing operations, out of which flavours and fragrances increased by 2.0%, aroma raw materials increased by 10.2% and the addition of new condiment business, but the increase was partly offset by the tobacco raw materials which was decreased by 20.9%.

Cost of goods sold

The Group's cost of goods sold amounted to RMB758,856,000 for the six months ended 30 June 2019, representing an increase of 32.8% as compared with RMB571,553,000 for the six months ended 30 September 2018 from continuing operations.

Gross profit and gross profit margin

The Group's gross profit from continuing operations increased from RMB1,080,003,000 for the six months ended 30 September 2018 to RMB1,310,461,000 for the six months ended 30 June 2019, representing an increase of 21.3%. The Group's gross profit margin for the current reporting period is about 63.3%, which was decreased by 2.1 percentage points from 65.4% of the six months ended 30 September 2018. It was mainly attributable to the sales revenue of aroma raw materials and condiment products with relatively lower gross profit margin accounted for a higher proportion.

Other income and other gains – net

Other income and other gains (net) of the Group was RMB106,582,000 for the six months ended 30 June 2019, representing an increase of RMB18,980,000 as compared with RMB87,602,000 for the six months ended 30 September 2018 from continuing operations. The increase in other income and other gains was mainly due to the increase in government grants for the current reporting 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 June 2019 was RMB187,160,000, representing an increase of 57.6% as compared with RMB118,729,000 for the six months ended 30 September 2018. It was mainly attributable to expenses of the new condiment segment incurred during current period. Selling and marketing expenses to total sales revenue for the current reporting period amounted to approximately 9.0%, representing an increase of 1.8 percentage points as compared with approximately 7.2% for the six months ended 30 September 2018. The increase in such ratio was mainly attributable to the ratio of selling and marketing expenses to total sales revenue for the condiment business was higher than that for the other businesses of the Group, which caused the Group's composite ratio increased.

Administrative expenses

The Group's administrative expenses amounted to RMB416,160,000 for the six months ended 30 June 2019, representing an increase of 22.5% as compared with RMB339,746,000 for the six months ended 30 September 2018 from continuing operations. It was mainly attributable to expenses of the new condiment segment incurred during current period. The ratio of administrative expenses to total sales for the current reporting period was approximately 20.1%, representing a slight decrease of 0.5 percentage point as compared with 20.6% for the six months ended 30 September 2018.

Operating profit

The Group's operating profit for the six months ended 30 June 2019 was RMB806,098,000, representing an increase of approximately 13.4% as compared with RMB711,101,000 for the six months ended 30 September 2018 from continuing operations, while the operating profit margin decreased by 4.1 percentage points to approximately 39.0% during the current reporting period from approximately 43.1% for the six months ended 30 September 2018. The increase in operating profit was mainly attributable to the addition of new condiment segment and the increase from flavours and fragrances segment and aroma raw materials segment, but it was partly offset by lower operating profit from tobacco raw materials segment and higher head office's expenses.

While the operating profit of the current reporting period was decreased by 2.0% as compared with RMB822,683,000 (unreviewed management accounts) for the six months ended 30 June 2018 from continuing operations, out of which the operating profit of flavours and fragrances was increased by 8.6%, tobacco raw materials was dropped by 40.4%, aroma raw materials was dropped by 25.6%, and the addition of operating profit from the new condiment business of RMB103,695,000.

Profit before income tax

Profit before income tax of the Group for the six months ended 30 June 2019 was RMB805,290,000, representing an increase of 2.0% as compared with RMB789,384,000 for the six months ended 30 September 2018 from continuing operations. It was mainly due to the tremendous increase in finance costs for the current reporting period resulted from the new bank loans for the acquisition of Jiahao Foodstuff, which have offset most of the increase in operating profit.

While the profit before income tax for the current reporting period was decreased by 11.9% as compared with RMB913,900,000 (unreviewed management accounts) for the six months ended 30 June 2018. It was mainly attributable to the decrease in operating profit of tobacco raw materials and aromas raw materials during the current reporting period.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 June 2019 was RMB196,117,000, representing an increase of 12.1% as compared with RMB174,911,000 for the six months ended 30 September 2018 from continuing operations. Income tax rate of the current reporting period was approximately 24.4%, representing an increase of 2.2 percentage points as compared with approximately 22.2% for the six months ended 30 September 2018. It was mainly attributable to the increase in withholding income tax on dividends distribution by subsidiaries in mainland during the current reporting period.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company was RMB480,289,000 for the six months ended 30 June 2019, which was similar with RMB477,125,000 for the six months ended 30 September 2018 from continuing and discontinued operations.

Net current asset value and financial resources

As at 30 June 2019, the net current asset value of the Group was RMB6,932,478,000 (31 December 2018: RMB7,734,866,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2019, the Group's cash and bank balances amounted to RMB5,878,798,000 (31 December 2018: RMB7,142,391,000). The Group held bank financial products (classified as financial assets at fair value through profit or loss) of RMB408,374,000 (31 December 2018: RMB515,177,000).

Bank borrowings and gearing ratio

As at 30 June 2019, the Group had bank borrowings of RMB3,692,914,000 (31 December 2018: RMB3,690,139,000), of which secured loan amounted to RMB2,859,212,000 (31 December 2018: RMB2,888,092,000) was due within five years, and the unsecured loans amounted to RMB833,702,000 (31 December 2018: RMB802,047,000) were due within one to two years. For the six months ended 30 June 2019, the average annual interest rate of the secured loan was 5.70%, and the average annual interest rate of the unsecured loans were 3.67% (six months ended 30 September 2018: 3.83%). As at 30 June 2019, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests) was 32.2%, which was slightly increased by 0.8 percentage point from 31.4% as of 31 December 2018.

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 June 2019, the Group's average trade receivables turnover period was 98 days, which was the same as that for the nine months ended 31 December 2018. The ratio remained basically stable.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 June 2019, the Group's average trade payables turnover period was 79 days, which remained basically stable as compared with 78 days for the nine months ended 31 December 2018.

Inventory and inventory turnover period

As at 30 June 2019, the Group's inventory balance amounted to RMB905,926,000 (31 December 2018: RMB896,243,000, representing a slight increase of RMB9,683,000 as compared with the balance as at 31 December 2018. The inventory balance remains stable. For the six months ended 30 June 2019, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 180 days) was 214 days, representing an increase of 15 days as compared with 199 days for the nine months ended 31 December 2018, but a decrease of 29 days as compared with 243 days for the six months ended 30 September 2018.

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 June 2019, 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 RMB2.859 billion.

Capital Commitments

As at 30 June 2019, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, financial assets at fair value through other comprehensive income and investments in an associate, contracted for but not provided in the financial statements amounted to approximately RMB324,844,000 (31 December 2018: RMB363,516,000), which was mainly for the purchase of property, plant and equipment amounted to RMB139,014,000.

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 June 2019.

Human Resources and Corporate Culture Construction

As at 30 June 2019, the Group employed more than 3,400 employees in the mainland China, Hong Kong, Germany, Botswana and Korea. During the Reporting Period, the human resources department carried out various tasks based on the Group's strategic plans and business model, with an objective of achieving steady growth of the Company, continuous growth of the employees as well as giving back to the society.

The Group has always upheld the corporate spirit of being "innovative, pragmatic, loyal and cooperative". It looks after the physical and mental health of the employees and their career development and continues to deepen their understanding and recognition of the Group's corporate spirit and culture. Through training and two-way communication, the Group continuously improves the employees' capabilities in market-oriented operation, international business development and innovation so as to assist the development of the Company. With the exploration of the partnership model, the Group promotes and materialises the concept of "joint-creation, joint-responsibilities and sharing", maximising the value of talents. Also, through the improvement of various human resources systems, it strengthens the foundation and uplifts the level of management capabilities so as to promote the sustainable development of the Group.

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, Chairlady 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 June 2019.

DIVIDEND

The Company's final dividend of HK8.8 cents (year ended 31 March 2018: HK15.0 cents) per share and a special dividend of HK18.9 cents (year ended 31 March 2018: Nil) per share, both in cash, amounting to approximately HK860.9 million (equivalent to approximately RMB756.8 million) in aggregate for the nine months ended 31 December 2018 were paid to shareholders of the Company on 28 May 2019.

The Board has resolved to declare an interim dividend of HK8.8 cents (six months ended 30 September 2018: HK10.0 cents) per share in cash for the six months ended 30 June 2019, which are expected to be paid on or about 18 October 2019 to shareholders of the Company whose names appear on the register of members of the Company as at 19 September 2019.

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 16 September 2019 to 19 September 2019, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 September 2019.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprise all of the INEDs of the Company, namely Mr. LEE Luk Shiu, Ms. MA Yunyan, Mr. WU Chi Keung and Mr. Jonathan Jun YAN. The Audit Committee and the Board have reviewed and approved the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2019.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's review report will be included in the interim report to be despatched to the shareholders of the Company.

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 2019 interim report will be despatched to shareholders of the Company and will be published on the aforementioned websites in due course.

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

Hong Kong, 24 August 2019

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