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 2020

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June 2020	**2019**	**Change in percentage**
	RMB'000	*RMB'000*	
Revenue	**1,715,710**	2,069,317	**-17.1%**
Gross profit	**1,088,700**	1,310,461	**-16.9%**
Gross profit margin	***63.5%***	*63.3%*	
Operating profit	**185,778**	806,098	**-77.0%**
EBITDA margin≠	***47.6%***	*45.4%*	
EBIT margin≠≠	***10.8%***	*39.0%*	
Adjusted EBIT margin#	***39.7%***	*39.0%*	
Profit for the period	**66,192**	609,173	**-89.1%**
Adjusted profit for the period#	**561,690**	609,173	**-7.8%**
(Loss)/profit attributable to the equity holders of the Company	**(45,434)**	480,289	**-109.5%**
Adjusted profit attributable to the equity holders of the Company#	**450,064**	480,289	**-6.3%**
Net cash generated from operating activities	**467,520**	298,100	**+56.8%**
	RMB cents	*RMB cents*	
Basic and diluted (losses)/earnings per share	**(1.46)**	15.45	**-109.5%**
Adjusted basic and diluted earnings per share#	**14.48**	15.45	**-6.3%**
Interim dividend per share *(note 8)*	**–**	HK 8.8 cents	
Proposed special dividend per share *(note 8)*	**HK 6.0 cents**	–	

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

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

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

* *For identification purpose only*

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2020 together with the comparative figures for the six months ended 30 June 2019.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,715,710**	2,069,317
Cost of goods sold		**(627,010)**	(758,856)
Gross profit		**1,088,700**	1,310,461
Other income and other gains – net	*4*	**149,935**	106,582
Selling and marketing expenses		**(161,248)**	(187,160)
Administrative expenses		**(390,920)**	(416,160)
Impairment of goodwill		**(495,498)**	–
Net impairment losses on financial assets		**(5,191)**	(7,625)
Operating profit		**185,778**	806,098
Finance income		**82,158**	96,591
Finance costs		**(79,480)**	(99,775)
Finance income/(costs) – net		**2,678**	(3,184)
Share of results of associates and a jointly controlled entity		**14,890**	2,376
Profit before income tax		**203,346**	805,290
Income tax expense	*6*	**(137,154)**	(196,117)
Profit for the period		**66,192**	609,173
Attributable to:			
Equity holders of the Company		**(45,434)**	480,289
Non-controlling interests		**111,626**	128,884
		66,192	609,173
(Losses)/earnings per share for profit attributable to the Company's equity holders for the period		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**(1.46)**	15.45

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit for the period	**66,192**	609,173
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	**(1,669)**	(8,476)
Currency translation differences of the Company and its non-foreign operations	**(37,981)**	–
Items that may be reclassified to profit or loss		
Currency translation difference of foreign operations	**(1,603)**	10,070
Other comprehensive (loss)/income for the period, net of tax	**(41,253)**	1,594
Total comprehensive income for the period, net of tax	**24,939**	610,767
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(86,678)**	481,883
Non-controlling interests	**111,617**	128,884
	24,939	610,767

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2020 RMB'000 Unaudited	As at 31 December 2019 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**1,392,052**	1,391,118
Right-of-use assets		**306,526**	260,560
Intangible assets		**6,271,121**	6,807,495
Investments in associates		**369,801**	385,881
Investment in a jointly controlled entity		**9,322**	3,313
Financial assets at fair value through other comprehensive income		**161,990**	161,905
Financial assets at fair value through profit or loss		**65,451**	58,304
Deferred income tax assets		**138,315**	135,257
Other non-current assets		**812**	15,606
Total non-current assets		**8,715,390**	9,219,439
Current assets			
Inventories		**868,794**	931,385
Trade and other receivables	*9*	**1,250,041**	1,322,626
Financial assets at fair value through profit or loss		**396,402**	768,111
Short-term time deposits		**1,980,050**	2,334,294
Cash and cash equivalents		**3,874,305**	3,387,780
		8,369,592	8,744,196
Assets classified as held for sale		**11,582**	–
Total current assets		**8,381,174**	8,744,196
Total assets		**17,096,564**	17,963,635

	Note	As at 30 June 2020 RMB'000 Unaudited	As at 31 December 2019 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**318,636**	318,636
Reserves		**2,526,720**	2,540,529
Retained earnings		**8,634,677**	8,969,048
		11,480,033	11,828,213
Non-controlling interests		**1,650,507**	1,771,260
Total equity		**13,130,540**	13,599,473
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**1,983,788**	2,310,474
Lease liabilities		**105,050**	60,135
Deferred income tax liabilities		**160,047**	205,736
Trade and other payables	*11*	**800**	800
Total non-current liabilities		**2,249,685**	2,577,145
Current liabilities			
Borrowings	*10*	**873,110**	688,302
Lease liabilities		**31,460**	22,448
Trade and other payables	*11*	**550,654**	666,864
Current income tax liabilities		**168,231**	236,514
Contract liabilities		**92,884**	172,889
Total current liabilities		**1,716,339**	1,787,017
Total liabilities		**3,966,024**	4,364,162
Total equity and liabilities		**17,096,564**	17,963,635

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June 2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Cash generated from operations	**721,708**	661,133
Income tax paid	**(254,188)**	(363,033)
Net cash generated from operating activities	**467,520**	298,100
Cash flows from investing activities		
Acquisition of a subsidiary	**(154)**	–
Proceeds from disposal of subsidiaries	**80**	–
Refund of termination of the additional capital injection into an associate	**14,560**	–
Purchases of financial assets at fair value through other comprehensive income	**–**	(23,142)
Purchases of financial assets at fair value through profit or loss	**(512,000)**	(200,000)
Proceeds from disposals of financial assets at fair value through profit or loss	**878,729**	318,070
Purchases of property, plant and equipment and intangible assets	**(83,668)**	(177,703)
Proceeds from disposal of property, plant and equipment and intangible assets	**5,754**	5,465
Short-term time deposits placed	**(1,157,540)**	(911,784)
Short-term time deposits released	**1,511,784**	1,209,500
Dividend received	**9,114**	10,485
Interest received	**74,574**	103,927
Net cash generated from investing activities	**741,233**	334,818
Cash flows from financing activities		
Final dividend for the year ended 31 December 2019 paid to shareholders	**(285,887)**	–
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	**(238,451)**	(478,607)
Proceeds from changes in ownership interests in a subsidiary without change of control	**35,290**	–
Capital injection from non-controlling interests	**2,837**	3,024
New bank borrowings raised	**466,629**	625,787
Repayment of bank borrowings	**(618,750)**	(627,395)
Principal elements of lease payments	**(11,233)**	(9,651)
Interest elements of lease payments	**(2,325)**	(1,524)
Interest paid related to bank borrowings and others	**(80,044)**	(95,689)
Net cash used in financing activities	**(731,934)**	(1,616,493)
Net increase/(decrease) in cash and cash equivalents	**476,819**	(983,575)
Cash and cash equivalents at the beginning of the period	**3,387,780**	5,535,601
Effects of currency translation on cash and cash equivalents	**9,706**	17,698
Cash and cash equivalents at the end of the period	**3,874,305**	4,569,724

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those financial statements.

(a) New and amended standards adopted by the Group

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

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

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

		Effective for the financial year beginning on or after
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 June 2020
HKFRS 17	Insurance contract	1 January 2021
Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRS Standards 2018 to 2020	1 January 2022
Amendments to HKFRS 3	Reference to the conceptual framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment-proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
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.

3. TURNOVER AND SEGMENT INFORMATION

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

(1) Flavours and fragrances;

(2) Tobacco raw materials;

(3) Aroma raw materials; and

(4) Condiment.

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

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

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

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

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

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

The 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 2020 is presented below:

	Unaudited For the six months ended 30 June 2020					
	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	**935,649**	**309,718**	**305,798**	**177,344**	**1,577**	**1,730,086**
Inter-segment revenue	**(4,519)**	**(6,327)**	**(3,530)**	**–**	**–**	**(14,376)**
Segment revenue – net	**931,130**	**303,391**	**302,268**	**177,344**	**1,577**	**1,715,710**
Segment result	**581,880**	**115,140**	**38,818**	**(525,378)**	**(24,682)**	**185,778**
Finance income						**82,158**
Finance costs						**(79,480)**
Finance income – net						**2,678**
Share of results of associates and a jointly controlled entity						**14,890**
Profit before income tax						**203,346**
Income tax expense						**(137,154)**
Profit for the period						**66,192**
Depreciation	**21,814**	**40,265**	**11,883**	**4,684**	**6,161**	**84,807**
Amortisation	**805**	**5,109**	**7,782**	**36,844**	**141**	**50,681**

	Unaudited As at 30 June 2020					
	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	**7,718,414**	**2,874,605**	**1,002,658**	**4,601,708**	**899,179**	**17,096,564**

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

	Audited As at 31 December 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	8,420,755	3,029,563	957,280	5,277,279	278,758	17,963,635

4. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Changes in fair value of financial assets at fair value through profit or loss	**1,310**	(12,986)
Gains on disposal of financial assets at fair value through profit or loss	**173**	6,070
Losses on disposal of subsidiaries	**(1,433)**	–
Government grants	**108,918**	117,857
Currency exchange gain/(loss) – net	**41,205**	(1,462)
Net losses on disposal of property, plant and equipment and intangible assets	**(321)**	(1,888)
Others	**83**	(1,009)
	149,935	106,582

5. EXPENSES BY NATURE

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

		Unaudited For the six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**75,852**	71,756
Amortisation	*3*	**48,335**	49,286
Employee benefit expenses		**218,639**	198,572
Research and development expenses	*(a)*	**108,597**	133,907
Short-term lease rentals		**3,109**	8,812
Travelling expenses		**18,509**	36,607
Utility expenses		**29,607**	45,920
Delivery expenses		**15,446**	28,830

(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	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**8,955**	9,253
Amortisation	*3*	**2,346**	1,710
Employee benefit expenses		**55,270**	73,458

6. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Current income tax:			
– PRC corporate income tax	*(a)*	**180,489**	264,663
– Hong Kong profits tax	*(b)*	**4,921**	5,169
– Botswana company income tax	*(c)*	**491**	268
– Germany company income tax	*(d)*	**–**	–
Deferred income tax		**(48,747)**	(73,983)
		137,154	196,117

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2019: 16.5%) on the estimated assessable profit for the period.

(c) Botswana company income tax has been provided at the rate of 15.0% (six months ended 30 June 2019: 15.0%) on the estimated assessable profit for the period.

(d) Germany company income tax has been provided at the rate of 15.0% (six months ended 30 June 2019: 15.0%) on the estimated assessable profit for the period.

(e) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the six months ended 30 June 2020 and 2019.

7. (LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2020 and 2019.

	Unaudited For the six months ended 30 June	
	2020	2019
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(45,434)**	480,289
Weighted average number of ordinary shares in issue *('000)*	**3,107,837**	3,107,837
Basic (losses)/earnings per share attributable to owners of the Company *(RMB cents per share)*	**(1.46)**	15.45

For the six months ended 30 June 2020 and 2019, the outstanding share options granted by the Company have no potential dilutive effect on the basic (losses)/earnings per share, and thus the diluted (losses)/earnings per share was the same as the basic (losses)/earnings per share.

8. DIVIDENDS

	Unaudited For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Paid interim dividend of HK 8.8 cents per share in relation to the six months ended 30 June 2019	**–**	247,048
Proposed special dividend of HK6.0 cents per share for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil)	**170,329**	–
	170,329	247,048

Interim dividend of approximately HKD273,490,000 (equivalent to approximately RMB247,048,000) for the six months ended 30 June 2019 was paid in October 2019. Final dividend of approximately HKD310,784,000 (equivalent to approximately RMB285,887,000) for the year ended 31 December 2019 was paid in June 2020.

As the special dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2020.

9. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Trade receivables	*(a)*	**967,902**	922,923
Less: provision for impairment of trade receivables		**(11,818)**	(12,263)
Trade receivables – net		**956,084**	910,660
Notes receivable		**78,648**	189,187
Interest and dividend receivable		**40,003**	34,536
Advances to staff		**9,311**	6,489
Prepayments and other receivables		**199,889**	212,217
Less: provision for impairment of other receivables		**(33,894)**	(30,463)
		1,250,041	1,322,626

Except for prepayments of RMB43,255,000 (31 December 2019: RMB30,400,000), 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 2020 and 31 December 2019, 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 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
0 – 90 days	**787,795**	792,694
91 – 180 days	**102,193**	41,649
181 – 360 days	**52,575**	53,353
Over 360 days	**25,339**	35,227
	967,902	922,923

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For the six months ended 30 June 2020, a provision of RMB863,000 (six months ended 30 June 2019: RMB4,381,000) and a write-off as uncollectible of RMB1,308,000 (six months ended 30 June 2019: RMB1,452,000) were made against the gross amounts of trade receivables.

10. BORROWINGS

	Note	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**1,860,474**	2,310,474
– Unsecured bank borrowings	*(b)*	**246,629**	–
Less: current portion		**(123,315)**	–
		1,983,788	2,310,474
Current			
Current portion of non-current liabilities			
– Unsecured bank borrowings	*(b)*	**123,315**	–
Short-term bank borrowings			
– Unsecured bank borrowings	*(b)*	**749,795**	688,302
		873,110	688,302
Total borrowings		**2,856,898**	2,998,776

(a) The Group's secured bank borrowings as at 30 June 2020 of RMB1,860,474,000 (31 December 2019: RMB2,310,474,000) were repayable within four years and secured by certain buildings, right-of-use for land of Guangdong Jiahao Foodstuff Co., Ltd ("Guangdong Jiahao") with total carrying values of RMB90,185,000 (31 December 2019: RMB91,856,000) and the equity interest in Jiahao Foodstuff Limited and Guangdong Jiahao. For the six months ended 30 June 2020, the average interest rate of the loan was 5.7% (six months ended 30 September 2019: 5.7%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one to two year. For the six months ended 30 June 2020, the average interest rate was 3.0% (six months ended 30 June 2019: 3.7%) 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 2020 amounted to approximately RMB76,703,000 (six months ended 30 June 2019: RMB98,250,000). No interest expense was capitalised during the six months ended 30 June 2020 and 2019.

11. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Trade payables	*(a)*	**243,090**	303,171
Dividends payable to non-controlling interests		**9,186**	1,218
Wages payable		**95,549**	97,668
Other taxes payable		**48,923**	107,420
Accruals for expenses		**12,136**	28,540
Other payables		**142,570**	129,647
		551,454	667,664

Except for other taxes payable of RMB48,923,000 (31 December 2019: RMB107,420,000) and wages payable of RMB95,549,000 (31 December 2019: RMB97,668,000), 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.

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

	As at 30 June 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
Non-current	**800**	800
Current	**550,654**	666,864
	551,454	667,664

(a) As at 30 June 2020 and 31 December 2019, 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 2020 Unaudited *RMB'000*	As at 31 December 2019 Audited *RMB'000*
0 – 90 days	**198,242**	271,546
91 – 180 days	**26,896**	16,859
181 – 360 days	**7,208**	4,248
Over 360 days	**10,744**	10,518
	243,090	303,171

INDUSTRY OVERVIEW

Impact of COVID-19 Pneumonia pandemic on the Group's business

Affected by the outbreak of the Novel Coronavirus Pneumonia pandemic ("COVID-19 Pneumonia pandemic"), substantial decline of market demand and weakened consumption sentiments were seen in the first half of 2020. Enterprises are under high pressure in terms of production, operation and sales. The pandemic has impacted all business segments of the Group. The weakened customer demand resulted in various degrees of slip in revenue and profit across all business segments of the Group. The Group will follow up the development of the pandemic, actively coordinate the upstream and downstream arrangements of the supply chain and ensure safe, stable and orderly production and business activities.

Overview of the tobacco industry

In the first half of 2020, in face of the unexpected pandemic, the tobacco industry was committed to its target by proactively coordinated the prevention and control of the pandemic as well as the resumption of work and production. The tobacco industry solidly implemented the work of operation stabilisation, reform facilitation, structure optimisation, brand development, and risk prevention, contributing to stable improvement in the quality and efficiency of the industry's development. According to the National Bureau of Statistics, China's cigarette production in the first half of 2020 reached 1,269.45 billion sticks, representing a year-on-year increase of 2.8%, which marked the stable production and operation condition of the tobacco industry.

During the Reporting Period, the development gap between the domestic and international developments of innovative tobacco products has become more obvious. Internationally, e-cigarettes are favoured by the capital market, and heat-not-burn ("HNB") tobacco products have been recognised as "less harmful" by regulatory authorities in the U.S. While domestically, the sales and development of innovative tobacco products are further supervised and regulated under measures taken by the regulatory authorities. Despite the immense market prospect and development potential of innovative tobacco products, the varying regulatory policies in different countries and regions have led to contrasting degrees in terms of such products' penetration, development and market acceptance. Currently, the development of innovative tobacco products in China's domestic market is highly uncertain.

As for tobacco leaves, the State Tobacco Monopoly Administration consistently adheres to the development principle of "controlling the total volume, monitoring the red line and reducing the inventory" such that the total volume and inventory of tobacco leaves are maintained at a reasonable level, laying a solid foundation and sustaining a good momentum for the development of the tobacco industry. (Source: Eastobacco.com)

Overview of the food and beverage industry and fragrances industry

During the Reporting Period, the outbreak and spread of COVID-19 Pneumonia pandemic has led to a disruption of normal business activities in a large number of enterprises and posed a significantly negative impact on the economy. In the first half of 2020, China's Gross Domestic Product recorded a year-on-year decrease of 1.6%. The economic downturn has weakened the consumers' ability and willingness to spend. Even the food and beverage industry, which represents people's daily necessities, has also been affected to a certain extent. According to the data of National Bureau of Statistics, in the first half of the year, the gross output of the agricultural product processing industry with enterprises of designated size or above dropped by 4.9% year-on-year, while that of the food processing industry dropped by 0.5%. The output value of the alcohol, beverage and refined tea processing industry dropped by 6.1% year-on-year. The pandemic has reduced the frequency of out-of-home consumption, gathering and dining, which promoted the consumers' demand for convenience and snack foods. In addition, with the consumption upgrade and the increase in health consciousness, consumers are paying more and more attention to health, safety and functionalities of food and beverage products.

In respect of the daily-use chemical industry, according to the National Bureau of Statistics, the production volume of synthetic detergent in China reached 5.2 million tons in the first half of the year, representing a year-on-year increase of 10.7%. During the Reporting Period, laundry beads have been well received by the market due to their characteristics of convenience. As for personal care products, there was a surge of consumer demand for hand sanitizer products. In general, consumers are not only looking for a pleasant scent in daily-use chemical products, but are also concerned about the safety and health functionalities of the products.

Overview of the condiment industry

In the first half of 2020, the COVID-19 Pneumonia pandemic has dealt a heavy blow to the catering industry. According to the data of National Bureau of Statistics, the total revenue of the catering industry was RMB1,460.9 billion, representing a significant year-on-year decrease of 32.8% in the first half of 2020. For the sake of pandemic prevention and control, catering enterprises had to suspend their businesses or shorten their business hours. On top of that, consumers dined out less frequently, causing such enterprises a substantial drop in revenue. Even so, the catering enterprises still needed to spend substantial amounts on rent, labour and raw materials. Affected by both internal and external factors, catering enterprises became unprofitable with sharply increased pressure on their operations. As a result, condiment enterprises that generate their revenues mainly from the catering industry had to face a market environment with steep decrease in customer demand and downward pressure on prices.

Though the pandemic posed challenges to the operation of the condiment enterprises, it brought up opportunities. During the period, consumers chose to prepare their meals at home. Condiment enterprises with retail channels could sell their products to end-consumers via supermarkets and other channels, which reduced their own operation pressure, and let the condiment enterprises realize the importance of multiple channels to diversify operational risks. During the reporting period, consumers also begin to pay more attention to food safety, health and nutrition, which in turn made the catering enterprises to focus more on the management of supply chain and study on changes in consumer spending patterns. To stand out from the competition, condiment enterprises need to meet the constantly raising procurement standards and requirements of catering enterprises by optimising their production and quality control capabilities and improving their level of service.

RESULTS

During the Reporting Period, the Group achieved a sales revenue of approximately RMB1,716 million, representing a year-on-year decrease of approximately 17.1%; a gross profit margin of approximately 63.5%, representing a slight year-on-year increase of approximately 0.2 percentage point; an EBIT margin of approximately 10.8%, representing a year-on-year decrease of approximately 28.2 percentage points. Profit for the period was approximately RMB66.19 million, representing a year-on-year decrease of 89.1%; loss attributable to the equity holders of the Company was approximately RMB45.43 million, while the basic losses per share was approximately RMB1.46 cents, representing a year-on-year decrease of approximately 109.5%. Based on the applicable accounting principles on a prudent basis, the Group recognised an impairment of goodwill of RMB495,498,000 for the Cash Generating Unit ("CGU") of Jiahao Foodstuff Limited and its subsidiaries ("Jiahao") during the Reporting Period. Excluding the impairment of goodwill, the Group's EBIT margin was approximately 39.7%, representing a slight increase of approximately 0.7 percentage point; profit for the period amounted to RMB562 million, representing a year-on-year decrease of approximately 7.8%; profit attributable to the equity holders of the Company amounted to approximately RMB450 million, and the basic earnings per share was approximately RMB14.48 cents, representing a year-on-year decrease of approximately 6.3%.

BUSINESS REVIEW

Review of the flavours and fragrances business

During the Reporting Period, sales revenue of the flavours and fragrances business of the Group amounted to approximately RMB931 million, representing a year-on-year decrease of approximately 3.8% and accounting for approximately 54.3% of the Group's total revenue. Operating profit of the segment amounted to approximately RMB582 million, representing a year-on-year increase of approximately 0.1%. EBIT margin was approximately 62.5%, representing a year-on-year increase of approximately 2.4 percentage points. The decrease in revenue of the flavours and fragrances business segment was mainly attributable to the decrease in demand from downstream customers. The operating profit margin recorded a slight increase, mainly attributable to the decrease in expenses.

In the first half of 2020, the Group took measures to prevent and control the pandemic while actively organised the resumption of work and production. The Group strengthened its technology upgrade and R&D in new products, optimised its product mix, and strived to minimise impact of the pandemic to stabilise operation. Despite the disruption of normal business activities by the pandemic, the Group has assured the timely and efficient deliveries of goods and services through reasonable arrangements of logistics and human resources. Faced with the tough and complex economic condition domestically and internationally, the Group was committed to its market-orientation and explore new trends, new technologies, and new areas in the development of both domestic and overseas flavours markets. The Group continued to adjust its product mix, propel the upgrade of customers' existing products, and boost the penetration rate in its customers' existing products.

(1) Food flavours

In terms of food flavours, the Group focused on the research and development ("R&D") of meat flavours to enhance its development and manufacturing capabilities in savoury flavours. Furthermore, the Group followed the natural and healthy consumption concept in the market and also carried out researches on extraction technologies for herbs, thirst-quenching foods, teas and other plants to provide consumers with more natural and functional products.

(2) Fragrances

The Group recorded a growth in revenue from three main categories of products of the fragrances business, namely insect-repelling incenses, detergents and personal care products. During the Reporting Period, the Group launched a series of fragrances products in response to the surge of market demand for hand sanitizers, which were well received by the customers. In addition, the Group also developed and manufactured different fragrances for laundry beads to meet the consumers' demand for better products.

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

As of 30 June 2020, the cumulative amount of the funds raised from the initial public offering of Huabao Flavours and Fragrances Co., Ltd. in 2018 that was dedicated for the "Huabao Yingtan Flavours and Ingredients Production Base Project" ("Huabao Yingtan Project") amounted to approximately RMB100.3829 million, representing an investment progress of approximately 9.70%; the cumulative amount of IPO Proceeds that was dedicated for the "Lhasa Pure Land Healthy Food Project" ("Huabao Lhasa Project") was approximately RMB17.7295 million, representing an investment progress of approximately 3.77%; the cumulative amount of IPO Proceeds that was dedicated for the "Huabao H&K Food Flavours and Food Technology Development Project" ("Huabao H&K Project") was approximately RMB170,500, representing an investment progress of approximately 0.11%. As of 30 June 2020, the balance of IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,665 million.

Considering the investment progress of the IPO proceeds, the development of the industry, changes in the external environment such as macroeconomic fluctuations, as well as the overall strategic deployment of the corporation, the Group has decided to postpone the targeted operation dates of certain investment projects. The Huabao Yingtan Project will be postponed to 31 December 2023. The Huabao Lhasa Project will be postponed to 31 December 2022. As for the Huabao H&K Project, it will be postponed to 31 December 2022.

Review of the tobacco raw materials business

During the Reporting Period, sales revenue of the Group's tobacco raw materials business was approximately RMB303 million, representing a year-on-year decrease of approximately 17.1% and accounting for approximately 17.7% of the Group's total revenue. The operating profit of the segment amounted to approximately RMB115 million, representing a year-on-year decrease of approximately 12.8%. EBIT margin was approximately 38.0%, representing an increase of 1.9 percentage points as compared with the corresponding period last year. The decrease in the sales revenue of this segment was mainly attributable to weak market demand for reconstituted tobacco leaves ("RTL") and the fierce competition in cigarette capsules that resulted in lower prices and sales volume for cigarette capsule products.

(1) RTL

During the Reporting Period, the tobacco industry continued to increase its efforts in consuming the tobacco leaf inventory, resulting in weak market demand for RTL. In response to such challenge, the Group actively explored new customers and successfully secured new overseas markets for its products. Moreover, HNB tobacco products have been popular among consumers in overseas markets and were recognised as "less harmful" by regulatory authorities, which drew market attention and increased demand for raw materials related to HNB tobacco products. To prepare for the potential market opportunities, the Group's R&D team as well as marketing team performed in-depth research and analysis on the market size, application, composition, processes and regulatory policies in relation to raw materials of HNB tobacco products to prepare for possible market opportunities.

(2) Tobacco new materials

The sales of cigarette capsule has experienced a rapid growth in the past few years. However, as the sense of novelty subsides and the market competition intensifies, the cigarette capsule business has been under the pressure of both slow market growth and falling prices. During the Reporting Period, leveraging its technological and manufacturing advantages in the industry, the Group won the trust of its customers by providing them with high quality and appealing capsule products. The Group's market reach has also expanded by marketing the capsule products to overseas customers. In addition, the Group leveraged competitive edge in manufacturing and taste modulation capabilities to market its capsule products to food manufacturers, aiming to develop more business and seek for new growth point for the segment.

Review of the aroma raw materials business

During the Reporting Period, the Group's aroma raw materials business recorded a sales revenue of approximately RMB302 million, representing a year-on-year decrease of approximately 15.9% and accounting for approximately 17.6% of the Group's total revenue. The operating profit of the segment was approximately RMB38.82 million, representing a year-on-year decrease of approximately 38.9%. EBIT margin was approximately 12.8%, representing a year-on-year decrease of approximately 4.9 percentage points. The decrease in the sales revenue and profit of this segment was attributable to reduced market demand and lower product prices.

Affected by the pandemic, domestic and overseas clients' demand for aroma raw materials dropped. Besides, the US-China trade war also increased the pressure on aroma raw materials products to cut prices in the overseas market. As the market demand was very limited, aroma raw materials enterprises had to take measures such as cutting price to take up capacity and reduce inventory in face of intense competition in the aroma raw materials industry.

Despite the gloomy external operation environment, Zhaoqing Perfumery Co., Ltd. (Guangdong) was able to maintain its prices at a relatively stable level, thanks to its long acclaimed reputation in brand image and quality products.

During the Reporting Period, Phase I and Phase II Projects of Jiangxi Xianghai Biological Technology Co., Ltd. ("Jiangxi Xianghai") have been completed and put into production currently, enabling the mass production of furanone, m-Aminophenol and sulfurol products. However, in light of the current domestic and global economic downturn and sluggish market sentiment, Jiangxi Xianghai's production lines cannot be fully utilised at the moment. Jiangxi Xianghai will closely monitor the market demand and industry developments for flexible adjustments in its operation.

Review of condiment business

During the Reporting Period, the sales revenue of the Group's condiment business was approximately RMB177 million, representing a significant year-on-year decrease of approximately 52.9% and accounting for approximately 10.3% of the Group's total revenue. Its operating loss was approximately RMB525 million. During the outbreak of the COVID-19 Pneumonia pandemic in the beginning of 2020, the Chinese government adopted various emergency measures, such as the extension of the Chinese New Year holidays, travelling and work restrictions, temporary suspension of daily consumption activities. The catering industry was severely affected and the downstream catering customers' demand for condiment dropped significantly during the Reporting Period, resulting in a substantial decline of sales revenue of this segment. Operating loss was mainly attributable to the recognition of impairment of goodwill of RMB495,498,000 for the CGU of Jiahao during the period. Excluding the impairment of goodwill, the operating loss of the segment was approximately RMB29.88 million.

In the first half of 2020, catering industry was one of the most hard-hit industries by the pandemic. Leading catering chains in China have made public statements that they were under the pressures of tight cash flow and continuing operation. In order to fight the pandemic, downstream customers had to suspend their operations or shorten their business hours to cut costs, resulting in a sharp drop in the demand for the Group's products. During the Reporting Period, the Group continued to provide services to its customers by focusing on three aspects, namely products, distribution channels and marketing strategy.

In terms of product mix, Jiahao launched the 1-kg "Jingba Chicken Bouillon" and "Jingba Rich Flavoured Chicken Powder" as an additional choice for the customers, while consolidating the market position of its core products. When introducing new products, the R&D team will take consideration into market acceptance of the products. With "umami", "fragrance" and "spiciness" currently being the most popular tastes, the Group combined these flavours and launched the "Sour and Chilli Sauce" and "Rattan Pepper Sauce" in the market. By collecting feedback, the Group can improve its ability in market trend analysis and optimise its product mix.

In terms of distribution channels, Jiahao sold its products through distributors and its own sales teams. Jiahao optimised and integrated its distributor network and provide distributors with more resources and trainings. It also assisted distributors in inventory management and control, thus enhancing their sales efficiencies and capabilities. As for its own sales teams, they directly introduced Jiahao's products to end-customers and collected feedback and provided first-hand information for product development and service quality improvement. Currently, the sales revenue of Jiahao is mainly generated through distribution channels. In addition, Jiahao carried out promotional activities on its Tmall flagship store according to various sales festivals and themes to increase its online recognition.

In terms of marketing strategies, in the first half of 2020, the Group cancelled offline marketing activities and conducted online communication with customers instead. Jiahao published a series of analytical articles on how the catering enterprises were responding to the pandemic and industrial development on its WeChat official account. It provided catering customers with practical and innovative business solutions and market insights to help them survive this difficult market situation. These articles received positive feedback and appreciation from customers, which further reinforced Jiahao's brand image and strength as the "Chinese tastes expert" in the minds of chefs.

Around the end of the Reporting Period, the pandemic has been effectively prevented and controlled in China and enterprises around the country have gradually returned to work. The catering industry is a service industry that involves mass gathering and the consumers highly value the offline dining environment and experience provided by catering enterprises. However, with the recurrence of the pandemic, consumers have not been able to let their guard down and dine out. The catering industry is facing relatively significant adverse influence and impact in the short run under the recurring pandemic. The development of the catering industry in the second half of the year remains largely uncertain and volatile. It is essential for the condiment enterprises to adjust their business objectives and strategies in accordance with the rapid changes in the business environment and customer needs.

Despite the enormous challenges and unfavourable factors for the short-term development facing the catering and condiment industry, the management believes that the favourable trend for the catering and condiment industry remain unchanged in the long-run. The management will continue to monitor the development in the industry, effectively plan and manage business development to achieve sustainable business growth.

As the pandemic drags on, consumers' lifestyle and consumption mode are subjected to change to a certain extent. Coupled with the slowdown of China's economy, the future growth of condiment industry will be affected. The management has conducted an analysis on the current operating environment and business development, reviewed the forecasting parameters of Jiahao and reassessed the value-in-use of its CGU. The management adjusted the five-year forecasted growth rates of Jiahao made on 31 December 2019 from the range of 3% to 29.3% to the range of -17.8% to 47%. The management also adjusted the five-year forecasted gross profit margin of Jiahao from the range of 55.8%% to 62.7%% to the range of 58.7% to 60.7%, to reflect the impact on gross profit margin as a result of Jiahao's adjustment of its marketing and sales strategies in response to the changes in the industry. Based on the applicable accounting principles on a prudent basis, the Group recognised an impairment of goodwill of RMB495,498,000 for the CGU of Jiahao during the period with the evaluation of an independent valuer. The impairment of goodwill was a non-cash item and did not have an impact on the Group's cash flows and operations.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB109 million. R&D expense accounted for approximately 6.3% of sales revenue, representing a year-on-year decrease of approximately 0.2 percentage point.

Outlook

In the area of flavours and fragrances, the Group will conduct specific R&D on flavours for use in HNB tobacco products, further improving the samples and database of related fragrances in such products. With the consumers' increased demand for natural and healthy functionalities in food and beverages, the Group will carry out in-depth R&D in natural and functional food flavours and related products, and strengthen the studies on the application of food flavours and food ingredients in plant protein-based meat and meat products, and develop related products. For tobacco raw materials, the Group will strengthen its market analysis and R&D investment in raw materials of HNB tobacco related products. For aroma raw materials, the Group will respond to the national call by increasing investments in environmental protection to ensure safe and sustainable development. As for condiments, the Group will promote Jiahao's "Chinese tastes expert" brand image through its sophisticated sales and marketing team, and will establish reliable partnership with distributors and users. Apart from the quality and diversified products, the Group also provides customers with value-added services such as gourmet solutions and market insights to enhance customers' brand loyalty. In terms of the establishment of the management system, the Group will facilitate the establishment of digital management system for the upgrade of management capabilities in each business segment. The Group will pinpoint its R&D strategies based on market demand and further strengthen the establishment of an open-ended R&D platform, and construct its own R&D innovation system around its core technologies to drive organic growth through technology upgrade and product innovation. The Group will continue to adhere to the "concentric diversification strategy", actively seek for synergetic opportunities for acquisitions along the upstream and downstream industry chain, and strengthen its competitiveness in the industry through further consolidation of its competitive advantages and brand image.

In the second half of 2020, the Chinese as well as the global economies are facing greater uncertainty. The pandemic has further intensified the sentiment of trade protectionism and the intention to adjust supply chains across various countries and regions. The challenges and risks in terms of market access, supply chain management, pricing strategy and profitability, etc. will further intensify. Under the effective leadership, management and coordination of the Chinese government, the PRC has taken the lead in the prevention and control of the pandemic as well as in the resumption of work and production. However, due to the recurrence of the pandemic, there is still a significant gap in the production and operation of the enterprises as well as the macroeconomic environment when compared with the time before the pandemic outbreak. Market demand and consumer sentiments have also not been able to quickly recover to pre-pandemic levels. As such, the primary tasks of the enterprises at the moment is to maintain normal business operations. The management will continue to monitor the development of the pandemic and adjust the operational and management strategies of various business segments accordingly, so as to minimise the negative impact of external environment on the Group. We will work with our employees, customers and other stakeholders to get through this difficult time.

The Group believes that the consumers' pursuit of better lives and tastes will remain unchanged. As long as we do a good job in products, services, operation and management, we will be able to find development opportunities despite the difficult environment.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2020

Revenue

The Group's revenue amounted to RMB1,715,710,000 for the six months ended 30 June 2020, representing a decrease of 17.1% as compared with RMB2,069,317,000 for the corresponding period last year. The decrease in the revenue was mainly attributable to the outbreak of COVID-19 Pneumonia pandemic at the beginning of 2020, various contingency measures were adopted by the PRC government such as an extension of the Chinese new year holiday, as well as travel and work restrictions, suspension of various daily consumption activities, etc., which posed impacts to all segments of the Group in various degrees. The catering industry was severely affected by the pandemic, as a result, the sales revenue of the condiment segment of the Group for the current reporting period declined significantly as compared with the corresponding period last year.

Comparing the current reporting period with the six months ended 30 June 2019, revenue from flavours and fragrances decreased by 3.8% to RMB931,130,000; revenue from tobacco raw materials decreased by 17.1% to RMB303,391,000; revenue from aroma raw materials decreased by 15.9% to RMB302,268,000; and revenue from condiment decreased by 52.9% to RMB177,344,000.

Cost of goods sold

The Group's cost of goods sold amounted to RMB627,010,000 for the six months ended 30 June 2020, representing a decrease of 17.4% as compared with RMB758,856,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit decreased from RMB1,310,461,000 for the six months ended 30 June 2019 to RMB1,088,700,000 for the six months ended 30 June 2020, representing a decrease of approximately 16.9%. The Group's gross profit margin for the current reporting period remained stable, reaching 63.5%, which was basically the same as 63.3% in the same period last year.

Other income and other gains – net

Other income and other gains (net) of the Group was RMB149,935,000 for the six months ended 30 June 2020, representing an increase of RMB43,353,000 as compared with RMB106,582,000 for the corresponding period last year. The increase in other income and other gains was mainly due to an increase of currency exchange gain of RMB42,667,000 for the current period as compared with the corresponding period last year. The increase in currency exchange gain was mainly due to the Group's secured long-term loans (balance as at 30 June 2020: RMB1,860,474,000) were borrowed and settled by the Company in RMB, whereas the functional currency of the Company was HKD. During the current reporting period, the exchange rate of RMB against Hong Kong dollar fell, thus currency exchange gain was recognized.

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, etc.. The selling and marketing expenses of the Group for the six months ended 30 June 2020 was RMB161,248,000, representing a decrease of 13.8% as compared with RMB187,160,000 for the corresponding period last year. It was mainly attributable to the decrease in transportation, travelling, sales and marketing activities during the current period. Selling and marketing expenses for the current reporting period accounted for approximately 9.4% of the total revenue, which was basically the same as approximately 9.0% for the six months ended 30 June 2019.

Administrative expenses

The Group's administrative expenses amounted to RMB390,920,000 for the six months ended 30 June 2020, representing a decrease of 6.1% as compared with RMB416,160,000 for the corresponding period last year. It was mainly attributable to the decrease in travelling and professional expenses during the current period. Administrative expenses for the current reporting period accounted for approximately 22.8% of the total sales, representing an increase of approximately 2.7 percentage points as compared with approximately 20.1% for the six months ended 30 June 2019. The increase in such ratio was mainly attributable to the decrease in sales revenue was faster than the decrease in administrative expenses.

Operating profit

The Group's operating profit for the six months ended 30 June 2020 was RMB185,778,000, representing a decrease of approximately 77.0% as compared with RMB806,098,000 for the six months ended 30 June 2019. It was mainly attributable to the recognition of goodwill impairment of Jiahao of RMB495,498,000 and a decrease in sales revenue during the current period. If the goodwill impairment of Jiahao were excluded, the operating profit for the current period would be RMB681,276,000, representing a decrease of 15.5% as compared with the corresponding period last year, and the operating profit margin would be slightly increased by 0.7 percentage point to approximately 39.7% during the current period from approximately 39.0% for the corresponding period last year.

Profit before income tax

Profit before income tax of the Group for the six months ended 30 June 2020 was RMB203,346,000, decreased by RMB601,944,000 as compared with RMB805,290,000 for the six months ended 30 June 2019. If the goodwill impairment of Jiahao were excluded, the profit before income tax for the current reporting period would be RMB698,844,000, representing a decrease of 13.2% as compared with the corresponding period last year, which was mainly due to the decrease in operating profit.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 June 2020 was RMB137,154,000, representing a decrease of 30.1% as compared with RMB196,117,000 for the six months ended 30 June 2019. Income tax rate of the current reporting period was approximately 67.4%. If the goodwill impairment of Jiahao were excluded, income tax rate of the current reporting period would be approximately 19.6%, representing a decrease of approximately 4.8 percentage points as compared with approximately 24.4% for the six months ended 30 June 2019, such decrease was mainly attributable to additional subsidiaries of the Group during the reporting period were awarded high-tech enterprises which enable them to be entitled to preferential tax rate, and the decrease in withholding income tax on dividends distribution by subsidiaries in mainland in the current reporting period.

Profit/loss attributable to the equity holders of the Company

The loss attributable to the equity holders of the Company for the six months ended 30 June 2020 was RMB45,434,000, representing a decrease of RMB525,723,000 as compared with the profit attributable to the equity holders of the Company of RMB480,289,000 in the same period last year. It was mainly due to Jiahao's goodwill impairment of RMB495,498,000 and the decrease in sales revenue in the current period. If the goodwill impairment of Jiahao were excluded, profit attributable to the equity holders of the Company for the current period would be RMB450,064,000, representing a decrease of approxiamtely 6.3% as compared with the same period last year.

Net current asset value and financial resources

As at 30 June 2020, the net current asset value of the Group was RMB6,664,835,000 (31 December 2019: RMB6,957,179,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2020, the Group's cash and bank balances amounted to RMB5,854,355,000 (31 December 2019: RMB5,722,074,000). In addition, the Group held bank wealth management products amounted to RMB370,823,000 (31 December 2019: RMB726,191,000) which was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 30 June 2020, the Group had bank borrowings of RMB2,856,898,000 (31 December 2019: RMB2,998,776,000), of which secured loan amounted to RMB1,860,474,000 (31 December 2019: RMB2,310,474,000) was due within four years, and the unsecured loans amounted to RMB996,424,000 (31 December 2019: RMB688,302,000) were due within one to two years. For the six months ended 30 June 2020, the average annual interest rate of the secured loan was 5.7% (six months ended 30 June 2019: 5.7%), and the average annual interest rate of the unsecured loans were 3.0% (six months ended 30 June 2019: 3.7%). As at 30 June 2020, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 24.9%, which was decreased by 0.5 percentage point from 25.4% as of 31 December 2019.

Trade receivables turnover period

Trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and at the end of a relevant financial period divided by the total revenue for the corresponding period and multiplied by 180 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with the customers. For the six months ended 30 June 2020, the Group's average trade receivables turnover period was 99 days, representing an increase of 11 days as compared with 88 days for the last financial year ended 31 December 2019, which basically remained the same as 98 days 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. For the six months ended 30 June 2020, the Group's average trade payables turnover period was 78 days, which basically remained the same as 77 days for the last financial year ended 31 December 2019.

Inventory and inventory turnover period

As at 30 June 2020, the Group's inventory balance amounted to RMB868,794,000, representing a decrease of RMB62,591,000 as compared with the balance of RMB931,385,000 as at 31 December 2019. For the six months ended 30 June 2020, 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 258 days, representing an increase of 38 days as compared with 220 days for the last financial year ended 31 December 2019. The increase of such ratio was mainly resulted from the adjustment of inventory stock up strategy to maintain safety stock level after considering the impacts of pandemic and US-China trade war on supply chain.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 30 June 2020, 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 RMB1.860 billion.

Capital Commitments

As at 30 June 2020, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, contracted for but not provided in the financial statements amounted to approximately RMB206,977,000 (31 December 2019: RMB265,106,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 June 2020.

Human Resources and Corporate Culture Construction

As at 30 June 2020, the Group employed more than 3,500 employees in mainland China, Hong Kong, Germany, U.S., Botswana and Korea. In the face of the challenges brought by the pandemic during the Reporting Period, the Group took effective measures to protect the physical and mental health of the employees, actively explored new work models, adjusted operational strategies and took advantage of the preferential government policies to reduce the impact of the pandemic on business development and employees.

SHARE OPTION SCHEME

On 6 May 2019, the Company granted share options (the "Share Options") under its share option scheme adopted on 9 August 2016 (the "Share Option Scheme") to an eligible participant (being an independent business consultant of the Company) (the "Grantee"), to subscribe for an aggregate of 11,000,000 ordinary Shares of HK$0.10 each (the "Share(s)") in the share capital of the Company for consideration of HK$1.00 paid by Grantee upon acceptance of the Share Options granted. To the best knowledge, information and belief of the Board, the Grantee is not a director, chief executive or substantial shareholder of the Company, or an associate (as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules")) of any of them, nor the Grantee is a person related to the Company or the connected persons of the Company.

The grant of the Share Options to the Grantee formed the entirety of the consideration for the consulting arrangement between the Grantee and Hua Bao Industrial & Trading Development (HK) Limited, a wholly-owned subsidiary of the Company, for provision of professional advisory services regarding the operation and management of the Group.

The exercise price of the Share Options was HK$3.708 per share. The closing price of the Shares immediately before the date on which the Share Options were granted was HK$3.73 per Share.

The Share Options shall be exercisable in two tranches (each subject to the vesting condition of the Share Options):

(i) First tranche: 50% of Share Options shall be vested on 5 November 2019 ("First Exercisable Date") and are exercisable from the First Exercisable Date to 30 June 2020 (both days inclusive); and

(ii) Second tranche: the remaining 50% of Share Options shall be vested on 5 May 2020 ("Second Exercisable Date") and are exercisable from the Second Exercisable Date to 30 June 2020 (both days inclusive).

On each of the First Exercisable Date and the Second Exercisable Date, the Grantee shall remain as a business consultant of the Company. If such condition is not fulfilled, the relevant tranche of the Share Options shall not be vested accordingly by the Company.

The validity period of each tranche of Share Options shall be from the respective Exercisable Date (as specified above) to 30 June 2020 (both days inclusive).

The Company did not grant any share options under the Share Option Scheme during the reporting period. As at 30 June 2020, the share options granted by the Company pursuant to the Share Option Scheme which were valid and outstanding amounted to 11,000,000. All outstanding share options (including the Share Options) granted under the Share Option Scheme lapsed on 1 July 2020.

For details of share options granted, exercised, cancelled or lapsed during the reporting period under the Share Option Scheme, please refer to the Company's 2020 interim report which is expected to be published before 15 September 2020.

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 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 of the Company, 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 2020.

CHANGE IN DIVIDEND POLICY

The Group is committed to sharing its development and achievements with shareholders of the Company ("Shareholders") through proactive, stable and sustainable dividend policy. The Group would strive to strike a balance between the short-term dividend returns and long-term development of the Group 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 and capital expenditure to implement the development strategy, the Group will distribute surplus funds to Shareholders and reward their support for the Group.

In the first half year of 2020, worldwide economic activities were stagnant and showed nothing but gloomy prospects. Market demands decreased significantly and business operating environment became unstable. In order to maintain a stable financial condition, boost operational efficiency, and increase working capital reserves to tackle the economic recession as well as sustain the Group's normal operation and competitiveness, the Board decided to amend the Company's dividend policy after discreet consideration. If the Company pays dividends, the dividend payout ratio will be adjusted from "50% or above of the profit attributable to the equity holders of the Company for the whole year" to "30% or above of the profit attributable to the equity holders of the Company for the whole year". The change in dividend policy will accordingly affect the dividend (if any) to be payable by the Company for the year ended 31 December 2020 and onwards.

DIVIDEND

The impairment of goodwill for the CGU of Jiahao affected the Group's earnings, and the adjusted basic earnings per share (excluding Jiahao's impairment of goodwill) is RMB14.48 cents. In addition, as the impairment of goodwill is a non-cash item, it does not have an impact on the Group's cash flows and operations. The Board has decided not to declare any interim dividend for the six months ended 30 June 2020. However, to reward Shareholders for their support for the Company, the Board has nevertheless resolved to declare a special dividend of HK6.0 cents per share in cash for the six months ended 30 June 2020 (six months ended 30 June 2019: interim dividend of HK8.8 cents per share and no special dividend), representing approximately 37.8% of the adjusted earnings per share of RMB14.48 cents. The special dividend is expected to be paid on or about 9 October 2020 to Shareholders whose names appear on the register of members of the Company on 18 September 2020.

CLOSE OF REGISTER OF MEMBERS

In order to determine Shareholders who qualify for the special dividend, the register of members of the Company will be closed from 16 September 2020 to 18 September 2020, 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 15 September 2020.

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

During the six months ended 30 June 2020, 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 2020.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's review report will be included in the Company's 2020 interim report to be despatched to Shareholders.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of HKEx news (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2020 interim report will be despatched to Shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong, 21 August 2020

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.