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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 2021

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change in percentage
	2021	2020	
	RMB'000	*RMB'000*	
Revenue	**3,882,683**	3,854,058	+0.7%
Gross profit	**2,296,662**	2,442,407	-6.0%
Gross profit margin	***59.2%***	*63.4%*	
Operating profit	**1,114,477**	902,792	+23.4%
EBITDA margin ≠	***43.5%***	*43.4%*	
EBIT margin ≠≠	***28.7%***	*23.4%*	
Adjusted EBIT margin #	***36.3%***	*36.3%*	
Profit for the year	**895,784**	668,439	+34.0%
Adjusted profit for the year #	**1,189,054**	1,163,937	+2.2%
Profit attributable to the equity holders of the Company	**675,131**	418,399	+61.4%
Adjusted profit attributable to the equity holders of the Company #	**968,401**	913,897	+6.0%
Net cash generated from operating activities	**1,413,246**	1,455,231	
	RMB cents	*RMB cents*	
Basic and diluted earnings per share	**21.70**	13.46	+61.2%
Adjusted basic and diluted earnings per share #	**31.12**	29.41	+5.8%
Proposed/paid final dividend per share *(note 8)*	**HK 2.0 cents**	HK 9.0 cents	
Total dividend per share for the year *(note 8)*	**HK8.4 cents**	HK15.0 cents	
Dividend payout ratio for the year	**32.3%**	95.7%	

≠ *"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 RMB293,270,000 for the year ended 31 December 2021 and RMB495,498,000 for the year ended 31 December 2020.

* *For identification purpose only*

On 25 March 2022, 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 2021 together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**3,882,683**	3,854,058
Cost of goods sold	*4*	**(1,586,021)**	(1,411,651)
Gross profit		**2,296,662**	2,442,407
Other income and other gains - net	*5*	**248,519**	100,497
Selling and marketing expenses	*4*	**(292,244)**	(317,001)
Administrative expenses	*4*	**(841,663)**	(820,221)
Impairment of goodwill		**(293,270)**	(495,498)
Net impairment losses on financial assets		**(3,527)**	(7,392)
Operating profit		**1,114,477**	902,792
Finance income		**101,784**	159,915
Finance costs		**(81,468)**	(143,983)
Finance income – net		**20,316**	15,932
Share of results of associates and jointly controlled entities		**12,584**	30,097
Profit before income tax		**1,147,377**	948,821
Income tax expense	*6*	**(251,593)**	(280,382)
Profit for the year		**895,784**	668,439
Attributable to:			
Equity holders of the Company		**675,131**	418,399
Non-controlling interests		**220,653**	250,040
		895,784	668,439
Earnings per share for profit attributable to the Company's equity holders for the year		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**21.70**	13.46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Profit for the year	**895,784**	668,439
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Fair value changes of equity investments at fair value through other comprehensive income, net of tax	**(53,428)**	(17,990)
Currency translation differences of the Company and its non-foreign operations	**8,039**	64,370
Items that may be reclassified to profit or loss		
Currency translation differences of foreign operations	**7,320**	(2,491)
Other comprehensive (loss)/ income for the year, net of tax	**(38,069)**	43,889
Total comprehensive income for the year, net of tax	**857,715**	712,328
Total comprehensive income attributable to:		
Equity holders of the Company	**638,306**	461,856
Non-controlling interests	**219,409**	250,472
	857,715	712,328

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,642,566**	1,388,257
Right-of-use assets		**251,963**	240,902
Intangible assets		**5,847,307**	6,226,362
Investments in associates		**806,407**	374,761
Investment in jointly controlled entities		**202,831**	7,410
Financial assets at fair value through other comprehensive income		**17,870**	55,072
Financial assets at fair value through profit or loss		**215,679**	112,614
Deferred income tax assets		**167,542**	160,447
Other non-current assets		**133**	581
		9,152,298	8,566,406
Current assets			
Inventories		**897,226**	854,746
Trade and other receivables	*9*	**1,081,046**	1,351,750
Financial assets at fair value through other comprehensive income		**48,785**	–
Financial assets at fair value through profit or loss		**3,292,365**	569,556
Short-term time deposits		**–**	1,413,840
Cash and cash equivalents excluding short-term time deposits		**3,553,409**	4,921,756
		8,872,831	9,111,648
Total assets		**18,025,129**	17,678,054

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	318,636
Reserves		**4,387,519**	2,633,732
Retained earnings		**9,168,518**	8,918,688
		13,884,656	11,871,056
Non-controlling interests		**1,834,163**	1,823,193
Total equity		**15,718,819**	13,694,249
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**–**	1,806,477
Lease liabilities		**22,176**	39,345
Deferred income tax liabilities		**149,450**	170,536
Trade and other payables	*11*	**800**	800
		172,426	2,017,158
Current liabilities			
Borrowings	*10*	**962,774**	901,753
Lease liabilities		**18,751**	24,526
Trade and other payables	*11*	**748,245**	648,744
Current income tax liabilities		**237,169**	208,923
Contract liabilities		**166,945**	182,701
		2,133,884	1,966,647
Total liabilities		**2,306,310**	3,983,805
Total equity and liabilities		**18,025,129**	17,678,054

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**1,664,774**	1,823,600
Income tax paid	**(251,528)**	(368,369)
Net cash generated from operating activities	**1,413,246**	1,455,231
Cash flows from investing activities		
Acquisition of a subsidiary	**–**	(154)
Proceeds from disposal of subsidiaries	**–**	80
Acquisition of equity interest in associates	**(445,696)**	–
Refund of termination of the additional capital injection into an associate	**–**	14,560
Proceeds from disposal of an associate	**12,640**	11,582
Acquisition of equity interest in jointly controlled entities	**(200,500)**	–
Proceeds from disposal of a jointly controlled entity	**8,480**	–
Proceeds from disposal of financial assets at fair value through other comprehensive income	**114,793**	–
Purchases of financial assets at fair value through profit or loss	**(8,578,731)**	(1,490,500)
Proceeds from disposal of financial assets at fair value through profit or loss	**5,860,227**	1,725,897
Purchases of right-of-use assets for land use rights	**(27,155)**	(6,313)
Purchases of property, plant and equipment and intangible assets	**(412,572)**	(170,396)
Proceeds from disposal of property, plant and equipment	**20,246**	11,159
Short-term time deposits placed	**–**	(1,713,840)
Short-term time deposits released	**1,413,840**	2,634,294
Dividend received	**8,254**	13,882
Interest received	**130,939**	144,937
Net cash (used in)/generated from investing activities	**(2,095,235)**	1,175,188

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Cash flows from financing activities		
Proceeds from issuance of new shares	**1,763,888**	–
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)
Final dividends for the year ended 31 December 2020 paid to shareholders	**(229,479)**	–
Interim dividends for the six months ended 30 June 2021 paid to shareholders	**(165,226)**	–
Dividends paid to non-controlling interests	**(206,075)**	(247,637)
(Payments for)/proceeds from changes in ownership interest in subsidiaries without change of control	**(2,000)**	75,290
Capital injections from non-controlling interests	**–**	3,085
New bank borrowings raised	**1,557,156**	556,679
Repayment of bank borrowings	**(3,284,355)**	(796,368)
Principal elements of lease payments	**(22,578)**	(24,360)
Interest elements of lease payments	**(2,151)**	(3,450)
Interest paid related to bank borrowings and others	**(81,904)**	(143,929)
Net cash used in financing activities	**(672,724)**	(1,031,641)
Net (decrease)/increase in cash and cash equivalents	**(1,354,713)**	1,598,778
Cash and cash equivalents at the beginning of the year	**4,921,756**	3,387,780
Effects of currency translation on cash and cash equivalents	**(25,618)**	(64,802)
Cash and cash equivalents at the end of the year	**3,541,425**	4,921,756

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 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 2020, 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 2021:

- Interest Rate Benchmark Reform – Phase 2 — Amendments to HKFRS 4, HKFRS 7, HKFRS 9, HKFRS 16 and HKAS 39

The Group also elected to early adopt the Covid-19-Related Rent Concessions beyond 30 June 2021.

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 Covid-19-Related Rent Concessions set out above, certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. 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 2021 is presented below:

	Year ended 31 December 2021					
	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	**1,941,375**	**586,072**	**720,649**	**676,481**	**22**	**3,924,599**
Inter-segment revenue	**(14,626)**	**(20,667)**	**(6,623)**	**–**	**–**	**(41,916)**
Segment revenue – net	**1,926,749**	**565,405**	**714,026**	**676,481**	**22**	**3,882,683**
Segment result	**1,104,081**	**(80,091)**	**59,096**	**136,864**	**(105,473)**	**1,114,477**
Finance income						**101,784**
Finance costs						**(81,468)**
Finance income – net						**20,316**
Share of results of associates and jointly controlled entities						**12,584**
Profit before income tax						**1,147,377**
Income tax expense						**(251,593)**
Profit for the year						**895,784**
Depreciation	**40,583**	**84,652**	**33,401**	**11,836**	**6,357**	**176,829**
Amortisation	**1,828**	**8,994**	**15,444**	**73,919**	**139**	**100,324**

	As at 31 December 2021					
	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	**8,389,135**	**2,314,894**	**1,344,664**	**4,586,505**	**1,389,931**	**18,025,129**

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

	Year ended 31 December 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	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	2,085,025	621,606	638,696	502,751	5,980	3,854,058
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						30,097
Profit before income tax						948,821
Income tax expense						(280,382)
Profit for the year						668,439
Depreciation	44,719	84,011	24,888	9,885	6,812	170,315
Amortisation	1,643	9,967	18,095	73,696	232	103,633

	As at 31 December 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	8,346,729	2,762,317	1,082,892	4,800,859	685,257	17,678,054

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 jointly controlled entities. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

4. 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:

		Year ended 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Depreciation		**162,052**	152,972
Amortisation		**98,266**	99,067
Provision for impairment of inventories		**1,220**	2,551
Changes in inventories of finished goods and work in progress		**(149,570)**	254,009
Raw materials and consumables used		**1,343,231**	837,474
Covid-19-related rent concessions		**–**	(908)
Short-term lease rentals		**19,691**	14,530
Auditor's remuneration			
– Audit services		**9,565**	8,777
– Non-audit services		**2,876**	–
Consulting service fee		**15,577**	14,260
Travelling expenses		**30,876**	33,692
Employee benefit expenses		**557,962**	479,931
Share based compensation arising from share option scheme		**–**	98
Research and development expenses	*(a)*	**250,788**	265,041
Delivery expenses		**36,120**	34,290
Utilities expenses		**71,636**	58,664
Motor vehicle expenses		**7,931**	8,280
Maintenance expenses		**20,695**	17,978
Advertising and promotion expenses		**45,463**	79,094
Office administrative and communication expenses		**9,760**	9,287
Other surcharges		**47,562**	53,325
Others		**138,227**	126,461
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,719,928**	2,548,873

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Depreciation	**14,777**	17,343
Amortisation	**2,058**	4,566
Employee benefit expenses	**124,374**	109,936

5. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Change in fair value of financial assets at FVPL	**104,568**	13,805
Dividend income from financial assets at FVPL and FVOCI	**889**	2,021
Gain/(losses) on disposal of financial asset at FVPL	**5,246**	(2,359)
Gain/(losses) on disposal of an associate	**16,720**	(2,750)
Gain on disposal of a jointly controlled entity	**1,876**	–
Losses on disposal of subsidiaries	**–**	(2,033)
Gain/(losses) on disposal of property, plant and equipment	**5,726**	(6,900)
Government grants	**146,542**	190,544
Foreign exchange losses - net	**(27,510)**	(85,028)
Donations	**(3,979)**	(9,160)
Others	**(1,559)**	2,357
	248,519	100,497

6. INCOME TAX EXPENSE

		Year ended 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Current income tax			
– Hong Kong profits tax	*(a)*	**6,833**	10,757
– PRC corporate income tax	*(b)*	**271,822**	328,976
– Germany company income tax	*(c)*	**116**	126
– Botswana company income tax	*(d)*	**1,003**	915
Deferred income tax		**(28,181)**	(60,392)
		251,593	280,382

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2020:16.5%) on the estimated assessable profit for the year.

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

(c) Germany company income tax has been provided at the rate of 15.0% (2020:15.0%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15.0% (2020:15.0%) on the estimated assessable profit for the year.

(e) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the year ended 31 December 2021 and 2020.

7. EARNINGS PER SHARE

(a) 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 ended 31 December 2021 and 2020.

	Year ended 31 December	
	2021	2020
Profit attributable to equity holders of the Company *(RMB'000)*	**675,131**	418,399
Weighted average number of ordinary shares in issue *('000)*	**3,111,851**	3,107,837
Basic earnings per share for profit attributable to the Company's equity holders *(RMB cents per share)*	**21.70**	13.46

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2021 and 2020 was the same as basic earnings per share, since the company did not have any potential ordinary share outstanding that has dilution effect.

8. DIVIDENDS

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Paid special dividend for the six months ended 30 June 2020 of HK6.0 cents	**–**	165,064
Paid interim dividend of HK6.4 cents per share for the six months ended 30 June 2021	**165,226**	–
	165,226	165,064
Proposed/paid final dividend of HK2.0 cents (2020: HK9.0 cents) per share	**52,816**	229,479
	218,042	394,543

On 25 March 2022, the Board proposed a final dividend of HK2.0 cents per share, totalling approximately RMB52,816,000 for the year ended 31 December 2021. The proposed dividend in respect of the year ended 31 December 2021 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.

9. TRADE AND OTHER RECEIVABLES

		As at 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Trade receivables	*(a)*	**863,357**	1,020,767
Less: provision for impairment of trade receivables		**(13,237)**	(11,167)
Trade receivables - net		**850,120**	1,009,600
Notes receivable		**27,493**	80,105
Prepayments and other receivables		**204,893**	244,428
Advances to staff		**9,865**	4,409
Others		**18,240**	48,062
Less: provision for impairment of other receivables		**(29,565)**	(34,854)
		1,081,046	1,351,750

Except for prepayments of RMB51,480,000 (31 December 2020: RMB70,727,000), trade and other receivables balances are financial assets categorised as those to be measured at amortised cost. All trade and other receivables are either recoverable within one year or on demand.

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 December 2021 and 2020, 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:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
0 – 90 days	**756,502**	883,425
91 – 180 days	**75,511**	93,287
181 – 360 days	**15,097**	22,568
Over 360 days	**16,247**	21,487
	863,357	1,020,767

10. BORROWINGS

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**–**	1,692,855
– Unsecured bank borrowings	*(b)*	**–**	227,243
Less: current portion		**–**	(113,621)
		–	1,806,477
Current			
Current portion of non-current liabilities			
– Unsecured bank borrowings	*(b)*	**–**	113,621
Short-term bank borrowings			
– Unsecured bank borrowings	*(b)*	**962,774**	788,132
		962,774	901,753
Total borrowings		**962,774**	2,708,230

(a) As at 31 December 2021, the Group's secured bank borrowings were fully repaid (31 December 2020: RMB1,692,855,000). During the year, the average interest rate of the loan was 5.7% (2020: 5.7%) per annum.

(b) The unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 2.9% (2020: 2.6%) per annum.

Borrowings are financial liabilities categorised under "financial liabilities measured at amortised cost".

Interest expense on bank borrowings for the year ended 31 December 2021 amounted to approximately RMB78,871,000 (2020: RMB140,080,000). No interest expense was capitalised during the year ended 31 December 2021 and 2020.

11. TRADE AND OTHER PAYABLES

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Trade payables	*(a)*	**302,330**	268,020
Wages payable		**112,220**	96,145
Other taxes payable		**134,206**	102,179
Accruals for expenses		**9,985**	12,003
Other payable		**190,304**	171,197
		749,045	649,544

Except for other taxes payable of RMB134,206,000 (31 December 2020: RMB102,179,000) and wages payable of RMB112,220,000 (31 December 2020: RMB96,145,000), trade and other payables balances are financial liabilities categorised under "financial liabilities measured at amortised cost".

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

	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current	**800**	800
Current	**748,245**	648,744
	749,045	649,544

(a) As at 31 December 2021 and 2020, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	As at 31 December 2021 RMB'000	2020 RMB'000
0 – 90 days	**271,535**	235,750
91 – 180 days	**15,326**	16,348
181 – 360 days	**3,589**	5,421
Over 360 days	**11,880**	10,501
	302,330	268,020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Overview of the tobacco industry

During the Reporting Period, the State Tobacco Monopoly Administration ("STMA") developed the 14th Five-Year Plan for the Tobacco Industry and related special plans, and established the direction and target for high-quality development of the industry. While cigarette brands and specifications were streamlined and refined, key brands continued to develop and market prices remained stable. According to the data from National Bureau of Statistics, the cigarette production volume in China reached 48.3648 million cases in 2021, representing an increase of 1.3% year-on-year. The tobacco industry has paid a total of RMB1,244.2 billion to the treasury department, representing an increase of 3.36% year-on-year.

During the Reporting Period, significant progress has been made in the supervision of e-cigarettes. In particular, the STMA has formulated the National Standards for Electronic Cigarettes (Draft for Comment), which sets the standards and regulations for smoking paraphernalia, atomization and emissions of e-cigarettes. The Administrative Measures for Electronic Cigarettes (Draft) subsequently issued entry threshold for regulating product marketing process and import and export management in each section of the e-cigarette industry chain. Such regulations have been introduced to define the scope of supervision over e-cigarettes, which not only protect the health and legal rights and interests of consumers more effectively, but also are able to change the chaos in the e-cigarette industry, so as to enable the industry to develop in a regulated and orderly manner in the future. In terms of Heat-Not-Burn ("HNB") cigarettes, since the harm reduction effect is recognized by foreign regulators, international tobacco companies have changed their development strategies and invested more funds in the research and development ("R&D") and improvement of HNB cigarettes, in order to increase the proportion of related products in future sales. In China, consumers have a deeper understanding of HNB products through offline experience stores. Meanwhile, investors are increasingly interested in the HNB cigarette industry chain with increasing investment opportunities.

Overview of the food and beverage industry and daily-use chemical industry

Although the Pandemic repeatedly broke out in 2021 due to variation, the PRC government has maintained normal operation of various production and economic activities by adopting elaborated anti-epidemic measures. According to the National Bureau of Statistics, the economy in China grew by 8.1% year-on-year and consumer demand rebounded, together with an increase in the demand for food and beverages. During the Reporting Period, the gross output of the agricultural product processing industry with enterprises of designated size or above grew by 7.7% year-on-year, while that of the food processing industry grew by 8.0% year-on-year. The output value of the alcohol, beverage and refined tea processing industry grew by 10.6% year-on-year.

During the Reporting Period, the development of the food and beverage industry was characterized by healthy products, segmented consumption scenarios, diversified flavours and popularity of plant-based products. Consumers require food and beverage products to have fewer additives and retain more nutrition, and expect to be able to consume such products in different scenarios such as work, leisure and sports, as well as to diversify their tastes. Plant-based foods and beverages are starting to appear more frequently in various supermarkets, restaurants and online stores, and consumers' interest and acceptance of "plant-based" products have gradually increased. The food and beverage industry is developing toward a trend that reflects consumers' pursuit of health, deliciousness and sustainability. Flavour and fragrance manufacturers are required to improve their capabilities in the supply chain, R&D and seasoning according to consumers' needs, so as to provide consumers with natural, healthy and cost-effective products and solutions.

In the daily-use chemical industry, various fragrance products that are able to give a better and pleasant mood are popular among consumers due to their increasing demand for room comfort. Due to the booming pet market, deodorant and cleaning products for pets have become a bright spot in the daily-use chemical industry. In addition, as Chinese consumers attach more importance to oral health, oral care products are sold through online stores and live-broadcasting platforms, many domestic and foreign brands have engaged in the competition for oral care fragrances.

Overview of the condiment industry

According to the National Bureau of Statistics, the revenue of the catering industry in the first half of 2021 was RMB2,171.2 billion, representing a year-on-year increase of 48.6%, while the revenue in the second half of the year was RMB2,518.3 billion, representing a year-on-year increase of 1%. The revenue of the catering industry in the second half of the year grew much more slowly as compared with the same period last year, mainly because the recovery of the catering industry was disrupted by the repeated occurrence of the Pandemic. The total revenue of the catering industry in 2021 amounted to RMB4,689.5 billion, representing a year-on-year increase of 18.6%, which was roughly flat as compared with that of RMB4,670.0 billion in 2019.

Benefiting from the recovery of catering demand in the downstream market, the business environment for condiment enterprises was improved, and the market demand for condiment products rebounded. Nonetheless, as the prices of commodities and raw materials rose due to global inflation, the production cost of condiment enterprises increased as a result, and their profit margin did not increase with the rebound in demand. In order to mitigate the cost pressure, some condiment enterprises announced price increases. However, for those smaller businesses with weaker brand and product power, increasing price resulted in the loss of distributors and customers, while those condiment enterprises with strong comprehensive competitiveness would have stronger pricing power and occupy more market shares.

Although the Pandemic had a negative impact on the catering industry, the demand and habits of consumers for dining out remained unchanged. The catering industry will continue to develop towards a standardized, chain and diversified trend with a bright future, and will continue to be the industry that has the highest demand for condiments, bringing development opportunities for condiment enterprises.

RESULTS

For the year ended 31 December 2021 ("the Reporting Period"), the Group achieved a revenue of approximately RMB3,883 million (2020: approximately RMB3,854 million), representing a year-on-year increase of 0.7%; the gross profit margin was approximately 59.2% (2020: 63.4%), representing a year-on-year decrease of 4.2 percentage points; operating profit reached approximately RMB1,114 million (2020: approximately RMB903 million), representing a year-on-year increase of 23.4%; operating profit margin was approximately 28.7% (2020: 23.4%), representing a year-on-year increase of 5.3 percentage points. The profit attributable to the equity holders of the Company amounted to approximately RMB675 million (2020: approximately RMB418 million), representing a year-on-year increase of 61.4%, while the basic earnings per share was approximately RMB21.70 cents (2020: approximately RMB13.46 cents), representing a year-on-year increase of approximately 61.2%.

During the Reporting Period, based on the applicable accounting principles on a prudent basis, the management recognised an impairment of goodwill of RMB293,270,000 for the cash-generating unit ("CGU") of the reconstituted tobacco leaves ("RTL") as of 31 December 2021. For details of the goodwill impairment of RTL CGU, please refer to the section "Analysis of RTL CGU's goodwill impairment". The Board considers that the valuation methodology and key assumptions used in the impairment tests on goodwill of RTL CGU have been consistently adopted by the Company, and are fair and reasonable. 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 RTL CGU, and in conjunction with the management's knowledge and experience of the market and the actual situation, which are fair and reasonable.

Excluding the goodwill impairment of approximately RMB293 million of RTL CGU in the current year and the goodwill impairment of approximately 495 million of the CGU of Guangdong Jiahao Foodstuff Limited in 2020, the Group's operating profit would be approximately RMB1,408 million (2020: approximately RMB1,398 million), representing a year-on-year increase of 0.7%; operating profit margin would be approximately 36.3% (2020: approximately 36.3%), which remains the same as compared to last year. The profit attributable to the equity holders of the Company would be approximately RMB968 million (2020: approximately RMB914 million), representing a year-on-year increase of 6.0%, while the basic earnings per share would be approximately RMB31.12 cents (2020: approximately RMB29.41 cents), representing a year-on-year increase of 5.8%.

BUSINESS REVIEW

During the Reporting Period, through the joint efforts of all colleagues, the Group has achieved relatively good development and achievements in various business segments such as flavors, tobacco raw materials, aroma raw materials and condiments. At the same time, the group practiced the corporate mission of "green, nutritious and healthy", and actively carried out investment layout in the industrial chain of related industries. On the one hand, through investment and cooperation with related enterprises in the industrial chain such as Hunan Jiapin Jiawei Technology Development Group Co., Ltd., Shanghai Yifang Agricultural Technology Co., Ltd., and Yunnan Nongken Plateau Food Co., Ltd., the group has initially completed the layout in fruit ingredients and functional solutions in natural animal and plant extracts, jams, fruit pieces, and popping peads, which effectively complemented and created synergies with the Group's core business, and created the Group's capabilities to provide food customers with natural ingredients, flavors, nutrition and functions, and integrated solution capabilities. On the other hand, the Group focused on the innovative tobacco field, invested in the establishment of Shenzhen Collaborative Innovation Research Institute dedicated to mastering core technologies with independent intellectual property rights, and formed a joint venture with outstanding supply chain companies in this field by investing in shares and jointly establishing joint ventures, aiming to strengthening the Group's layout in the innovative tobacco field and enhance its customer service capabilities.

Review of flavours and fragrances business

During the Reporting Period, revenue of the flavours and fragrances business of the Group amounted to approximately RMB1,927 million (2020: approximately RMB2,085 million), representing a year-on-year decrease of 7.6%, and accounting for approximately 49.6% (2020: 54.1%) of the Group's total revenue. Operating profit of the business segment amounted to approximately RMB1,104 million (2020: approximately RMB1,259 million), representing a year-on-year decrease of 12.3%; and EBIT margin recorded approximately 57.3% (2020: 60.4%), representing a year-on-year decrease of approximately 3.1 percentage points. The decrease in the revenue and EBIT margin from the business segment was mainly due to the changes of the demand of downstream market and the adjustment in product mix.

(1) **Flavours**

In terms of tobacco flavours, the Group has maintained a stable cooperative relationship with customers and customized products for customers according to the characteristics of their products to improve the aroma and taste of the products. Since HNB cigarettes have been increasingly concerned by the market and consumers, the Group has optimized the flavouring and production process according to the characteristics of HNB cigarette cartridge, and developed and tested tobacco flavours suitable for HNB products. Based on the test results, the Group has re-analyzed the HNB tobacco flavour and improved the raw materials and formulations, so as to enhance the performance of the product in practical applications.

In order to better develop the food flavours business, the Group has established a laboratory in Tianjin, focusing on the R&D of savoury flavours that are popular with northerners, and has developed new customers. The Group has vigorously developed meat products and savoury flavours used in wet and spicy snack foods, greatly increasing the sales. In terms of sweet flavours, the microcapsule paste flavours pioneered by the Group are highly competitive in the market due to their outstanding temperature resistance and serialization of flavours, which are recognized by customers. According to the characteristics of plant-based meat, the Group has introduced a temperature-resistant product that can remove the bean smell, enabling the plant-based meat products to maintain the taste of real meat, which is popular with and recognized by customers.

As the strategic point of the Group's global industry chain layout, Huabao Asia Pacific in Singapore had completed the construction and team establishment of the R&D centre, and it had officially started operation. In the future, Huabao Asia Pacific will play an important role in establishing a global technology and innovation platform, introducing international advanced technology and talents, exporting high-quality products overseas, and the overseas layout of the industrial chain. During the Reporting Period, Huabao Asia Pacific had established business relationships with food manufacturers in many Southeast Asian countries, which laid the foundation for future exposure to overseas markets.

(2) **Fragrances**

During the Reporting Period, Xiamen Amber Daily Chemical Technology Co., LtD. vigorously developed hotel customers and provided them with fragrance products that could improve the hotel environment according to their needs. Taking the advantage of the R&D and product competitiveness in respect of incenses, the Group has successfully entered into cooperation agreements with some chain hotels. The "Lemon", "Lavender" and "Red Pomegranate" flavours introduced by the Group have been well recognized by customers. In addition, the Group has cooperated with overseas fragrance companies to jointly develop new fragrance products, covering various sectors such as fabric washing and personal care, so as to enhance the Group's R&D capabilities.

(3) **Investment progress of the proceeds raised by the flavours and fragrances segment**

In April 2021, the Group adjusted the use of the funds raised from the initial public offering of Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours") in 2018 and the implementation plans for the investment projects in order to better respond to the industry changes and the Company's development. The Group will continue the construction of "Huabao Yingtan Flavours and Ingredients Production Base Project" ("Huabao Yingtan Project"), cease the "Lhasa Pure Land Healthy Food Project" and transform the "Huabao H&K Food Flavours and Food Technology Development Project" into the "Huabao Technology Innovation Centre and Supporting Facilities Project" ("Huabao TechInno Project"), as well as launch the new "Huabao Digital Transformation Project"("Huabao Digital Project").

As at 31 December 2021, the cumulative amount dedicated for the Huabao Yingtan Project was approximately RMB158 million (31 December 2020: approximately RMB101 million), representing an investment progress of approximately 15.29% (31 December 2020: 9.75%); the cumulative amount dedicated for the Huabao TechInno Project was approximately RMB1.68 million (31 December 2020: not applicable), representing an investment progress of 0.37%(31 December 2020: not applicable); the cumulative amount dedicated for the Huabao Digital Project was RMB3.53 million (31 December 2020: not applicable), representing an investment progress of 5.89% (31 December 2020: not applicable). As of 31 December 2021, the balance of unused IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,685 million (31 December 2020: approximately RMB1,682 million). As of 31 December 2021, the IPO Proceeds utilized amounted to approximately RMB832 million (31 December 2020: approximately RMB770 million), accounting for approximately 36.0% of the total proceeds from the initial public offering in 2018 of RMB2,310 million.

Phase I of the Huabao Yingtan Project has been completed, and the construction of phase II is in progress. The Huabao TechInno Project is in the process of planning and designing and going through the approval procedures for change of land status, filing and environmental impact assessment with competent government authorities, and the expected time to be in production of the project has been changed from 31 December 2022 to 31 December 2025. A number of software modules are needed to be developed for the Huabao Digital Project and the time horizon is long so the expected time of the project to be in production has been changed from 31 December 2023 to 31 December 2024.

Review of the tobacco raw materials business

During the Reporting Period, revenue of the Group's tobacco raw materials business was approximately RMB565 million (2020: approximately RMB622 million), representing a year-on-year decrease of 9.0%, and accounting for approximately 14.6% (2020: 16.1%) of the Group's total revenue. The operating loss of the segment amounted to approximately RMB80.09 million (2020: operating profit approximately RMB250 million), representing a year-on-year decrease of approximately 132.1%. Excluding the goodwill impairment of the RTL CGU, the operating profit would be approximately RMB213 million, representing a year-on-year decrease of approximately 14.6%. The decrease in revenue of the segment was mainly attributable to the traditional RTL oversupply and the decline in the sales price of cigarette capsules. Operating loss was mainly due to the goodwill impairment of RTL CGU.

(1) **RTL**

During the Reporting Period, the traditional RTL supply exceeded the demand and the clients' procurement demand decreased, which led to the drop in the demand for traditional RTL and resulted in a decline in the production and sales of traditional RTL. Due to the high fixed cost of RTL production, the decrease in production has caused the fixed cost not effectively diluted, resulting in a decrease in the gross profit margin of RTL.

Under the unfavourable business environment of the traditional RTL business, the Group focused on the development of the HNB RTL business. In the domestic market, the Group has completed the construction of production lines for manufacturing of HNB RTL with three techniques, namely drying technique, slurry technique and granules technique, which are able to meet the customers' demand for various products. The Group has achieved the mass production of HNB RTL to meet customers' demand. In the overseas market, the Group has completed the construction of a factory in Indonesia, which will mainly produce HNB RTL, and has signed cooperation agreements with international customers. The factory is the first foreign factory of the Group to produce HNB RTL, with the designed annual production capacity of 1,000 tonnes. After the factory is fully put into operation, the Group's annual production capacity of HNB RTL will increase to approximately 2,600 tonnes. The factory is currently in trial operation and is expected to be officially put into production in the first quarter of 2022. After the commencement of official production, the factory will provide high-quality HNB RTL to international customers. The Group will gradually expand production capacity based on business development to meet market demand. In addition, the modified papermaking RTL production line can also produce RTL products suitable for HNB cigarettes. Through ongoing investment in the R&D, global deployment and the in-depth cooperation with international customers, the Group has consolidated its technical advantages in the supply chain of HNB tobaccos, so that it will be able to seize the opportunities for the development of HNB cigarettes globally in future.

(2) **Tobacco new materials**

In terms of cigarette capsules, with the advancement and popularity of capsule making technology, more and more players have tapped into the capsule market, leading to fierce competition and oversupply in the industry. The lower selling price of capsule products resulted in a decrease in revenue. The Group has shifted its technologies and production capacity for manufacturing of cigarette capsules to food capsules, and sold capsule products to food and beverage customers in order to increase its revenue. For cigarette filters, Hunan Jishou Minzu Materials Co., Ltd (Hunan Jishou) has developed the binary compound-structured cooling cigarette filter, smooth cellulose acetate cigarette filter for filling and other cigarette filters that are used in HNB cigarettes. These filter products have been supplied to some customers for testing. According to customers' feedback, Hunan Jishou has improved and upgraded the filters used for HNB tobaccos to enhance the performance and competitiveness of the products.

An analysis of goodwill impairment of RTL

As at the end of the Reporting Period, the Company engaged a valuer to conduct an impairment test on goodwill of RTL CGU as at 31 December 2021. According to the test results, an impairment of goodwill of approximately RMB293 million was recognized for the RTL CGU.

Background of the goodwill impairment of RTL CGU

In November 2010, the Group acquired 100% equity interest in Guangdong Jinye Group, which is principally engaged in the R&D, production and sales of RTL in the PRC, from independent third parties at a consideration of approximately RMB1.147 billion. Guangdong Jinye Group has become the RTL CGU of the Group since then. Guangdong Jinye Group is one of the few designated production bases authorized by the State Tobacco Monopoly Administration specializing in the manufacturing of RTL and is also one of the largest RTL manufacturers in the PRC. The completion of acquisition marked that the Group had strategically entered the sector of RTL suitable for traditional tobaccos ("traditional RTL") with broad development prospects.

Changes had taken place in the traditional RTL industry after 10 years of development. On the demand side, the market demand for traditional RTL continued to decline. Firstly, the STMA has continuously promoted the de-stocking of tobacco leaves for the past few years, by increasing the use of natural tobacco leaves and reducing the use of traditional RTL, an additive, in the production of cigarettes, which resulted in a shrinking market size of traditional RTL. Secondly, since innovations in the tobacco industry are emerging endlessly, slim, short and medium cigarettes are well received by consumers, which are smaller in size as compared to those in traditional size, resulting in less usage of traditional RTL. In addition, with the increasing voices for tobacco control and smoking ban in the society, the sales of cigarettes have only maintained a stable level in recent years. In the absence of growth momentum in sales of cigarettes, the demand for traditional RTL has not increased.

Although the demand for traditional RTL declined, the production capacity of the traditional RTL industry remained high under such business environment. On the supply side, the annual production capacity of the traditional RTL was approximately 180,000 tonnes, which far exceeds the annual demand of the traditional RTL industry, resulting in an oversupply in the industry.

Reasons for the recognition of goodwill impairment of RTL CGU

Based on the audited accounts of the Group for the year ended 31 December 2021, the revenue of the Group's RTL CGU decreased by approximately 20% to approximately RMB351 million from approximately RMB438 million for the corresponding period last year. When the Group negotiated with customers for the upcoming year's traditional RTL business at the end of 2021, it was aware that the customers' future purchase intention was lower than the Group's expectation. The impact of the oversupply in the traditional RTL industry has gradually emerged over the past few years. Based on the results of the Group's discussion with customers at the end of 2021, the management of the Group re-evaluated the supply and demand situation of the traditional RTL industry and considered that the oversupply in the traditional RTL would remain for a longer period of time, while based on the principle of prudence and conservatism, a conservative forecast on the future sales of the traditional RTL was made with the expectation that the RTL CGU would incur an impairment loss on goodwill.

Goodwill Impairment Test

In accordance with HKAS 36, the Company performed a goodwill impairment test on RTL CGU on 31 December 2021 (the valuation benchmark date), and conducted a value analysis to determine the recoverable amount of RTL CGU. According to the standard, the recoverable amount of the CGU is determined on the higher of the fair value less the costs of disposal ("FVLCOD") and value in use ("VIU"). In the goodwill impairment test carried out by the valuer, FVLCOD and VIU of RTL CGU was assessed by using market approach and income approach respectively. According to the result of the test, VIU was higher than that FVLCOD and therefore VIU was adopted to be the recoverable amount of RTL CGU, which was RMB293,270,000 lower than the carrying amount of RTL CGU. As a result, goodwill impairment loss of RMB293,270,000 was recognised in the consolidated income statement of the Group for the year ended 31 December 2021.

The methodology, key assumptions and basis used in calculating the VIU of RTL CGU

The Company has engaged the valuer to carry out an impairment test on goodwill of RTL CGU as at 31 December 2021. The valuer used the income approach to access the VIU in the goodwill impairment test, which was consistent with the valuation methodology used in the impairment test of RTL CGU for end of the last year. It was based on a five-year net cash-flow projection of RTL CGU and cash flows beyond the five-year period were calculated using the terminal growth rate, and the present value of such net cash-flows were calculated using an appropriate discount rate.

The key assumptions and basis used in calculating RTL CGU's VIU were as follows:

1. Forecast growth rate – as determined by the management based on past performance, the latest external economy and business environment, combined with their projections of market development;

2. Terminal growth rate – long-term average growth rate of RTL CGU as estimated by the management;

3. Budgeted gross profit margin – as determined by the management based on the past performance and the expected development of the market;

4. Pre-tax discount rate – the discount rate for impairment test, with reference to the actual situation of RTL CGU, the market condition of the same industry and its specific risk premium, calculated with the applicable cost of equity capital and cost of debt capital to come up with weighted average cost of capital ("WACC") based on the company's capital structure.

Changes in key assumptions

Comparing certain key assumptions used in determining the VIU of RTL CGU as at 31 December 2021 against those used in assessing the VIU of RTL CGU as at 31 December 2020, major changes are as follows:

Key assumptions	**VIU assessment as at 31 December**	
	2021	**2020**
Forecast five-year sales growth rate	3.9% to 20.6%	3.0% to 5.8%

Reasons for change

The sales of the RTL CGU of the Group for the year ended 31 December 2021 dropped approximately 20% from approximately RMB438 million to approximately RMB351 million for the corresponding period last year, which was mainly due to the significant decline in sales of traditional RTL of about 27.2% as compared with the corresponding period last year. When the Group discussed with customers for the upcoming year's traditional RTL business at the end of 2021, it was aware that the customers' future purchase intention was lower than the Group's expectation. Therefore, the management of the Group re-evaluated the supply and demand situation of the traditional RTL industry and considered that the oversupply situation in the traditional RTL industry would remain for a relatively longer period of time. As a result, the management downward adjusted the forecast sales for the period between 2022 to 2025 by 11.5% to 22.7% from the forecast for the same period made at the end of 2020. Due to a reduced base amount for 2021, the corresponding forecast sales growth was adjusted to 3.9% to 20.6%.

Key assumptions	VIU assessment as at 31 December	
	2021	**2020**
Budgeted gross profit margin	49.1% to 54.3%	54.5% to 58.6%

Reasons for change

Due to the reduced forecast sales of traditional RTL and the gross profit margin of which was higher than the gross profit margin of other products in the same CGU, the composite gross profit margin of the CGU declined since the sales of traditional RTL with relatively higher gross profit margin accounted for a lower proportion in the CGU. Therefore, the management downward adjusted the budgeted gross profit margin for the forecast period between 2022 to 2025 by approximately 5.0 to 5.7 percentage points, from 54.5% to 58.6% of the forecast made at the end of 2020 to 49.1% to 54.3% of the forecast made at the end of 2021.

Key assumptions	VIU assessment as at 31 December	
	2021	**2020**
Pre-tax discount rate	Pre-tax discount rate of 16.5% (approximately equivalent to post-tax discount rate of 14.5%)	Pre-tax discount rate of 15.3% (approximately equivalent to post-tax discount rate of 13.4%)

Reasons for change

The Valuer determined the post-tax discount rate based on WACC. Considering the increased risk resulted from the oversupply situation of the traditional RTL industry would remain for a relatively longer period of time, RTL's risk premium was increased by 1%. The equity risk premium also increased during the period. After considering these factors and the combined effect of other factors, the post-tax discount rate was calculated as 14.5%, which was increased by 1.1 percentage points as compared with the post-tax discount rate of 13.4% adopted at the end of 2020. With reference to the post-tax discount rate, the Valuer calculated the corresponding pre-tax discount rate according to pre-tax cash flows through an iterative process.

RTL Business Prospects

Although the Group recognized an impairment of goodwill on Guangdong Jinye CGU, it also proactively took measures to find new growth points. In the past few years, HNB tobacco has attracted the attention and received the popularity of consumers around the world due to its much less harmful effect. The tobacco leaves used in HNB tobaccos are tailor-made HNB reconstituted tobacco leaves ("HNB RTL"), which can release the aroma of tobacco leaves without burning them, thus reducing the harmful ingredients in smoke and satisfying consumers' demand for taste and health. According to the forecast of a professional market research company, the global market share of HNB tobaccos will continue to increase in the future, and may probably replace traditional tobaccos. As the Group has noted the development trend and changes in the RTL industry, it has put more efforts in the R&D of HNB RTL, built factories overseas and successfully explored international customers. The Group believes that, leveraging on its experience, technologies and talents, the Group is well positioned to develop the HNB RTL business and improve the performance of the RTL business.

Review of the aroma raw materials business

During the Reporting Period, the Group's aroma raw materials business recorded a revenue of approximately RMB714 million (2020: approximately RMB639 million), representing a year-on-year increase of approximately 11.8%, and accounting for approximately 18.4% (2020: 16.6%) of the Group's total revenue. Operating profit of the business segment reached approximately RMB59.096 million (2020: approximately RMB47.909 million), representing a year-on-year increase of approximately 23.4%; and EBIT margin was approximately 8.3% (2020: 7.5%), representing a year-on-year increase of approximately 0.8 percentage point. The increase in revenue and profit of the business segment was mainly due to higher sales volume of the products resulting from the rising demand of downstream market and the release of production capacity.

In 2021, the recovery of domestic and foreign customer demand released the production capacity of the Group's aroma raw materials, and the production volume of the products increased compared with the same period last year. Due to the increase in production volume and the dilution of fixed costs, the profit and profit margin of the segment recorded a year-on-year increase.

As stated in the 2018 and 2019 annual reports of the Company, the Group completed the acquisition of Jiangxi Xianghai Biological Technology Co., Ltd. ("Jiangxi Xianghai") in September 2017, and improved the production technology and process to reduce production cost and enhance the price competitiveness of products. During the Reporting Period, the plant construction and equipment installation of Jiangxi Xianghai were fully completed. With the designed annual production capacity of 8,500 tonnes, the Group's annual production capacity will be significantly increased to approximately 10,000 tonnes per annum after the completion of plant construction and equipment installation.. As a new production base for aroma raw materials segment, Jiangxi Xianghai will become one of the main production bases of the Group in the future.

Government authorities and regulators impose strict safety requirements on enterprises in the chemical industry. Jiangxi Xianghai has established an intelligent production center to improve production safety and efficiency, organized employees to study the New Production Safety Law in depth to increase their awareness of production safety, and formed a "Voluntary Fire Team" to enhance the ability to respond to safety incidents. By taking these measures, Jiangxi Xianghai has established a sound safety system, which has ensured the safety of employees and strengthened the company's capability of sustainable production, thus laying a solid foundation for future business development.

Review of the condiment business

During the Reporting Period, the revenue of the Group's condiment business was approximately RMB676 million (2020: approximately RMB503 million), representing a year-on-year increase of 34.6%, and accounting for approximately 17.4% (2020: 13.0%) of the Group's total revenue. The increase in revenue from the business segment was mainly due to the rising demand as the catering industry recovered. During the Reporting Period, the operating profit was approximately RMB137 million, as compared to the operating loss of approximately RMB432 million for the same period last year, which was mainly attributable to the goodwill impairment of approximately RMB495 million in 2020, and there was no such expense during the Reporting Period. Excluding the impact of goodwill impairment, the operating profit of the condiment segment in 2020 would be approximately RMB63.008 million, the operating profit of the condiment segment during the Reporting Period would increase by approximately 117.2% year-on-year.

In 2021, the effective anti-pandemic measures taken by the government and people in China have greatly eased the Pandemic as compared with 2020. As the catering industry in the form of gathering consumption saw a recovery in 2021, the demand for condiments picked up. By taking the opportunity arising from the recovery of the catering industry, the Group has improved its revenue and profit through the targeted product mix, management of sales channels and marketing strategies.

In terms of product structure, the Group has two product types: umami-enhancing and flavour-enhancing products. For umami-enhancing products, the Group has launched chicken sauce, chicken powder and chicken essence products with various flavours based on different taste preferences in different regions around the country, so that the dishes of customers can meet the local consumers' requirements for umami. Regarding flavour-enhancing products, since salty, fragrant, hot and spicy flavours are very popular across the country currently, the Group has intensified the R&D and analysis on these flavours, and introduced mustard, juice, gravy and sauce which have been well received by customers. Through product segmentation, the Group has consolidated its strength in the area of umami making and improved its competitiveness in the condiment sector.

In terms of sales channels, due to repeated outbreak of the Pandemic, the catering industry was facing more uncertainties, and catering companies had to suspend operation due to the spread of the Pandemic. In order to reduce this risk and better manage the inventory level, distributors purchased goods in a more conservative manner. The Group understood the situation of distributors and proactively developed industrial customers and specialized take-away customers to expand its sales channels. As of 31 December 2021, the Group's condiments business had sales channels covering all provinces, autonomous regions and municipalities in the country except for Taiwan province. The flagship store of the Group on Tmall mainly sells products to some cooks and individuals following the theme activities of the platform.

As to marketing strategy, the Group has planned a series of activities based on the two popular cuisines, i.e. Sichuan and Hunan dishes, prevailing in the market to introduce to customers how to enhance the flavour of dishes by using the Group's products. The Group has cooperated with outstanding emerging brands in the fields of Hunan and Sichuan cuisines to create dishes that can be quickly replicated, so as to help customers improve their operating efficiency and reduce their operating cost. The food solutions provided by the Group have not only been recognized by customers, but also won the praise of consumers.

The Group is confident of the future development of the catering market and condiment market in China in the long run. With the increasingly fierce competition in the condiment industry, the Group will consistently review the Group's overall business development condition and the capital market's sentiment, and adopt flexible strategies to further the development of Jiahao, and make preparations for establishing diverse capital platforms for the business.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB251 million (2020: approximately RMB265 million). R&D expenses accounted for approximately 6.5% (2020: 6.9%) of revenue, representing a decrease of approximately 0.4 percentage point as compared to that for the corresponding period last year. 100% of the R&D expenses were expensed, with no R&D cost capitalised (2020: Nil).

Human Resources and Corporate Culture Construction

As at 31 December 2021, the Group employed a total of 3,583 (2020: 3,458) employees in mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

In 2021, the Group has taken specific measures to improve its human resources policies and corporate culture construction, to reserve talents for the Company's business development and enhance the motivation of employees at all levels.

Digital Transformation

Facing the challenges and opportunities of the digital economy era, as well as the needs of the rapid development of the industrial chain , the Group signed strategic cooperation agreements with SAP, Siemens, etc. With the help of the world's leading cutting-edge technology, management ideas and successful experience, the Group aims to build an innovative digital management platform for consumer goods industry clusters that take flavor and fragrance as the core, laying a digital foundation for the effective implementation of the group's concentric diversified development strategy focusing on "green, nutrition, and health".

In 2021, the Group completed the overall plan for digital transformation and built an operation platform centered on SAP ERP digitalization to meet the integration of the Group's strategic management and control business and finance. Based on different management models, operation platforms adopt different financial management models to timely monitor and manage risks so that they could provide an international, systematic and standardized digital platform for the business operations of various business segments. Through the construction of the digital operation platform, the Group has initially achieved the integration of financial resources and the visualization of financial data. In addition, the Group has comprehensively sorted out and reshaped its internal R&D management system. Through the standardized management of R&D data, the group achieved in-depth mining of technical assets; through closed-loop process driving, the Group achieved multi-disciplinary and cross-regional collaborative R&D; in the future, through the connection with ERP and other systems, the Group will connect research, supply, production and sales in the industry chain and effectively enhance the Group's operational efficiency. At the same time, the Group has also established a team of digital management talents to prepare a talent pool for future digital projects.

Digital transformation is one of the core engines of the Group's strategic development, and the construction of the first phase of the plan had been successfully completed in 2021. The Group will continue to deepen the digital construction work, and continuously improve the Group's management and control and empowerment capabilities, supply chain operations and external collaborative innovation capabilities. Internally, the Group will focus on the reconstruction of the R&D system, realize the effective connection between the R&D system and various business sectors, and deeply empower efficient production and intelligent manufacturing; Externally, the Group will establish a data center, connect suppliers, customers and consumers, and jointly create a digital ecological platform for a delicious life.

OUTLOOK

Entering 2022, the intensification of geopolitical conflicts will lead to rise in commodity prices and inflation, the operating costs of enterprises will further rise, consumers' spending power, consumer confidence and willingness to consume will decline, and the risks and uncertainties of global economic recovery will increase. In China, due to the recurring of the Pandemic, the pace of normalization of economic activities has been interrupted again, business production and consumer demand have also been negatively affected to a certain extent, and the pressure on economic recovery has also increased. Overall, the pressure on the global and Chinese economies in 2022 should not be underestimated.

Under such macroeconomic situation, the Group will actively adopt various strategies to cope with the challenges brought about by changes in the external environment, and at the same time continue to optimize strategies to stabilize the Group's development.

The Group embraces the vision of "flavour your life" and undertakes the mission of "green, healthy, and nutritious", and continue to implement the concentric and diversified strategy in the taste-based consumption market. In terms of business, the Group will focus on the development of the products and services related to innovative tobacco products, and further the Group's development in those non-tobacco related business segment such as foods, beverages, fragrances, aroma, and condiments by the combination of organic growth and merger and acquisitions. In terms of market layout, the Group steadily further its domestic business and also proactively improve its business in Asia, Africa, and other countries and regions to serve international clients better and faster. In terms of management, the Group will further its digital management, establish digital management platform, connect internal and external resources, realize the effective exchange of resources of online and offline resources so that the Group could boost its management and operation efficiency to further improve the Group's business.

For flavours and fragrances business, the Group will enhance the ability to screen aroma raw materials and flavouring technology according to the characteristics of tobacco products, to launch competitive products and stabilize the customer base. For HNB tobacco flavours that are concerned by the market, the Group will strengthen the communication with customers and develop products that meet their needs, and for testing by customers. Through unremitting efforts, the Group's revenue of food flavours and daily-use chemical fragrances have gradually increased for the past few years with a good development momentum. The Group will enhance its capacity in savoury flavours for meat products and wet and spicy products and focus on the research on temperature resistance technology of sweet flavours. For daily-use chemical fragrances, the Group will focus on expanding the markets in North China and East China, and meanwhile put more efforts on the exploration of e-commerce and live broadcasting customers.

For tobacco raw materials business, the Group mainly will focus on the application field of innovative tobacco. In terms of products, on the one hand, the Group will continue to deepen and strengthen its achievements in the layout of HNB cigarette products, continue to invest in R&D around pod materials , filter rods, smoking sets to strengthen customer cooperation; With the implementation of relevant policies on electronic atomization products in China, the Group will also extend its layout in this field, and accelerate its development through its own expansion and parallel cooperation with related enterprises. In terms of market layout, the Group will continue to steadily promote the development of domestic business, and at the same time, more actively and rapidly promote the layout in other overseas countries and regions, and increase overseas investment. At present, the RTL factory constructed by the Group in Indonesia has been put into production. With this factory as the base, the Group will increase its efforts to develop and serve international customers, and enhance the brand awareness and sales volume of its products overseas. In addition, the Group will further expand the construction of overseas production bases, increase the production capacity of RTL, build the production capacity of other related products in the innovative tobacco field, and build an international service team to provide overall solutions for international customers.

For aroma raw materials, the Group will enhance the awareness and capability of all subsidiaries in the segment in respect of production safety, to ensure safe operation in the segment. With the increasingly fierce competition in the industry, the Group will improve its brand power and maintain the bargaining power of its products while ensuring the product quality. The production base of Jiangxi Xianghai has been fully completed. Leveraging on the modern facilities and production lines of the production base, the Group will improve the production efficiency and quality of its products.

For condiments business, it is expected that the repeated outbreak of the Pandemic may be normalized, which will lead to higher demand of catering customers for pre-made dishes and related condiments. As a condiment supplier, the Group will provide catering customers with products that can immediately enhance umami and flavour according to their needs, so as to improve the efficiency of customers in making dishes. Meanwhile, the Group will consider selling products to retail customers to observe the needs of end consumers more closely, and improve its products and marketing strategies based on the feedback.

USE OF THE PROCEEDS FROM SHARE PLACEMENT

On 20 December 2021, the Group completed the "top-up" share placement to place 122,090,000 shares at the placing price of HK$17.88 per share, raising net proceeds of approximately HK$2.16 billion. The proceeds raised are mainly used as follows: (1) approximately HK$1,522 million for repayment of bank loans ("Bank Loans Repayment"); (2) approximately HK$300 million for acquisition of or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise ("Acquisition and/or Investments"); and (3) approximately HK$338 million for general working capital requirements and expansion of existing businesses ("General Working Capital").

As at 31 December 2021, the Group has utilised approximately HK$1,274 million of the proceeds mainly for Bank Loans Repayment, representing approximately 59% of the net proceeds, and the unutilised proceeds amounted to approximately HK$886 million. As at 31 December 2021, all of the unutilised proceeds were deposited in licensed banks in Hong Kong.

Intended use of the proceeds

In HK$ million

Intended use of proceeds	Net proceeds	Actual use of proceeds	Unutilised proceeds as of 31 December 2021
Bank Loans Repayment	1,522	1,265	257
Acquisition and/or Investments	300	–	300
General Working Capital	338	9	329
Total	2,160	1,274	886

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 December 2021

Revenue

The Group's revenue amounted to RMB3,882,683,000 for the year ended 31 December 2021, representing a slight increase of 0.7% as compared with RMB3,854,058,000 for the corresponding period last year. The increase in the revenue was mainly due to the successful prevention and control of the Pandemic in China after the outbreak of the Pandemic in the early 2020, the catering industry began to recover since the second half of 2020. As a result, revenue of condiment segment in the current year reached RMB676,481,000, representing an increase of 34.6% as compared with the corresponding period last year. Meanwhile, due to the macroeconomic recovery and the rebound in demand from downstream customers, revenue of aroma raw materials reached RMB714,026,000, representing an increase of 11.8% as compared with the corresponding period last year. However, due to the changes in demand from downstream customers, revenue of flavours and fragrance segment declined by 7.6% year-on-year to RMB1,926,749,000. Also, due to the oversupply in the traditional RTL industry and intense competition in the cigarette capsule industry that resulted in a declining sales volume and price of capsule, revenue of tobacco raw materials declined by 9.0% year-on-year to RMB565,405,000. As a result, the increase in revenue was offset largely.

Cost of goods sold

The Group's cost of goods sold amounted to RMB1,586,021,000 for the year ended 31 December 2021, representing an increase of 12.4% as compared with RMB1,411,651,000 for the corresponding period last year.

Gross profit and gross profit margin

For the year ended 31 December 2021, gross profit of the group amounted to RMB2,296,662,000, representing a decrease of approximately 6.0% as compared with RMB2,442,407,000 for the corresponding period last year. The decrease in gross profit was mainly attributable to the decrease in gross profit margin of the current year. The Group's gross profit margin for the current year was approximately 59.2%, representing a decrease of approximately 4.2 percentage points as compared with 63.4% for the same 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 2021, other income and other gains (net) of the Group was RMB248,519,000, representing an increase of RMB148,022,000 as compared with RMB100,497,000 for the corresponding period last year. The increase in other income and other gains was mainly due to the fair values gain on financial assets at fair value through profit or loss reached approximately RMB104,568,000 in the current year, representing an increase of RMB90,763,000 as compared with RMB13,805,000 of the corresponding period last year. The increase of the fair values gain on financial assets at fair value through profit or loss was mainly due to increase in investment of wealth management products and the related fair values gain and increase in fair values of fund investments in the current year. Also, the currency exchange loss of this year decreased by RMB57,518,000 year-on-year. It was mainly due to the Group's secured long-term loan was fully repaid during the current year (balance as at 31 December 2020: RMB1,692,855,000). Such loan was 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 during the current year and last year, thus currency exchange loss was incurred. However, as the remaining balance of such loan was reduced in the current year, the currency exchange loss generated was reduced accordingly.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, advertising and promotion expenses, salaries and office expenses, etc. For the year ended 31 December 2021, the selling and marketing expenses of the Group was RMB292,244,000, representing a decrease of 7.8% as compared with RMB317,001,000 for the corresponding period last year. Selling and marketing expenses for the current year accounted for approximately 7.5% of the total revenue, representing a decrease of 0.7 percentage point as compared with approximately 8.2% for last year. The decrease in such ratio and the decrease in the selling and marketing expenses were mainly attributable to the Group's proactive control of expenses and the delivery expenses of goods being accounted for in the cost of goods sold.

Administrative expenses

For the year ended 31 December 2021, the Group's administrative expenses amounted to RMB841,663,000, representing an increase of 2.6% as compared with RMB820,221,000 for the corresponding period last year. It was mainly attributable to the increase in employee benefit expenses during the current year. Administrative expenses for the current year accounted for approximately 21.7% of the total revenue, which was basically the same as approximately 21.3% for the year ended 31 December 2020.

Operating profit

For the year ended 31 December 2021, the Group's operating profit was RMB1,114,477,000, representing an increase of approximately 23.4% as compared with RMB902,792,000 for the year ended 31 December 2020. It was mainly because Jiahao's goodwill impairment of RMB495,498,000 was recognised in the same period last year, whereas RTL's goodwill impairment of RMB293,270,000 was recognized in the current year. The operating profit margin was approximately 28.7%, representing an increase of 5.3 percentage points as compared with approximately 23.4% for last year.

If the goodwill impairment of the current year and last year were both excluded, the operating profit for the current year would increase by 0.7% as compared with the corresponding period last year; the operating profit margin for the current year would be approximately 36.3% and similar with that for the corresponding period last year, which was mainly due to an increase in other income and other gains (net) for the current year as compared with the same period last year, but it was largely offset by the decrease in gross profit.

Income tax expenses

For the year ended 31 December 2021, income tax expenses of the Group was RMB251,593,000, representing a decrease of 10.3% as compared with RMB280,382,000 for the corresponding period last year. Income tax rate of the current year was approximately 21.9%. If the goodwill impairment loss of the current year and last year were both excluded, income tax rate of the current year would be approximately 17.5%, representing a decrease of approximately 1.9 percentage points as compared with approximately 19.4% for the last year, which was mainly attributable to 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 2021, the profit attributable to the equity holders of the Company was RMB675,131,000, representing an increase of RMB256,732,000 as compared with RMB418,399,000 of the same period last year, or an increase by 61.4%. It was mainly due to the goodwill impairment of the current year was decreased by RMB202,228,000 as compared with the same period last year. If the goodwill impairment of the current year and last year were both excluded, profit attributable to the equity holders of the Company for the current year would increase by approximately 6.0% as compared with the same period last year.

Net current asset value and financial resources

As at 31 December 2021, the net current asset value of the Group was RMB6,738,947,000 (31 December 2020: RMB7,145,001,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 December 2021, the Group's cash and bank balances amounted to RMB3,553,409,000 (31 December 2020: RMB6,335,596,000). In addition, the Group's investment in bank wealth management products that remain outstanding as at 31 December 2021 amounted to RMB3,256,499,000 (31 December 2020: RMB540,492,000) was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 31 December 2021, the Group had bank borrowings of RMB962,774,000 (31 December 2020: RMB2,708,230,000), all of which were unsecured loans and due within one year. The Group had secured loan of RMB1,692,855,000 as at 31 December 2020 which had been fully repaid during the year ended 31 December 2021. For the current year, the average annual interest rate of the secured loan was 5.7% (year ended 31 December 2020: 5.7%), and the average annual interest rate of the unsecured loans were 2.9% (year ended 31 December 2020: 2.6%). As at 31 December 2021, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 6.9%, which was decreased significantly by 15.9 percentage points from 22.8% as of 31 December 2020. It was mainly resulted from repayment of approximately RMB1,693 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 2021, the net cash used in investing activities amounted to RMB2,095,235,000, mainly used in the purchase of wealth management products. For the year ended 31 December 2020, the net cash generated from investing activities amounted to RMB1,175,188,000.

Financing activities

For the year ended 31 December 2021, the net cash used in financing activities amounted to RMB672,724,000, mainly comprised of proceeds from shares placement of approximately RMB1,763,888,000, payment of cash dividends of approximately RMB394,705,000 paid to shareholders of the Company and cash dividends of RMB206,075,000 paid to non-controlling interests, repayment of bank loans of RMB3,284,355,000 and addition of bank loans of RMB1,557,156,000. For the year ended 31 December 2020, the net cash used in financing activities amounted to RMB1,031,641,000.

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 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 2021, the Group's average trade receivables turnover period was 87 days, which basically remained the same as 91 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 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 December 2021, the Group's average trade payables turnover period was 65 days, representing a decrease of 8 days as compared with 73 days of the corresponding period last year.

Inventory and inventory turnover period

As at 31 December 2021, the Group's inventory balance amounted to RMB897,226,000, representing an increase of RMB42,480,000 as compared with the balance of RMB854,746,000 as at 31 December 2020. For the year ended 31 December 2021, 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 360 days) was 199 days, decreased by 29 days as compared with 228 days of the corresponding period last year. The decrease of such ratio was mainly due to the effective management of inventory.

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, etc.. 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

During the year ended 31 December 2021, the Group's equity interest in Guangdong Jiahao Foodstuff Co., Ltd. and its land and buildings in Zhongshan China used as collateral for the secured bank loan had been released. Meanwhile, the secured bank loan was fully repaid by the Group as at 30 June 2021 and the related pledged equity interest in Jiahao Foodstuff Limited was formally released in July 2021. Apart from the above-mentioned, the Group had no pledged assets as at 31 December 2021.

Capital Commitments

As at 31 December 2021, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, investments in a jointly controlled entity and financial assets at fair value through profit or loss, contracted for but not provided in the financial statements amounted to approximately RMB251,181,000 (31 December 2020: RMB177,040,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 31 December 2021.

SIGNIFICANT EVENTS OR TRANSACTIONS

Proposed Spin-Off and Listing of Condiments Business on the Main Board of The Stock Exchange of Hong Kong Limited

Reference is made to the Company's announcement dated 17 November 2021 in relation to the proposed spin-off and listing of condiments business on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 17 November 2021, the Board announced that it was considering the feasibility of a proposed spin-off (the "Proposed Spin-off") of the condiments business on the Stock Exchange. The condiments business is principally engaged in the production, sales, marketing and distribution of condiment products targeted at customers in the foodservice industry. Its products include chicken bouillon (liquid cooking stock), wasabi paste, concentrated fruit juice (used in cooking applications) and functional soy sauce.

The Proposed Spin-off will constitute a spin-off under Practice Note 15 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and a proposal in relation to the Proposed Spin-off has been submitted by the Company to the Stock Exchange for its consideration and approval pursuant to Practice Note 15 of the Listing Rules. The Company will make further announcement(s) in relation to the Proposed Spin-off in accordance with the requirements of the Listing Rules as and when appropriate.

Top-Up Placing of Existing Shares and Subscription of New Shares under General Mandate

References are made to the Company's announcement dated 8 December 2021 and 20 December 2021 respectively in relation to, among other things, the top-up placing of existing shares and subscription of new shares under general mandate (the "Top-up Placing and Subscription"). On 8 December 2021, the Company, the vendor (being a company wholly-owned by Ms. CHU Lam Yiu) and the placing agents entered into the placing and subscription agreement (the "Placing and Subscription Agreement"), pursuant to which (i) the vendor (being a substantial shareholder of the Company beneficially interested in 542,122,243 Shares, which represent approximately 17.44% of the then existing issued share capital of the Company) has agreed to place, through the placing agents, on a several and not joint nor joint and several and best-effort basis, an aggregate of 122,090,000 top-up placing shares, at the top-up placing price of HK$17.88 per top-up placing share; and (ii) the vendor has agreed to subscribe for 122,090,000 top-up subscription shares at the top-up subscription price of HK$17.88 per top-up subscription share which is equivalent to the Top-up Placing Price. On 8 December 2021, being the date of the signing of the Placing and Subscription Agreement, the market price per each share was HK$20.30. The Top-up Placing Shares represented 122,090,000 ordinary shares of the Company at an aggregate nominal value of HK$12,209,000. The top-up placing shares were placed to not less than six placees, who were professional, institutional or other investors or person(s) or entity(ies) procured by or on behalf of the placing agents or their agents. The placees (and their respective ultimate beneficial owners) were third parties independent of the Company and its connected persons and no individual placee would become a substantial shareholder of the Company upon the completion of the Top-up Placing and Subscription.

The Directors were of the view that the Top-up Placing and Subscription would benefit the Group's long term development by providing a good opportunity to raise additional funds to strengthen the financial position and to broaden the Company's shareholder base and capital base to facilitate the future growth and development of its business as well as to increase the liquidity of the shares.

The completion of the Top-up Placing and Subscription took place on 13 December 2021 and 20 December 2021 respectively and the Company received net proceeds (i.e. after deducting the commission payable to the placing agents, professional fees and other related costs and expenses in relation to the Top-up Placing and Subscription) from the top-up subscription of approximately HK$2.16 billion and the number of issued shares of the Company was increased to 3,229,926,876. The net price for each top-up placing share was HK$17.67. The Company intended to use the net proceeds from the top-up subscription for (1) repayment of bank loans; (2) acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise; and (3) general working capital requirements and expansion of existing businesses.

EVENTS AFTER THE REPORTING PERIOD

Change in Use of the Unutilised Net Proceeds

Reference is made to the Company's announcement dated 31 January 2022 in relation to the change in use of the unutilised net proceeds of approximately HK$886 million. Having considered, among others, the likely completion of the bond purchase by the Federal Reserve of the U.S. in March 2022, the expectation of the three times in the interest rate hikes in 2022 and the recent development of the Group, the Board considers to adopt a more prudent approach regarding the cash resources management to maintain the financial stability of the Group by early repayment of part of its bank borrowings. As such, the Board resolved to reallocate the remaining unutilised net proceeds from Acquisition and/or Investments and General Working Capital to Bank Loans Repayment in manner as set out in the table below. The Board is also of the view that the reallocation would allow the Group to utilise its financial resources in a more flexible, beneficial and effective way and to meet its operational needs and provide more buffer to cope with the economic uncertainties in the future. For details, please refer to the Company's announcement dated 31 January 2022.

Revised use of the unutilised proceeds

In HK$ million

Intended use of proceeds	Intended use of unutilised proceeds	Reallocation of unutilised proceeds for intended use	Revised use of unutilised proceeds
Bank Loans Repayment	257	358	615
Acquisition and/or Investments	300	(158)	142
General Working Capital	329	(200)	129
Total	886	–	886

Investigation Against Directors

During late January 2022, the Company has been informed by the Huabao Flavours & Fragrances Co., Ltd ("Huabao Flavours"), a non-wholly owned subsidiary of the Company, that Ms. CHU Lam Yiu ("Ms. Chu"), the chairlady, chief executive officer, executive director and controlling shareholder of the Company, and Mr. LAM Ka Yu ("Mr. Lam") the son of Ms. Chu, the Co-chairman and executive director of the Company, and a director of Huabao Flavours, are under investigation for suspected disciplinary violations and are placed under residential surveillance at designated locations (指定居所監視居住). For details, please refer to the Company's announcements dated 24 January 2022, 26 January 2022 and 27 January 2022 respectively.

Up to the date of this announcement, the Company has not been provided with any details of the nature of the suspected violations of Ms. Chu and Mr. Lam that were being investigated. The business operation of the Group remains normal. Further announcement(s) will be made to keep the shareholders of the Company and the public informed of the development in this matter in due course.

Acquisition of Part of the Equity Interests in Shanghai Yifang by Huabao Flavours

Reference is made to the Company's announcement dated 8 March 2022 in relation to acquisition of part of the equity interests in Shanghai Yifang Rural Technology Holdings Co., Ltd. ("Shanghai Yifang") by Huabao Flavours.

On 9 August 2021, Huabao Flavours acquired 40% equity interests in Shanghai Yifang from independent third parties for a total consideration of RMB180 million in cash (the "Previous Transaction"). Shanghai Yifang was established in the PRC on 7 January 1999 and is primarily engaged in the promotion and consulting services of agricultural technology, cultivation of fruits and vegetables; research and development of food additives; food production, etc.

Huabao Flavours on 8 March 2022 further acquired 27% equity interests in Shanghai Yifang from independent third parties for a total consideration of RMB121.5 million in cash (the "Acquisition"). After the completion of the acquisition, Huabao Flavours' shareholding in Shanghai Yifang would reach 67% and Shanghai Yifang would become a controlling subsidiary of Huabao Flavours and the accounts of Shanghai Yifang would be included in the scope of Huabao Flavours' consolidated statements and as such Shanghai Yifang will indirectly be included in the scope of the Company's consolidated financial statements.

The Acquisition also included a performance undertaking provided by the vendors in favour of Huabao Flavours, the capital increase and the put option. Please refer to the Company's announcement dated 8 March 2022 for further details.

As one or more than one of the applicable percentage ratios for the transaction, when aggregated with the Previous Transaction, the capital increase and the put option as a whole, is more than 5% and below 25%, the transaction, when aggregated with the Previous Transaction, the capital increase and the put option as a whole, constitute a discloseable transaction of the Company, and is therefore subject to the notification and announcement requirements but exempt from the shareholders' approval requirement pursuant to Chapter 14 of the Listing Rules. For details, please refer to the Company's announcement dated 8 March 2022.

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") 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 HK2.0 cents per share (2020: HK9.0 cents) in cash amounting to approximately RMB52.8 million in aggregate (2020: approximately RMB229.5 million) for the year ended 31 December 2021.

FURTHER ANNOUNCEMENT ON THE DATE OF ANNUAL GENERAL MEETING AND THE CLOSURE OF REGISTER OF MEMBERS

The Board will determine the date of the Company's forthcoming annual general meeting ("AGM") and the closure of register of members and publish relevant notice as soon as possible.

The Company will dispatch a circular containing, among others, further information in relation to the proposed distribution of final dividend and the AGM to the shareholders of the Company in due course.

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

During the year ended 31 December 2021, 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 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 2021.

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 2021 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) as well as the website of the Company (www.huabao.com.hk). The Company's 2021 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
POON Chiu Kwok
Executive director

Hong Kong, 25 March 2022

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu, Messrs. LAM Ka Yu, XIA Liqun, POON Chiu Kwok, Ms. LAM Ka Yan, and Ms. CHOY Man Har, and three independent non-executive directors, namely Mr. LEE Luk Shiu, Ms. MA Yunyan and Mr. Jonathan Jun YAN.

* *For identification purposes only*