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## HUABAO INTERNATIONAL HOLDINGS LIMITED

華寶國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change in percentage
	2020 RMB'000	2019 RMB'000	
Revenue	3,854,058	4,241,040	-9.1%
Gross profit	2,442,407	2,745,410	-11.0%
Gross profit margin	63.4%	64.7%	
Operating profit	902,792	1,728,811	-47.8%
EBITDA margin*	43.4%	47.0%	
EBIT margin**	23.4%	40.8%	
Adjusted EBIT margin <sup>#</sup>	36.3%	40.8%	
Profit for the year	668,439	1,373,741	-51.3%
Adjusted profit for the year <sup>#</sup>	1,163,937	1,373,741	-15.3%
Profit attributable to the equity holders of the Company	418,399	1,112,004	-62.4%
Adjusted profit attributable to the equity holders of the Company <sup>#</sup>	913,897	1,112,004	-17.8%
Net cash generated from operating activities	1,455,231	1,559,583	
	RMB cents	RMB cents	
Basic and diluted earnings per share	13.46	35.78	-62.4%
Adjusted basic and diluted earnings per share <sup>#</sup>	29.41	35.78	-17.8%
Proposed/paid final dividend per share (note 9)	HK9.0 cents	HK10.0 cents	
Total dividend for the year (note 9)	HK15.0 cents	HK18.8 cents	
Dividend payout ratio for the year <sup>##</sup>	43.8%	47.3%	

\* "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".

<sup>#</sup> Excluding impairment of goodwill of RMB495,498,000 for the year ended 31 December 2020.

<sup>##</sup> Dividend payout ratio for the current year is calculated based on the adjusted basic and diluted earnings per share.

\* For identification purpose only

On 19 March 2021, the board of directors (the “Board”) of Huabao International Holdings Limited (the “Company” or “Huabao”) approved the audited annual results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020 together with the comparative figures for the year ended 31 December 2019.

## CONSOLIDATED INCOME STATEMENT

		<b>For the year ended 31 December</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	<b>3,854,058</b>	4,241,040
Cost of goods sold	5	<b>(1,411,651)</b>	(1,495,630)
<b>Gross profit</b>		<b>2,442,407</b>	2,745,410
Other income and other gains - net	6	<b>100,497</b>	225,509
Selling and marketing expenses	5	<b>(317,001)</b>	(358,305)
Administrative expenses	5	<b>(820,221)</b>	(867,398)
Impairment of goodwill		<b>(495,498)</b>	–
Net impairment losses on financial assets		<b>(7,392)</b>	(16,405)
<b>Operating profit</b>		<b>902,792</b>	1,728,811
Finance income		<b>159,915</b>	176,956
Finance costs		<b>(143,983)</b>	(188,984)
Finance income/(costs)– net		<b>15,932</b>	(12,028)
Share of results of associates and a jointly controlled entity		<b>30,097</b>	29,034
<b>Profit before income tax</b>		<b>948,821</b>	1,745,817
Income tax expense	7	<b>(280,382)</b>	(372,076)
<b>Profit for the year</b>		<b>668,439</b>	1,373,741
<b>Attributable to:</b>			
Equity holders of the Company		<b>418,399</b>	1,112,004
Non-controlling interests		<b>250,040</b>	261,737
		<b>668,439</b>	1,373,741
<b>Earnings per share for profit attributable to the Company's equity holders for the year</b>		<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted	8	<b>13.46</b>	35.78

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>668,439</b>	<b>1,373,741</b>
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified to profit or loss</i>		
Fair value changes of equity investments at fair value through other comprehensive income, net of tax	(17,990)	(17,531)
Currency translation differences of the Company and its non-foreign operations	64,370	(13,421)
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences of foreign operations	(2,491)	(466)
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>43,889</b>	<b>(31,418)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>712,328</b>	<b>1,342,323</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	461,856	1,081,266
Non-controlling interests	250,472	261,057
	<b>712,328</b>	<b>1,342,323</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,388,257	1,391,118
Right-of-use assets		240,902	260,560
Intangible assets		6,226,362	6,807,495
Investments in associates		374,761	385,881
Investment in a jointly controlled entity		7,410	3,313
Financial assets at fair value through other comprehensive income		55,072	161,905
Financial assets at fair value through profit or loss		112,614	58,304
Deferred income tax assets		160,447	135,257
Other non-current assets		581	15,606
		8,566,406	9,219,439
Current assets			
Inventories		854,746	931,385
Trade and other receivables	10	1,351,750	1,322,626
Financial assets at fair value through profit or loss		569,556	768,111
Short-term time deposits		1,413,840	2,334,294
Cash and cash equivalents		4,921,756	3,387,780
		9,111,648	8,744,196
Total assets		17,678,054	17,963,635

		<b>As at 31 December</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		<b>318,636</b>	318,636
Reserves		<b>2,633,732</b>	2,540,529
Retained earnings		<b>8,918,688</b>	8,969,048
		<b>11,871,056</b>	11,828,213
<b>Non-controlling interests</b>		<b>1,823,193</b>	1,771,260
<b>Total equity</b>		<b>13,694,249</b>	13,599,473
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>11</i>	<b>1,806,477</b>	2,310,474
Lease liabilities		<b>39,345</b>	60,135
Deferred income tax liabilities		<b>170,536</b>	205,736
Trade and other payables	<i>12</i>	<b>800</b>	800
		<b>2,017,158</b>	2,577,145
<b>Current liabilities</b>			
Borrowings	<i>11</i>	<b>901,753</b>	688,302
Lease liabilities		<b>24,526</b>	22,448
Trade and other payables	<i>12</i>	<b>648,744</b>	666,864
Current income tax liabilities		<b>208,923</b>	236,514
Contract liabilities		<b>182,701</b>	172,889
		<b>1,966,647</b>	1,787,017
<b>Total liabilities</b>		<b>3,983,805</b>	4,364,162
<b>Total equity and liabilities</b>		<b>17,678,054</b>	17,963,635

## CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	1,823,600	2,031,748
Income tax paid	(368,369)	(472,165)
<b>Net cash generated from operating activities</b>	<b>1,455,231</b>	<b>1,559,583</b>
<b>Cash flows from investing activities</b>		
Acquisition of a subsidiary	(154)	–
Proceeds from disposal of subsidiaries	80	–
Acquisition of an associate	–	(2,411)
Refund of termination of the additional capital injection into an associate	14,560	–
Proceeds from disposal of an associate	11,582	18,586
Purchases of financial assets at fair value through other comprehensive income	–	(20,642)
Proceeds from disposal of interest in financial assets at fair value through other comprehensive income	–	2,545
Purchases of financial assets at fair value through profit or loss	(1,490,500)	(1,068,720)
Proceeds from disposal of financial assets at fair value through profit or loss	1,725,897	829,950
Purchases of right of use assets for land use rights	(6,313)	–
Purchases of property, plant and equipment and intangible assets	(170,396)	(312,097)
Proceeds from disposal of property, plant and equipment	11,159	16,655
Short-term time deposits placed	(1,713,840)	(3,134,294)
Short-term time deposits released	2,634,294	2,406,790
Dividend received	13,882	12,805
Interest received	144,937	178,319
<b>Net cash generated from/(used in) investing activities</b>	<b>1,175,188</b>	<b>(1,072,514)</b>
<b>Cash flows from financing activities</b>		
Final dividends for the year ended 31 December 2019 paid to shareholders	(285,887)	–
Special dividends for the six months ended 30 June 2020 paid to shareholders	(165,064)	–
Interim dividends for the six months ended 30 September 2018 paid to shareholders	–	(275,620)
Final and special dividends for the nine months ended 31 December 2018 paid to shareholders	–	(756,818)
Interim dividends for the six months ended 30 June 2019 paid to shareholders	–	(247,048)
Dividends paid to non-controlling interests	(247,637)	(479,367)
Proceeds from changes in ownership interest in a subsidiary without change of control	75,290	–
Capital injections from non-controlling interests	3,085	915
New bank borrowings raised	556,679	756,607
Repayment of bank borrowings	(796,368)	(1,461,703)
Principal elements of lease payments	(24,360)	(19,599)
Interest elements of lease payments	(3,450)	(3,092)
Interest paid related to bank borrowings and others	(143,929)	(185,814)
<b>Net cash used in financing activities</b>	<b>(1,031,641)</b>	<b>(2,671,539)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,598,778</b>	<b>(2,184,470)</b>
Cash and cash equivalents at the beginning of the year	3,387,780	5,535,601
Effects of currency translation on cash and cash equivalents	(64,802)	36,649
<b>Cash and cash equivalents at the end of the year</b>	<b>4,921,756</b>	<b>3,387,780</b>

*Notes:*

**1. BASIS OF PREPARATION**

The consolidated financial statements of the Company have been prepared on a historical cost basis in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and disclosure requirements of the Hong Kong Companies Ordinance Cap 622, except for financial assets at fair value through other comprehensive income (“FVOCI”) and financial assets at fair value through profit or loss (“FVPL”), which are carried at fair value.

**2. ACCOUNTING POLICIES**

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, except for the adoption of new and amendments to HKFRSs listed in note(a) as follows.

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2020:

- Definition of Material – amendments to HKAS 1 and HKAS 8
- Definition of a Business – amendments to HKFRS 3
- Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to early adopt the Covid-19-Related Rent Concessions – amendments to HKFRS 16 (Note 3).

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Except for the amendment to HKFRS16 set out above, certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

### **3. CHANGES IN ACCOUNTING POLICIES**

The Group has early adopted Amendment to HKFRS 16 Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to Covid19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying Covid-19-related rent concessions. Rent concessions totalling RMB908,000 have been accounted for as negative variable lease payments and recognised in administrative expenses in the consolidated income statement for the year ended 31 December 2020 (Note 5), with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

### **4. REVENUE AND SEGMENT INFORMATION**

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

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

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

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

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



The segment information for the year ended 31 December 2020 is presented below:

	Year ended 31 December 2020					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Total revenue	2,094,460	637,539	646,322	502,835	7,954	3,889,110
Inter-segment revenue	(9,435)	(15,933)	(7,626)	(84)	(1,974)	(35,052)
Segment revenue – net	<u>2,085,025</u>	<u>621,606</u>	<u>638,696</u>	<u>502,751</u>	<u>5,980</u>	<u>3,854,058</u>
Segment result	1,258,783	249,609	47,909	(432,490)	(221,019)	902,792
Finance income						159,915
Finance costs						(143,983)
Finance income – net						15,932
Share of results of associates and a jointly controlled entity						<u>30,097</u>
Profit before income tax						948,821
Income tax expense						<u>(280,382)</u>
Profit for the year						<u>668,439</u>
Depreciation	<u>44,719</u>	<u>84,011</u>	<u>24,888</u>	<u>9,885</u>	<u>6,812</u>	<u>170,315</u>
Amortisation	<u>1,643</u>	<u>9,967</u>	<u>18,095</u>	<u>73,696</u>	<u>232</u>	<u>103,633</u>
	As at 31 December 2020					
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>8,346,729</u>	<u>2,762,317</u>	<u>1,082,892</u>	<u>4,800,859</u>	<u>685,257</u>	<u>17,678,054</u>

The segment information for the year ended 31 December 2019 is presented below:

	Year ended 31 December 2019					Total <i>RMB'000</i>
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	
Total revenue	2,185,339	763,962	625,880	700,469	1,894	4,277,544
Inter-segment revenue	(21,412)	(9,538)	(5,471)	(83)	–	(36,504)
Segment revenue – net	<u>2,163,927</u>	<u>754,424</u>	<u>620,409</u>	<u>700,386</u>	<u>1,894</u>	<u>4,241,040</u>
Segment result	1,287,737	311,052	82,124	144,816	(96,918)	1,728,811
Finance income						176,956
Finance costs						(188,984)
Finance cost – net						(12,028)
Share of results of associates and a jointly controlled entity						<u>29,034</u>
Profit before income tax						1,745,817
Income tax expense						<u>(372,076)</u>
Profit for the year						<u>1,373,741</u>
Depreciation	<u>40,976</u>	<u>85,029</u>	<u>21,462</u>	<u>8,003</u>	<u>5,042</u>	<u>160,512</u>
Amortisation	<u>1,762</u>	<u>9,951</u>	<u>16,841</u>	<u>73,672</u>	<u>221</u>	<u>102,447</u>
	As at 31 December 2019					Total <i>RMB'000</i>
	Flavours and fragrances <i>RMB'000</i>	Tobacco raw materials <i>RMB'000</i>	Aroma raw materials <i>RMB'000</i>	Condiment <i>RMB'000</i>	Others <i>RMB'000</i>	
Segment assets	<u>8,420,755</u>	<u>3,029,563</u>	<u>957,280</u>	<u>5,277,279</u>	<u>278,758</u>	<u>17,963,635</u>

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

## 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:

	<i>Note</i>	Year ended 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Depreciation		152,972	142,607
Amortisation		99,067	98,930
Provision for impairment of inventories		2,551	7,589
Changes in inventories of finished goods and work in progress		254,009	(37,535)
Raw materials and consumables used		837,474	1,141,046
Covid-19-related rent concessions		(908)	–
Short-term lease rentals		14,530	16,249
Auditor's remuneration			
– Audit services		8,777	9,656
– Non-audit services		–	100
Consulting service fee		14,260	31,162
Travelling expenses		33,692	71,574
Employee benefit expenses		479,931	477,843
Share based compensation arising from share option scheme		98	907
Research and development expenses	(a)	265,041	290,674
Delivery expenses		34,290	35,029
Utilities expenses		58,664	83,069
Motor vehicle expenses		8,280	10,391
Maintenance expenses		17,978	19,930
Advertising and promotion expenses		79,094	96,594
Office administrative and communication expenses		9,287	10,449
Other surcharges		53,325	53,625
Others		126,461	161,444
Total of cost of goods sold, selling and marketing expenses and administrative expenses		<u>2,548,873</u>	<u>2,721,333</u>

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

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	17,343	17,905
Amortisation	4,566	3,517
Employee benefit expenses	109,936	126,405

## 6. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Changes in fair value of financial assets at FVPL	13,805	4,255
Dividend income from financial assets at FVPL and FVOCI	2,021	2,652
(Losses)/gains on disposal of financial asset at FVPL	(2,359)	7,519
(Loss)/gain on disposal of an associate	(2,750)	1,322
Losses on disposal of subsidiaries	(2,033)	–
Losses on disposal of property, plant and equipment	(6,900)	(4,008)
Government grants	190,544	176,396
Foreign exchange (losses)/gains - net	(85,028)	36,856
Donations	(9,160)	(847)
Others	2,357	1,364
	<u>100,497</u>	<u>225,509</u>

## 7. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– Hong Kong profits tax	10,757	13,657
– PRC corporate income tax	328,976	429,987
– Germany company income tax	126	–
– Botswana company income tax	915	436
Deferred income tax	(60,392)	(72,004)
	<u>280,382</u>	<u>372,076</u>

## 8. EARNINGS PER SHARE

### Basic earnings per share

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

	Year ended 31 December	
	2020	2019
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>418,399</u>	<u>1,112,004</u>
Weighted average number of ordinary shares in issue ( <i>'000</i> )	<u>3,107,837</u>	<u>3,107,837</u>
Basic earnings per share attributable to the Company's equity holders ( <i>RMB cents per share</i> ):	<u><u>13.46</u></u>	<u><u>35.78</u></u>

### Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2020 and 2019 was the same as basic earnings per share, since the Company did not have any potential ordinary share outstanding that has dilution effect.

## 9. DIVIDENDS

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Paid interim dividend of HK8.8 cents per share for the six months ended 30 June 2019	–	247,048
Paid special dividend for the six months ended 30 June 2020 of HK6.0 cents (For the six months ended 30 June 2019: Nil) per share	<u>165,064</u>	<u>–</u>
Proposed/paid final dividend of HK9.0 cents (For the year ended 31 December 2019: HK10.0 cents) per share	<u>235,411</u>	<u>285,887</u>
	<u><u>400,475</u></u>	<u><u>532,935</u></u>

On 19 March 2021, the Board proposed a final dividend of HK9.0 cents per share, totalling approximately RMB235,411,000 for the year ended 31 December 2020. The proposed dividend in respect of the year ended 31 December 2020 is calculated based on the total number of shares in issue as at the date of this report. The proposed dividend is subject to the shareholder's approval at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this dividend payable.

## 10. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2020</b>	<b>2019</b>
		<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Trade receivables	(a)	<b>1,020,767</b>	922,923
Less: provision for impairment of trade receivables		<b>(11,167)</b>	(12,263)
Trade receivables - net		<b>1,009,600</b>	910,660
Notes receivable		<b>80,105</b>	189,187
Prepayments and other receivables		<b>244,428</b>	212,217
Advances to staff		<b>4,409</b>	6,489
Others		<b>48,062</b>	34,536
Less: provision for impairment of other receivables		<b>(34,854)</b>	(30,463)
		<b>1,351,750</b>	1,322,626

- (a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 December 2020 and 2019, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice date was as follows:

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
0 - 90 days	<b>883,425</b>	792,694
91 - 180 days	<b>93,287</b>	41,649
181 - 360 days	<b>22,568</b>	53,353
Over 360 days	<b>21,487</b>	35,227
	<b>1,020,767</b>	922,923

## 11. BORROWINGS

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
<b>Non-current</b>			
Long-term bank borrowings			
– Secured bank borrowings	(a)	1,692,855	2,310,474
– Unsecured bank borrowings	(b)	227,243	–
Less: current portion		(113,621)	–
		<u>1,806,477</u>	<u>2,310,474</u>
<b>Current</b>			
Current portion of non-current liabilities			
– Unsecured bank borrowings	(b)	113,621	–
Short-term bank borrowings			
– Unsecured bank borrowings	(b)	788,132	688,302
		<u>901,753</u>	<u>688,302</u>
<b>Total borrowings</b>		<u><b>2,708,230</b></u>	<u><b>2,998,776</b></u>

(a) The Group's secured bank borrowings as at 31 December 2020 of RMB1,692,855,000 (31 December 2019: RMB2,310,474,000) are repayable within three years and secured by certain buildings, right-of-use for land of Guangdong Jiahao Foodstuff Co., Ltd. ("Guangdong Jiahao") with total carrying values of RMB88,513,000 (2019: RMB91,856,000), and equity interest in Jiahao Foodstuff Limited and Guangdong Jiahao. During the year, the average interest rate of the loan was 5.7% (2019: 5.7%) per annum.

(b) The unsecured bank borrowings are repayable within one to two year. During the year, the average interest rate was 2.6% (2019: 3.6%) per annum.

Interest expense on bank borrowings for the year ended 31 December 2020 amounted to approximately RMB140,080,000 (2019: RMB185,378,000). No interest expense was capitalised during the year ended 31 December 2020 and 2019.

## 12. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2020</b>	<b>2019</b>
		<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Trade payables	(a)	<b>268,020</b>	303,171
Dividends payable to non-controlling interests		–	1,218
Wages payable		<b>96,145</b>	97,668
Other taxes payable		<b>102,179</b>	107,420
Accruals for expenses		<b>12,003</b>	28,540
Other payable		<b>171,197</b>	129,647
		<b>649,544</b>	667,664

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

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Non-current	<b>800</b>	800
Current	<b>648,744</b>	666,864
	<b>649,544</b>	667,664

- (a) As at 31 December 2020 and 2019, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
0 - 90 days	<b>235,750</b>	271,546
91 - 180 days	<b>16,348</b>	16,859
181- 360 days	<b>5,421</b>	4,248
Over 360 days	<b>10,501</b>	10,518
	<b>268,020</b>	303,171



## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

#### Overview of the tobacco industry

According to the data from National Bureau of Statistics, the cigarette production volume in China reached 47.7274 million cases in 2020, representing an increase of 0.9% year-on-year while sales volume reached approximately 47.3528 million cases, flat from last year. The tobacco industry realised industrial and business tax and profit of RMB1,280.3 billion, representing an increase of 6.2% year-on-year; the tobacco industry has paid RMB1,203.7 billion to the treasury department, representing an increase of 2.3% year-on-year. Although the Novel Coronavirus Pneumonia Pandemic (“Pandemic”) had caused a big negative impact on China’s macroeconomy and the development and operation of every industry, the anti-cyclical nature of the tobacco industry has played an active and positive role in boosting tax revenue and stabilising employment.

During the Reporting Period, the regulation imposed by the regulatory authorities on innovative tobacco products further standardised, gradually increasing the concentration ratio in the industry. Under the requirement that products can only be sold to qualified consumers through offline channels, e-cigarettes enterprises have a more intense competition in terms of brand promotion and channel construction, and only enterprises that possess capital power, talents and technology can face the challenges head-on and rise above the others. In addition, some individual regional Chinese tobacco companies established offline experience stores to let consumers have a chance to come into contact and experience the Heat-not-burn (“HNB”) tobacco products, so that consumers can gradually form a more comprehensive and objective understanding of HNB tobacco products. At the same time, consumers’ feedback can be collected to further optimise the products.

As for tobacco leaves, although China was first hit by the Pandemic and later by the flooding in 2020, under the leadership of the State Tobacco Monopoly Administration, the government in tobacco-producing regions successfully overcame the difficulties by fighting the Pandemic, mitigating the disaster, keeping up with the farming schedule and focusing on the farming business. The total annual income of nationwide tobacco farmers from planting tobacco leaves amounted to RMB64.4 billion and the average income from planting tobacco leaves per tobacco farmer was RMB77,000. Overall, the supply of tobacco leaves was stable and the tobacco leaves industry achieved remarkable results in poverty alleviation and improving tobacco farmers’ living standards. (Source: Eastobacco.com)

## **Overview of the food and beverage industry and fragrances industry**

In respect of the food and beverage industry, the Pandemic has resulted in consumers to pay more attention to the safety, functionality, convenience and environmental friendliness of food and beverage products. Among numerous products, plant-based products attract both investors and consumers for their sustainability and healthy nutrition. Many well-known food manufacturers and franchised catering enterprises have launched plant-based products, which come in different types and flavours based on the consumers' preferences in different regions. As consumers are more concerned about balanced diet, products with "less sugar", "improve immunity" and "natural" labels receive more recognition from consumers. At the same time, consumers also require merchants to accurately promote the health and functionalities of products without misleading publicity. According to data from National Bureau of Statistics, in 2020, the gross output of the agricultural product processing industry with enterprises of designated size or above dropped by 1.5% year-on-year, while that of the food processing industry rose by 1.5%. The output value of the alcohol, beverage and refined tea processing industry dropped by 2.7% year-on-year. The food and beverage industry has overall maintained stable development.

In respect of the daily-use chemical industry, Chinese well-known detergent brand has successfully gone public in the capital market, providing consumers with more choices. The continuous growth of the well-known daily-use chemical brand in China has provided business development opportunities for flavours and fragrances manufacturers that understand the local market. In addition, affected by the Pandemic, many daily-use chemical enterprises have strengthened their efforts in online sales, and online sales channel has become an important means for daily-use chemical enterprises to increase sales and improve their brand influence.

## **Overview of the condiment industry**

According to the data of National Bureau of Statistics, the revenue of the catering industry in the first half of 2020 was RMB1,460.9 billion, representing a significant decrease of 32.9% as compared with the corresponding period last year, while the total revenue in the second half of 2020 was RMB2,491.8 billion, representing a slight decrease of 1.9% as compared with the corresponding period last year. Due to the successful prevention and control of the Pandemic in China, the decline in the revenue of the catering industry in the second half of the year significantly narrowed as compared to the first half of the year, and the catering industry illustrated modest recovery. The total revenue of the catering industry for the year was RMB3,952.7 billion, representing a year-on-year decrease of 16.6%.

The Pandemic has caused the catering enterprises to realise the importance of diversified development and risk diversification. Apart from the "dine-in+takeaway" sales model, catering enterprises also need to develop pre-made products that are ready for retail sales to diversify sales channel. In addition, the Pandemic has made consumers to place food safety as the top priority, which has increased the demand of catering enterprises for central kitchen and standardised supply chain.

Facing changes in the catering industry, the condiment enterprises have realised the need to provide condiment solutions for pre-made products which can maintain the uniform texture and taste of pre-made products based on the needs of customers. At the same time, due to the increase in household consumption scenarios, the condiment enterprises also need to launch products suitable for sales through retail channels and broaden sales channels based on the characteristics of their product lines.

## RESULTS

For the year ended 31 December 2020 (the “Reporting Period”), the Group achieved a sales revenue of approximately RMB3,854 million, representing a year-on-year decrease of 9.1%; the gross profit margin was approximately 63.4%, representing a year-on-year decrease of 1.3 percentage points; operating profit reached approximately RMB903 million, representing a year-on-year decrease of 47.8%; operating profit margin was approximately 23.4%, representing a year-on-year decrease of 17.4 percentage points. The profit attributable to the equity holders of the Company amounted to approximately RMB418 million, representing a year-on-year decrease of 62.4%, while the basic earnings per share was RMB13.46 cents, representing a year-on-year decrease of approximately 62.4%.

During the Reporting Period, based on the applicable accounting principles on a prudent basis, the management recognised an impairment of goodwill of RMB495,498,000 for the Cash Generating Unit (“CGU”) of Jiahao Foodstuff Limited and its subsidiaries (“Jiahao”) as of 30 June 2020. For details of the goodwill impairment of Jiahao CGU, please refer to the Section “Impairment of Jiahao’s Goodwill” in the 2020 Interim Report published on 10 September 2020 by the Company. At the end of the Reporting Period, the management engaged an independent valuer to conduct an impairment test on goodwill of the Jiahao CGU as at 31 December 2020. Based on the results of the impairment test, except for the impairment of RMB495,498,000 recognized in the interim period, there was no sign of further impairment of the goodwill of Jiahao CGU as at 31 December 2020. The Board considers that the valuation methodology and key assumptions used in the above impairment test on goodwill of Jiahao CGU by the valuer have been consistently adopted by the Company. Meanwhile, the basis of the calculation and the key assumptions used have been projected and determined by the management based on the past performance of Jiahao CGU, the management’s knowledge and experience of the market and the actual situation, which are fair and reasonable.

Excluding the goodwill impairment of approximately RMB495 million of Jiahao recognized in the interim period, the Group’s operating profit would be approximately RMB1,398 million, representing a year-on-year decrease of 19.1%; operating profit margin would be approximately 36.3%, representing a year-on-year decrease of 4.5 percentage points. The profit attributable to the equity holders of the Company would be approximately RMB914 million, representing a year-on-year decrease of 17.8%, while the basic earnings per share would be approximately RMB29.41 cents, representing a year-on-year decrease of 17.8%.

## **BUSINESS REVIEW**

### **Review of flavours and fragrances business**

During the Reporting Period, sales revenue of the flavours and fragrances business of the Group amounted to approximately RMB2,085 million, representing a year-on-year decrease of approximately 3.6%, and accounting for approximately 54.1% of the Group's total revenue. Operating profit of the business segment amounted to approximately RMB1,259 million, representing a year-on-year decrease of approximately 2.2%; and EBIT margin recorded approximately 60.4%, representing a year-on-year increase of approximately 0.9 percentage point. The decrease in the revenue from the flavours and fragrances segment was mainly due to the changes in the demand of downstream market. The increase in EBIT margin was mainly attributable to the decrease in travelling and other expenses.

#### **(1) *Flavours***

In terms of tobacco flavours, the Group followed closely the cigarette flavouring demands of the customers in order to provide them with high quality products. For sweet flavours, the Group has set up a flavour microcapsule team and developed microcapsule products, such as low temperature spray drying and artificial granules. The Group has also developed bead-shaped capsule products with fresh breath and various flavours, which are used in different food products to enhance their functionalities and interestingness, and are well received by consumers. In terms of savoury flavours, in order to satisfy customer needs, the Group has collaborated with external organizations and developed ingredients that can infiltrate into soybean protein and wet and spicy snack foods and enhance their flavours without the need of marination and deep-frying, making the food delicious and healthy. In addition, the Group has set up a food innovation department responsible for researching popular food ingredients in the market and developing ingredients such as mango seasoning powder and matcha seasoning powder. These ingredient products are well recognised by customers and have secured orders from customers.

#### **(2) *Fragrances***

During the Reporting Period, fragrances performance experienced an improved growth, mainly attributable to the successful development of new customers and the launch of new products. The flavourist focused on the research and development ("R&D") as well as application of perfumes and fragrances to promote the continuous growth of perfume and fragrance customers. The R&D team was also committed to the development of fragrance microcapsules which were used in products such as laundry detergents and laundry beads, making the aroma last longer and adding more pleasure to the lives of consumers.

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

As of 31 December 2020, the cumulative amount of the funds raised from the initial public offering of Huabao Flavours & Fragrances Company Limited (“Huabao Flavours”) in 2018 and dedicated for the “Huabao Yingtan Flavours and Ingredients Production Base Project” (“Huabao Yingtan Project”) was approximately RMB100.9 million, representing an investment progress of approximately 9.75%; the cumulative amount of IPO Proceeds that was dedicated for the “Lhasa Pure Land Healthy Food Project” (“Huabao Lhasa Project”) was approximately RMB19.17 million, representing an investment progress of approximately 4.08%; and 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 31 December 2020, the balance of unused IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,682 million.

The construction work for Huabao Yingtan Project Phase I has been completed, and the tender for the design of the construction work of Phase II has been completed. Affected by the Pandemic during the Reporting Period, the overall progress of the project construction work was delayed due to the limitations on personnel and organisation. After a comprehensive consideration of the actual situation of the investment projects funded by the IPO proceeds (hereinafter referred to as the “Investment Projects”) of the Company, the Company proposed to change the use of proceeds and modify the implementation plan of the Investment Projects, which includes the proposed termination of the Huabao Lhasa Project, the proposed adjustment of the Huabao H&K Project to “Huabao Flavours Technology Innovation Centre and Support Facilities Project”, the proposed construction of “Huabao Flavours Digital Transformation Project” and the proposed adjustment of the investment plan of the Huabao Yingtan Project.

## **Review of the tobacco raw materials business**

During the Reporting Period, sales revenue of the Group’s tobacco raw materials business was approximately RMB622 million, representing a year-on-year decrease of approximately 17.6%, and accounting for approximately 16.1% of the Group’s total revenue. The operating profit of the segment amounted to approximately RMB250 million, representing a year-on-year decrease of approximately 19.8%, and EBIT margin was approximately 40.2%, a year-on-year decrease of 1.0 percentage point. The decrease in sales revenue of the segment was mainly attributable to the decrease in market demand for reconstituted tobacco leaves (“RTL”) and the sales drop caused by the intensive competition in the cigarette capsule industry.

### **(1) RTL**

During the Reporting Period, the tobacco industry achieved significant success in destocking the inventory of tobacco leaves. The increase in the usage of tobacco leaves resulted in the weak demand for RTL. Under the circumstances of oversupply in the RTL industry, the Group’s production and sales volumes of RTL decreased accordingly. Meanwhile, being affected by the Pandemic, overseas customers delayed their orders, thus resulting in a drop of the Group’s sales volume of RTL overseas. Under the unfavourable market environment both domestically and abroad, the RTL business performance of the Group has dropped.



In order to cope with the adverse effects brought about by the changes in the business environment of traditional RTL, the Group set up a professional team to conduct an in-depth analysis on the market lay-out, development prospect and application of the raw materials related to HNB tobacco. During the Reporting Period, the Group made progress in the product development and process research of HNB related raw materials and obtained the corresponding patents. Meanwhile, the Group is preparing to build a plant in South East Asia dedicated to the production of RTL for HNB tobacco products to meet the market demand for RTL for HNB.

## **(2) Tobacco new materials**

Owing to the sufficient supply and intensive competition in the industry, the selling prices of cigarette capsules failed to reverse the downward trend. The Pandemic has led to a decline in the consumption scenarios and the consumers' demand for cigarette capsules in overseas markets, resulting in a corresponding decline in sales volume of cigarette capsules in the overseas markets. During the Reporting Period, the Group strengthened the market analysis, technological R&D and talent training on specialized cigarette filter and HNB cigarette filter to enhance the competitiveness and service quality of these two product categories and prepare itself for the possible development opportunities and markets in the future.

## **Review of the aroma raw materials business**

During the Reporting Period, the Group's aroma raw materials business recorded a sales revenue of approximately RMB639 million, representing a year-on-year increase of approximately 2.9%, and accounting for approximately 16.6% of the Group's total revenue. Operating profit of the business segment reached approximately RMB47.90 million, representing a year-on-year decrease of approximately 41.7%; and EBIT margin was approximately 7.5%, representing a year-on-year decrease of approximately 5.7 percentage points. The overall revenue of the aroma raw materials segment remained stable. The decrease in operating profit and operating profit margin was mainly due to the Group's adjustment on its product mix.

In the first half of 2020, the Pandemic had a significant negative impact on the demands for aroma raw materials in the domestic and overseas markets and the year-on-year revenue of aroma raw materials dropped significantly in the first half of the year. As China successfully prevented and controlled the Pandemic in the second half of the year, as well as foreign governments began to stress on fighting the Pandemic, demands in domestic and overseas markets began to recover gradually, and the year-on-year revenue of the aroma raw materials segment increased in the second half of the year. In spite of this, the overall economic slowdown had increased pressure on customers to cut spending, which weakened our pricing power in aroma raw material products.

In terms of Zhaoqing Perfumery Co., Ltd (Guangdong), affected by the weak performance of the catering industry, the market demand for maltol products decreased, resulting in a declined turnover in maltol products. For Yongzhou Shanxiang Flavour Co., Ltd. ("Yongzhou Shanxiang"), since European countries and regions need epidemic prevention materials made from litsea cubeba oil extracts to fight against the epidemic, the sales of Yongzhou Shanxiang are stable and have slightly increased. As for Jiangxi Xianghai Biological Technology Co., Ltd. ("Jiangxi Xianghai"), furanone and ester products produced by Jiangxi Xianghai are well recognised by customers for their high quality.

## **Review of the condiment business**

During the Reporting Period, the sales revenue of the Group's condiment business was approximately RMB503 million, representing a year-on-year decrease of 28.2%, and accounting for approximately 13.0% of the Group's total revenue. The operating loss was approximately RMB432 million. During the outbreak of the 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 impairment of goodwill of approximately RMB495 million for the Jiahao CGU recognized in the interim period. Excluding the impact on the impairment of goodwill, the operating profit of the segment would be approximately RMB63.01 million.

At the end of the Reporting Period, the management engaged an independent valuer to conduct an impairment test on goodwill of the Jiahao CGU as at 31 December 2020. Based on the results of the impairment test, except for the impairment of RMB495,498,000 recognized in the interim period, there was no sign of further impairment of the goodwill of Jiahao CGU as at 31 December 2020. The Board considers that the valuation methodology and key assumptions used in the above goodwill impairment test of Jiahao CGU by the valuer have been consistently adopted by the Company. Meanwhile, the basis of the calculation and the key assumptions used have been projected and determined by the management based on the past performance of Jiahao CGU, the management's knowledge and experience of the market and the actual situation, which are fair and reasonable.

In the first half of 2020, revenue of Jiahao was approximately RMB177 million, representing a significant decrease of approximately 52.9% as compared with the corresponding period last year. After the Pandemic began to come under control in the second half of the year, the catering industry began to recover and Jiahao's business rebounded accordingly. Jiahao's revenue in the second half of the year reached approximately RMB326 million, which was consistent as compared with the corresponding period last year.

In terms of product, Jiahao launched new products such as "Jingba Rattan Pepper Sauce", "Jingba Tasty Gravy" and "Jingba Sour and Chilli Sauce". Prior to launching a new product, the R&D and marketing team investigated and analysed the preferences of consumers so that the flavours of the products would be well received and favoured by the public. After launching a product, the Group would introduce application scenarios, suitability and differentiated advantages of the products to help improve the flavours of customers' dishes and promote their frequency of using and consuming the products.

In terms of distribution channels, Jiahao sells its products primarily through the distributor network. The distributors of Jiahao are located in nine sales regions across China, mainly in first-tier, second-tier and third-tier cities. With the improvement of brand recognition and product reputation, Jiahao's products begin to penetrate gradually into the fourth-tier and fifth-tier cities. In terms of online channels, Jiahao strengthens its online recognition by setting up flagship stores on Tmall.

In terms of marketing strategy, during the Reporting Period, the Group chose to conduct online promotional activities so as to avoid the risk of excessive gathering of crowds. The Group successively organised online theme events such as “Spicy Carnival” (辣鮮狂歡節) and “New Year Food Festival” (年菜節). The Group also shared cooking techniques of professional chefs and culinary solutions with customers on its WeChat official account, reinforcing Jiahao’s brand positioning as the “Chinese tastes expert”.

The Group’s management considers that condiment industry has a broad market prospect. Leading condiment companies enrich product categories and brand promotion through strong capital strength, while emerging brands are continuously growing strong through financing, and competition within the industry is becoming more intense. In order to enhance Jiahao’s competitiveness, the Group’s management and business team actively explore the feasibility of establishing a financing platform for Jiahao so that Jiahao can obtain capital for development and could enhance its competitive advantage and seize growth opportunities.

### **Review of R&D**

During the Reporting Period, the Group’s investment in R&D was approximately RMB265 million. R&D expenses accounted for approximately 6.9% of sales revenue, which remained the same as that for the corresponding period last year.

### **Human Resources and Corporate Culture Construction**

As at 31 December 2020, the Group employed 3,458 employees in mainland China, Hong Kong, Germany, Botswana, the U.S. and Korea. During the Reporting Period, the labour costs (including pension and mandatory provident fund, pension insurance, etc.) amounted to approximately RMB590 million.

After the outbreak of the Pandemic in early 2020, the Group promptly established a Pandemic prevention and control group, and formulated detailed guidelines and measures for Pandemic prevention and control. It also distributed Pandemic prevention materials to all employees at all levels and promoted Pandemic prevention knowledge to ensure the safety and health of employees. After the Pandemic had eased, the Group has strengthened the cleaning and disinfection of offices and dormitories to ensure a healthy and comfortable working environment for all employees. As the Pandemic reoccurs and lasts long, employees may suffer fatigue from fighting the Pandemic. The human resources department of the Group strived to relieve employees’ anxiety through various activities such as online meetings, training and reading sharing sessions to develop a positive attitude in employees towards work.



## **Outlook**

Entering 2021, some national and regional governments have begun to arrange vaccination for the public. However, the rollout of the vaccine varies in different countries and regions and its efficacy remains to be seen. Therefore, it remains uncertain when market demand and economic activities will return to normal, and the prospects for world economic recovery are subject to many uncertainties. Nevertheless, due to the successful prevention and control of the Pandemic by the Chinese government, Chinese enterprises have resumed work and production and economic activities have gradually returned to normal, creating a strong momentum for China's economic development.

In 2021, the Group will focus on four aspects – strategy, culture, digital management, globalisation layout – to comprehensively improve the management level, operational efficiency, business performance and sustainable development capability of the Group.

## **FINANCIAL REVIEW**

### **Analysis of annual results for the year ended 31 December 2020**

#### ***Revenue***

The Group's revenue amounted to RMB3,854,058,000 for the year ended 31 December 2020, of which revenue from flavours and fragrances reached RMB2,085,025,000, contributing approximately 54.1% of total revenue; revenue from tobacco raw materials reached RMB621,606,000, contributing approximately 16.1% of total revenue; revenue from aroma raw materials reached RMB638,696,000, contributing approximately 16.6% of total revenue; revenue from condiment reached RMB502,751,000, contributing approximately 13.0% of total revenue. For the current year, revenue was decreased by 9.1% as compared with RMB4,241,040,000 for the corresponding period last year. The decrease in revenue was mainly attributable to the outbreak of the 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 in the first half of 2020, as a result, the revenue of the condiment segment of the Group for the current year declined significantly by approximately 28.2% as compared with that of last year. Also, revenue of tobacco raw materials decreased by 17.6% year-on-year, which was mainly due to the decrease in market demand on reconstituted tobacco leaves and the decrease in revenue of flavour capsule resulted from intense market competition.

#### ***Cost of goods sold***

The Group's cost of goods sold amounted to RMB1,411,651,000 for the year ended 31 December 2020, representing a decrease of 5.6% as compared with RMB1,495,630,000 for the corresponding period last year.

### ***Gross profit and gross profit margin***

For the year ended 31 December 2020, gross profit of the Group amounted to RMB2,442,407,000, representing a decrease of 11.0% as compared with RMB2,745,410,000 for the corresponding period last year. The decrease in gross profit was mainly attributable to the decrease in revenue of condiment, tobacco raw materials and flavours and fragrances segments, and the decrease in gross profit margin. Gross profit margin for the current year was approximately 63.4%, representing a decrease of 1.3 percentage points from 64.7% of the corresponding period last year. It was mainly attributable to the changes in products' mix of the Group and the adjustments of selling price of products in response to the fierce competition in the market.

### ***Other income and other gains – net***

For the year ended 31 December 2020, other income and other gains (net) of the Group was RMB100,497,000, representing a decrease of RMB125,012,000 as compared with RMB225,509,000 for the corresponding period last year. The decrease in other income and other gains was mainly due to currency exchange loss of RMB85,028,000 was recorded in this year while currency exchange gain of RMB36,856,000 was recorded in last year. The currency exchange loss for the current year was mainly due to the Group's secured long-term loans (balance as at 31 December 2020: RMB1,692,855,000) were borrowed and settled by the Company in RMB, whereas the functional currency of the Company was HKD. The exchange rate of RMB against Hong Kong dollar rose significantly during the current year, thus currency exchange loss was recognized. If the currency exchange loss were excluded, other income and other gains (net) for the current year would be RMB185,525,000, representing a decrease of RMB3,128,000 as compared with RMB188,653,000 (after the currency exchange gain of RMB36,856,000 were excluded) for the last year.

### ***Selling and marketing expenses***

The selling and marketing expenses of the Group mainly comprised travelling expenses, transportation costs, advertising and promotion expenses, salaries and office expenses. For the year ended 31 December 2020, the selling and marketing expenses of the Group were RMB317,001,000, representing a decrease of 11.5% as compared with RMB358,305,000 for the last year. It was mainly attributable to the decrease in transportation, travelling, sales and marketing activities during the current year. Selling and marketing expenses of the current year accounted for approximately 8.2% of the total revenue, which was basically the same as approximately 8.4% for the last year.

### ***Administrative expenses***

For the year ended 31 December 2020, the Group's administrative expenses amounted to RMB820,221,000, representing a decrease of 5.4% as compared with RMB867,398,000 for the last year. It was mainly attributable to the decrease in travelling and professional expenses during the current year. Administrative expenses for the current year accounted for approximately 21.3% of total revenue, representing an increase of approximately 0.8 percentage point as compared with 20.5% for last year. The increase of such ratio was mainly attributable to large portion of administrative expenses was fixed costs, such as depreciation, amortization and staff remuneration, etc.

### ***Operating profit***

For the year ended 31 December 2020, operating profit of the Group was RMB902,792,000, representing a decrease of approximately 47.8% as compared with RMB1,728,811,000 of last year. The operating profit margin was approximately 23.4%, representing a decrease of approximately 17.4 percentage points as compared with approximately 40.8% for last year. It was mainly attributable to the recognition of goodwill impairment of Jiahao of RMB495,498,000, currency exchange loss of RMB85,028,000, and a decrease in revenue during the current year.

If the goodwill impairment of Jiahao were excluded, the operating profit for the current year would be RMB1,398,290,000, representing a decrease of 19.1% as compared with RMB1,728,811,000 of last year, and the operating profit margin would be decreased by 4.5 percentage points to approximately 36.3% for the current year. At the same time, if currency exchange loss of RMB85,028,000 and currency exchange gain of RMB36,856,000 were also excluded for the current year and last year respectively, the operating profit for the current year would be RMB1,483,318,000, representing a decrease of 12.3% as compared with RMB1,691,955,000 (after currency exchange gain were excluded) of last year, and the operating profit margin for the current year would be approximately 38.5%, decreased by 1.4 percentage points as compared with approximately 39.9% (after currency exchange gain were excluded) of last year, mainly attributable to the decrease in gross profit margin for the current year.

### ***Income tax expense***

For the year ended 31 December 2020, income tax expense of the Group was RMB280,382,000, representing a decrease of 24.6% as compared with RMB372,076,000 of last year. Income tax rate for the current year was approximately 29.6%. If the goodwill impairment of Jiahao were excluded, income tax rate would be approximately 19.4% for the current year, which was decreased by approximately 1.9 percentage points as compared with 21.3% for the last year, such decrease was mainly attributable to additional subsidiaries of the Group were awarded high-tech enterprises which enable them to be entitled to preferential tax rate during the current year, and the decrease in withholding income tax on dividends distribution by subsidiaries in mainland in the current year.

### ***Profit attributable to the equity holders of the Company***

For the year ended 31 December 2020, profit attributable to the equity holders of the Company was RMB418,399,000, representing a decrease of RMB693,605,000 or 62.4% as compared with RMB1,112,004,000 of last year. It was mainly due to Jiahao's goodwill impairment of RMB495,498,000, currency exchange loss of RMB85,028,000 and the decrease in revenue in the current year.

If the goodwill impairment of Jiahao were excluded, profit attributable to the equity holder of the Company for the current year would be RMB913,897,000, representing a decrease of 17.8% as compared with that of last year. At the same time, if currency exchange loss of RMB85,028,000 and currency exchange gain of RMB36,856,000 were also excluded for the current year and last year respectively, profit attributable to the equity holder of the Company for the current year would be RMB998,925,000, representing a decrease of 7.1% as compared with RMB1,075,148,000 (after currency exchange gain were excluded) of last year.

### ***Net current asset value and financial resources***

As at 31 December 2020, the net current asset value of the Group was RMB7,145,001,000 (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 31 December 2020, the Group's cash and bank balances amounted to RMB6,335,596,000 (31 December 2019: RMB5,722,074,000), over 80% of which was held in RMB. In addition, the Group held wealth management products of RMB540,492,000 (31 December 2019: RMB726,191,000) which was classified as financial assets at fair value through profit or loss.

### ***Bank borrowings and debt ratio***

As at 31 December 2020, the Group had bank borrowings of RMB2,708,230,000 (31 December 2019: RMB2,998,776,000), of which secured loan amounted to RMB1,692,855,000 (31 December 2019: RMB2,310,474,000) was due within three years, and the unsecured loans amounted to RMB1,015,375,000 (31 December 2019: RMB688,302,000) were due within one to two years. For the year ended 31 December 2020, the average annual interest rate of the secured loan was 5.7%, and the average annual interest rate of the unsecured loans was 2.6% (31 December 2019: 3.6%). As at 31 December 2020, the Group's gearing ratio (total debts, include current and non-current borrowings, divided by total equity (excludes non-controlling interests) was 22.8%, which was lower than the 25.4% as of 31 December 2019. It was mainly attributable to the repayment of approximately RMB618 million secured loan related to the acquisition of Jiahao during the current year.

### ***Investing activities***

The Group's investing activities included the purchase of property, plant and equipment, financial assets investment and merger & acquisition activities related to the strategical development strategies. For the year ended 31 December 2020, the net cash generated from investing activities amounted to RMB1,175,188,000, mainly generated from the withdrawal of short-term time deposits. For the year ended 31 December 2019, the net cash used in investing activities amounted to RMB1,072,514,000.

### ***Financing activities***

For the year ended 31 December 2020, the net cash used in financing activities amounted to RMB1,031,641,000, mainly comprised of cash dividends of approximately RMB450,951,000 paid to shareholders of the Company, cash dividends of RMB247,637,000 paid to non-controlling interests, repayment of bank loans of RMB796,368,000 and addition of bank loans of RMB556,679,000. For the year ended 31 December 2019, the net cash used in financing activities amounted to RMB2,671,539,000.

### ***Trade receivables turnover period***

Trade receivable turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and end of a relevant financial year divided by the total revenue for the corresponding period and multiplied by 360 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 year ended 31 December 2020, the Group's average trade receivables turnover period was 91 days, which basically remained the same as 88 days for the corresponding period last year.

### ***Trade payables turnover period***

Trade payable 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 year divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 December 2020, the Group's average trade payables turnover period was 73 days, which basically remained stable as compared with 77 days for the corresponding period last year.

### ***Inventory and inventory turnover period***

As at 31 December 2020, the Group's inventory balance amounted to RMB854,746,000, representing a decrease of RMB76,639,000 as compared with RMB931,385,000 as at 31 December 2019. For the year ended 31 December 2020, the inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and end of a relevant financial year divided by the total cost of goods sold for the corresponding period and multiplied by 360 days) was 228 days, increased by 8 days as compared with 220 days for the corresponding period last year. 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 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 HKD, USD and RMB. 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 a reasonable range of equilibrium.

### ***Pledge of assets***

As at 31 December 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 RMB1.69 billion.

### ***Capital Commitments***

As at 31 December 2020, the Group had capital commitments in respect of the purchase of property, plant, equipment, financial assets at fair value through other comprehensive income, etc., contracted for but not provided in the financial statements amounting to approximately RMB177,040,000 (31 December 2019: RMB265,106,000), which was mainly investment in domestic and overseas funds amounted to RMB101,326,000.

### ***Contingent liabilities***

Based on the information available to the Board, the Group had no material contingent liabilities as at 31 December 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 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”) since 9 April 2013. As the Board meets regularly to consider matters relating to business operations of the Group, the Board is of the view that the above arrangement will not impair the balance of power and authority of the Board and the executive management. The effectiveness of corporate planning and implementation of corporate strategies and decisions will generally not be affected.

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

### **Model Code for Securities Transactions by Directors of Listed Issuers**

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

## **FINAL DIVIDEND**

The Board proposes to declare a final dividend of HK9.0 cents per share (2019: HK10.0 cents) in cash amounting to approximately RMB235.4 million in aggregate (2019: approximately RMB285.9 million) for the year ended 31 December 2020, which is expected to be paid on or about 9 June 2021 to shareholders of the Company (“Shareholders”) whose names appear on the register of members of the Company on 26 May 2021. The payment of the final dividend is subject to Shareholders’ approval at the annual general meeting (“AGM”) which is scheduled to be held on 18 May 2021.

## **CLOSE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING**

In order to determine the entitlement of Shareholders to attend and vote at the AGM of the Company which is scheduled to be held on 18 May 2021, the register of members of the Company will be closed from 13 May 2021 to 18 May 2021, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 May 2021. Shareholders whose names are recorded in the register of members of the Company on 18 May 2021 are entitled to attend and vote at the AGM.

## **CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF FINAL DIVIDEND**

In order to determine Shareholders who qualify for the proposed final dividend, the register of members of the Company will be closed from 25 May 2021 to 26 May 2021, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 May 2021. Shareholders whose names are recorded in the register of members of the Company on 26 May 2021 are entitled to receive the final dividend in cash for the year ended 31 December 2020.

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

None of the directors and their respective close associates (as defined in the Listing Rules) is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## **AUDIT COMMITTEE**

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprises all of the INEDs of the Company, namely, Mr. LEE Luk Shiu, Ms. MA Yunyan, Mr. WU Chi Keung and Mr. Jonathan Jun YAN.

## **REVIEW OF FINAL RESULTS**

The Audit Committee of the Company has reviewed the Group's audited final results for the year ended 31 December 2020.

The figures in respect of consolidated statement of the financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and related notes of the announcement of the Group's results for the year ended 31 December 2020 have been agreed by the Group's auditor, PricewaterhouseCoopers, that they were consistent with the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements nor Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## **PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the website of HKEXnews ([www.hkexnews.hk](http://www.hkexnews.hk)) as well as the website of the Company ([www.huabao.com.hk](http://www.huabao.com.hk)). The Company's 2020 annual report will be dispatched to Shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong, 19 March 2021

*As at the date of this announcement, the Board comprises four executive directors, namely Ms. CHU Lam Yiu (Chairlady and CEO), Messrs. XIA Liquan, 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.*