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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June		Change in percentage
	2022	2021	
	RMB'000	*RMB'000*	
Revenue	**1,847,152**	1,763,675	**+4.7%**
Gross profit	**967,029**	1,053,981	**-8.2%**
Gross profit margin	***52.4%***	*59.8%*	
Operating (loss)/profit	**(141,776)**	733,573	**-119.3%**
EBITDA margin≠	***34.2%***	*49.4%*	
EBIT margin≠≠	***-7.7%***	*41.6%*	
Adjusted *EBIT margin*#	**25.6%**	*41.6%*	
(Loss)/profit for the period	**(233,031)**	581,465	**-140.1%**
Adjusted profit for the period#	**381,300**	581,465	**-34.4%**
(Loss)/profit attributable to the equity holders of the Company	**(313,531)**	481,129	**-165.2%**
Adjusted profit attributable to the equity holders of the Company#	**300,800**	481,129	**-37.5%**
Net cash generated from operating activities	**111,799**	485,403	**–77.0%**
	RMB cents	*RMB cents*	
Basic and diluted (loss)/earnings per share	**(9.71)**	15.48	**-162.7%**
Adjusted basic and diluted earnings per share#	**9.31**	15.48	**-39.8%**
Paid interim dividend per share *(note 9)*	**–**	HK6.4 cents	
Proposed special dividend per share *(note 9)*	**HK3.38 cents**	–	

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

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

\# *Excluding impairment of goodwill of RMB614,331,000 for the six months ended 30 June 2022.*

* *For identification purpose only*

The board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2022 together with the comparative figures for the six months ended 30 June 2021.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**1,847,152**	1,763,675
Cost of goods sold		**(880,123)**	(709,694)
Gross profit		**967,029**	1,053,981
Other income and other gains – net	*5*	**100,227**	222,074
Selling and marketing expenses		**(174,159)**	(135,821)
Administrative expenses		**(412,252)**	(404,789)
Impairment of goodwill		**(614,331)**	–
Net impairment losses on financial assets		**(8,290)**	(1,872)
Operating (loss)/profit		**(141,776)**	733,573
Finance income		**31,640**	65,483
Finance costs		**(12,204)**	(49,628)
Finance income – net		**19,436**	15,855
Share of results of associates and jointly controlled entities		**(5,052)**	3,936
(Loss)/profit before income tax		**(127,392)**	753,364
Income tax expense	*7*	**(105,639)**	(171,899)
(Loss)/profit for the period		**(233,031)**	581,465
Attributable to:			
Equity holders of the Company		**(313,531)**	481,129
Non-controlling interests		**80,500**	100,336
		(233,031)	581,465
(Loss)/earnings per share for (loss)/profit attributable to the Company's equity holders for the period		***RMB cents***	*RMB cents*
Basic and diluted	*8*	**(9.71)**	15.48

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(233,031)**	581,465
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	**–**	(195)
Currency translation differences of the Company and its non-foreign operations	**56,389**	(732)
Items that may be reclassified to profit or loss		
Currency translation difference of foreign operations	**501**	3,887
Other comprehensive income for the period, net of tax	**56,890**	2,960
Total comprehensive (loss)/income for the period, net of tax	**(176,141)**	584,425
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(270,915)**	487,732
Non-controlling interests	**94,774**	96,693
	(176,141)	584,425

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2022 RMB'000 Unaudited	As at 31 December 2021 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**1,939,919**	1,642,566
Right-of-use assets		**343,241**	251,963
Intangible assets		**5,261,339**	5,847,307
Investments in associates		**831,729**	806,407
Investment in jointly controlled entities		**19,644**	202,831
Financial assets at fair value through other comprehensive income		**17,870**	17,870
Financial assets at fair value through profit or loss		**202,160**	215,679
Deferred income tax assets		**154,786**	167,542
Other non-current assets		**2,673**	133
		8,773,361	9,152,298
Current assets			
Biological assets		**5,658**	–
Inventories		**1,001,984**	897,226
Trade and other receivables	*10*	**1,332,858**	1,081,046
Financial assets at fair value through other comprehensive income		**21,938**	48,785
Financial assets at fair value through profit or loss		**1,559,968**	3,292,365
Time deposits		**320,304**	–
Cash and bank balances excluding time deposits		**4,085,932**	3,553,409
		8,328,642	8,872,831
Total assets		**17,102,003**	18,025,129

	Note	As at 30 June 2022 RMB'000 Unaudited	As at 31 December 2021 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,322,903**	4,387,519
Retained earnings		**8,804,848**	9,168,518
		13,456,370	13,884,656
Non-controlling interests		**1,926,342**	1,834,163
Total equity		**15,382,712**	15,718,819
LIABILITIES			
Non-current liabilities			
Put option liability		**124,515**	–
Lease liabilities		**22,511**	22,176
Deferred income tax liabilities		**131,138**	149,450
Trade and other payables	*12*	**11,928**	800
		290,092	172,426
Current liabilities			
Borrowings	*11*	**507,009**	962,774
Lease liabilities		**24,252**	18,751
Trade and other payables	*12*	**662,364**	748,245
Current income tax liabilities		**156,847**	237,169
Contract liabilities		**78,727**	166,945
		1,429,199	2,133,884
Total liabilities		**1,719,291**	2,306,310
Total equity and liabilities		**17,102,003**	18,025,129

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**323,344**	694,332
Income tax paid	**(211,545)**	(208,929)
Net cash generated from operating activities	**111,799**	485,403
Cash flows from investing activities		
Acquisition of a subsidiary	**(79,233)**	–
Acquisition of equity interest in associates	**(8,200)**	(18,152)
Proceeds from disposal of an associate	**–**	6,320
Purchases of financial assets at fair value through profit or loss	**(6,546,986)**	(2,803,379)
Proceeds from disposals of financial assets at fair value through profit or loss	**8,331,873**	1,346,203
Purchases of property, plant and equipment and intangible assets	**(179,740)**	(163,470)
Purchase of right-of-use assets for land use rights	**(21,165)**	(4,140)
Proceeds from disposal of property, plant and equipment and intangible assets	**3,102**	7,368
Time deposits placed	**(320,304)**	–
Short-term time deposits released	**–**	1,357,540
Dividend received	**5,454**	4,696
Interest received	**27,446**	94,632
Net cash generated from/(used in) investing activities	**1,212,247**	(172,382)
Cash flows from financing activities		
Final dividend for the year ended 31 December 2020 paid to shareholders	**–**	(229,479)
Final dividend for the year ended 31 December 2021 paid to shareholders	**(54,821)**	–
Dividends paid to non-controlling interests	**(176,024)**	(193,624)
New bank borrowings raised	**107,790**	1,210,280
Repayment of bank borrowings	**(702,144)**	(2,056,935)
Principal elements of lease payments	**(14,598)**	(11,422)
Interest elements of lease payments	**(636)**	(1,188)
Interest paid related to bank borrowings and others	**(12,565)**	(50,574)
Net cash used in financing activities	**(852,998)**	(1,332,942)
Net increase/(decrease) in cash and cash equivalents	**471,048**	(1,019,921)
Cash and cash equivalents at the beginning of the period	**3,541,425**	4,921,756
Effects of currency translation on cash and cash equivalents	**49,858**	(11,635)
Cash and cash equivalents at the end of the period	**4,062,331**	3,890,200

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2021 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. ACQUISITION DURING THE PERIOD

On 9 August 2021, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), a non-wholly owned subsidiary of the Group acquired 40% equity interests in Shanghai Yifang Rural Technology Holdings Co., Ltd. and its subsidiaries ("Shanghai Yifang") for a total consideration of RMB180,000,000 in cash. On 8 March 2022, Huabao Flavours further acquired 27% equity interests in Shanghai Yifang for a total consideration of RMB121,500,000 in cash. After the completion of the Acquisition, Huabao Flavours' shareholding in Shanghai Yifang in aggregate reaches 67% and Shanghai Yifang becomes a subsidiary of Huabao Flavours.

Shanghai Yifang 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.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those financial statements.

(a) Initial application of HKAS 41 "Agriculture"

In March 2022, Shanghai Yifang became a subsidiary of Huabao Flavours.

- Property, plant and equipment

  Shanghai Yifang holds lemon trees, grapefruit trees, mulberry trees, orange trees and blueberry trees (collectively the "fruit trees") with aggregate carrying amounts of approximately RMB122,640,000 as at 30 June 2022. Shanghai Yifang's fruit trees qualify as bearer plants under the definition in HKAS 41 Agriculture and are therefore accounted for under the rules for plant and equipment. Fruit trees are classified as immature until the fruits can be commercially harvested. At that point they are reclassified as mature and depreciation commences. Immature fruit trees are measured at accumulated cost.

  All property, plant and equipment, including fruit trees is recognised at historical cost less depreciation. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, with no residual values, over the shorter of their estimated useful lives or lease term as follows:

Bearer plants	21.5-25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

- Biological assets

  Biological assets consist of the growing produce before harvest on fruit trees. Harvested fruits are transferred to inventory raw materials when harvested. Fruit trees are bearer plants and are accounted for as property, plant and equipment.

  Biological assets are measured at fair value less cost to sell on initial recognition and at the end of each reporting period, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are carried at cost less impairment loss. Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in profit or loss.

  The agricultural produce harvested from fruit trees is measured at fair value less costs to sell at the time of harvest, which is determined based on market prices of similar agricultural produce prevailing in the market as at or close to the harvest dates in the local market. The fair value less costs to sell at the time of harvest is deemed as the cost of the inventories for sales. Costs to sell are the incremental costs directly attributable to sell the assets but excludes finance costs and income taxes. Biological assets that are expected to be realised in the next harvest within the next twelve months are classified under current assets.

(b) Put option liability

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase the equity instrument that held by the counterparty for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it is reclassified from equity and has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognized as changes in parent equity in the condensed consolidated statement of changes in equity. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The put option liabilities are classified as current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

(c) New and amended standards adopted by the Group

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

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

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

		Effective for the financial year beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contract	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendment to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	When applies Amendments to HKAS 1

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

4. REVENUE AND SEGMENT INFORMATION

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

(1) Flavours and fragrances, and Food ingredients;

(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, and food ingredients, tobacco raw materials, aroma raw materials and condiment segments.

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

(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 six months ended 30 June 2022 is presented below:

	Unaudited For the six months ended 30 June 2022					
	Flavours and fragrances and Food ingredients *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total revenue	**897,113**	**198,268**	**479,918**	**289,264**	**–**	**1,864,563**
Inter-segment revenue	**(9,158)**	**(6,396)**	**(1,857)**	**–**	**–**	**(17,411)**
Segment revenue – net	**887,955**	**191,872**	**478,061**	**289,264**	**–**	**1,847,152**
Segment result	**468,824**	**19,365**	**44,775**	**(585,974)**	**(88,766)**	**(141,776)**
Finance income						**31,640**
Finance costs						**(12,204)**
Finance income – net						**19,436**
Share of results of associates and jointly controlled entities						**(5,052)**
Loss before income tax						**(127,392)**
Income tax expense						**(105,639)**
Loss for the period						**(233,031)**
Depreciation	**31,017**	**41,810**	**25,564**	**5,270**	**2,474**	**106,135**
Amortisation	**2,875**	**4,506**	**5,646**	**37,306**	**393**	**50,726**

	Unaudited As at 30 June 2022					
	Flavours and fragrances and Food ingredients *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**8,245,239**	**2,328,659**	**1,309,515**	**3,861,863**	**1,356,727**	**17,102,003**

The segment information for the six months ended 30 June 2021 is presented below:

	Unaudited For the six month ended 30 June 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	916,678	221,059	322,370	324,206	20	1,784,333
Inter-segment revenue	(6,241)	(12,312)	(2,105)	–	–	(20,658)
Segment revenue – net	910,437	208,747	320,265	324,206	20	1,763,675
Segment result	576,461	61,291	22,435	61,814	11,572	733,573
Finance income						65,483
Finance costs						(49,628)
Finance income – net						15,855
Share of results of associates and a jointly controlled entity						3,936
Profit before income tax						753,364
Income tax expense						(171,899)
Profit for the period						581,465
Depreciation	19,041	42,334	13,524	5,951	3,520	84,370
Amortisation	833	4,496	7,580	36,895	11	49,815

	Audited 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

5. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Changes in fair value of financial assets at fair value through profit or loss	**21,025**	100,845
Dividend income from financial assets at fair value through profit or loss	**344**	–
Gains on disposal of financial assets at fair value through profit or loss	**11,646**	200
Gain on disposal of an associate	**–**	16,720
Gain on disposal of a subsidiary	**6,433**	–
Governments grants	**89,252**	109,571
Currency exchange loss – net	**(3,373)**	(10,597)
Net (losses)/gains on disposal of property, plant and equipment and intangible assets	**(293)**	4,659
Change in fair value of previously held interest in a jointly controlled entity upon acquisition as a subsidiary	**(24,083)**	–
Others	**(724)**	676
	100,227	222,074

6. EXPENSES BY NATURE

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

		Unaudited For the six months ended 30 June	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Depreciation	*4*	**98,456**	75,560
Amortisation	*4*	**47,852**	48,735
Employee benefit expenses		**308,506**	273,494
Research and development expenses	*(a)*	**110,663**	108,511
Short-term lease rentals		**6,278**	4,545
Travelling expenses		**6,816**	14,466
Utility expenses		**36,880**	28,994
Delivery expenses		**20,369**	26,384

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

	Note	Unaudited For the six months ended 30 June 2022 RMB'000	2021 RMB'000
Depreciation	*4*	**7,679**	8,810
Amortisation	*4*	**2,874**	1,080
Employee benefit expenses		**60,231**	54,374

7. INCOME TAX EXPENSE

	Note	Unaudited For the six months ended 30 June 2022 RMB'000	2021 RMB'000
Current income tax:			
– PRC corporate income tax	*(a)*	**120,340**	162,479
– Hong Kong profits tax	*(b)*	**824**	4,979
– Botswana company income tax	*(c)*	**143**	559
– Germany company income tax	*(d)*	**–**	–
– Indonesia company income tax	*(e)*	**3**	–
Deferred income tax		**(15,671)**	3,882
		105,639	171,899

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profit for the period.

(c) Botswana company income tax has been provided at the rate of 15.0% (six months ended 30 June 2021: 15.0%) on the estimated assessable profit for the period.

(d) Germany company income tax has been provided at the rate of 15.0% (six months ended 30 June 2021: 15.0%) on the estimated assessable profit for the period.

(e) Indonesia company income tax has been provided at the rate of 22.0% on the estimated assessable profit for the period.

(f) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the six months ended 30 June 2022 and 2021.

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2022 and 2021.

	Unaudited For the six months ended 30 June	
	2022	2021
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(313,531)**	481,129
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,107,837
Basic (loss)/earnings per share attributable to owners of the Company *(RMB cents per share)*	**(9.71)**	15.48

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the six months ended 30 June 2022 and 2021 was the same as basic (loss)/earnings per share, since the Company did not have any potential ordinary share outstanding that has dilution effect.

9. DIVIDENDS

	Unaudited For the six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Paid interim dividend of HK6.4 cents per share for the six months ended 30 June 2021	**–**	165,226
Proposed special dividend of HK3.38 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil)	**93,362**	–
	93,362	165,226

Interim dividend of approximately HKD198,902,000 (equivalent to approximately RMB165,226,000) for the six months ended 30 June 2021 was paid in October 2021. Final dividend of approximately HKD64,599,000 (equivalent to approximately RMB54,821,000) for the year ended 31 December 2021 was paid in June 2022.

As the special dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2022.

10. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2022 Unaudited *RMB'000*	As at 31 December 2021 Audited *RMB'000*
Trade receivables	*(a)*	**1,006,955**	863,357
Less: provision for impairment of trade receivables		**(10,584)**	(13,237)
Trade receivables – net		**996,371**	850,120
Notes receivable		**50,146**	27,493
Advances to staff		**9,430**	9,865
Others		**22,437**	18,240
Prepayments and other receivables		**291,742**	204,893
Less: provision for impairment of other receivables		**(37,268)**	(29,565)
		1,332,858	1,081,046

Except for prepayments of RMB83,261,0000 (31 December 2021: RMB51,480,000), trade and other receivables balances are financial assets categorised as "financial assets measured at amortised cost". All trade and other receivables are either repayable within one year or on demand.

(a) The credit period granted to customers generally ranges from 0 to 180 days. At 30 June 2022 and 31 December 2021, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice date was as follows:

	As at 30 June 2022 Unaudited *RMB'000*	As at 31 December 2021 Audited *RMB'000*
0 – 90 days	**724,023**	756,502
91 – 180 days	**117,524**	75,511
181 – 360 days	**123,095**	15,097
Over 360 days	**42,313**	16,247
	1,006,955	863,357

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For the six months ended 30 June 2022, a provision for impairment RMB470,000 (six months ended 30 June 2021: RMB1,376,000) was made against the gross amount of trade receivables and a write-off as uncollectible of RMB4,059,000 (six months ended 30 June 2021: no amount was written off as uncollectible).

11. BORROWINGS

	Note	As at 30 June 2022 Unaudited *RMB'000*	As at 31 December 2021 Audited *RMB'000*
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**15,000**	–
Less: current portion		**(15,000)**	–
		–	–
Current			
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**15,000**	–
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**50,000**	–
– Unsecured bank borrowings	*(b)*	**442,009**	962,774
		507,009	962,774
Total borrowings		**507,009**	962,774

(a) The Group's secured bank borrowings as at 30 June 2022 of RMB65,000,000 (31 December 2021: the Group's secured bank borrowings were fully repaid) were repayable within one year and secured by certain buildings, right-of-use for land of Shanghai Yifang with total carrying values of RMB18,158,000. For the six months ended 30 June 2022, the average interest rate was 4.4% (six months ended 30 June 2021: 5.7%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. For the six months ended 30 June 2022, the average interest rate was 3.2% (six months ended 30 June 2021: 2.2%) per annum.

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

Interest expense on bank borrowings for the six months ended 30 June 2022 amounted to approximately RMB10,760,000 (six months ended 30 June 2021: RMB48,300,000). No interest expense was capitalised during the six months ended 30 June 2022 and 2021.

12. TRADE AND OTHER PAYABLES

	Note	**As at 30 June 2022 Unaudited** ***RMB'000***	As at 31 December 2021 Audited *RMB'000*
Trade payables	*(a)*	**316,664**	302,330
Notes payables		**8,000**	–
Wages payable		**63,686**	112,220
Other taxes payable		**89,329**	134,206
Accruals for expenses		**8,429**	9,985
Other payables		**176,656**	190,304
Deferred income from grants		**11,528**	–
		674,292	749,045

Except for other taxes payable of RMB89,329,000 (31 December 2021: RMB134,206,000) and wages payable of RMB63,686,000 (31 December 2021: RMB112,220,000), 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 30 June 2022 Unaudited ***RMB'000***	As at 31 December 2021 Audited *RMB'000*
Non-current	**11,928**	800
Current	**662,364**	748,245
	674,292	749,045

(a) As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on the invoice dates was as follows:

	As at 30 June 2022 Unaudited ***RMB'000***	As at 31 December 2021 Audited *RMB'000*
0 – 90 days	**281,291**	271,535
91 – 180 days	**17,210**	15,326
181 – 360 days	**4,616**	3,589
Over 360 days	**13,547**	11,880
	316,664	302,330

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2022 (the "Reporting Period"), from the view of the demand side, the consumer confidence in global major economies continued to slide. In Mainland China, the Novel Coronavirus Pneumonia Pandemic (the "Pandemic") resurged and each provinces' Pandemic prevention and control policies had a certain negative impact on enterprises' normal operation, and consumers' willingness to spend was very weak. From the view of the supply side, the geopolitical conflict caused the increase in the price of major commodities and led to the increase in inflation, and the major economies' loosening monetary policies furthered the inflation, which caused the increase in the production cost of the manufacturing companies. Overall, global and Chinese economy have been suffering from great pressure. Facing the big challenges, the Group adhered to the development philosophy of "Green, Healthy, and Nutritious", and enforced refined and digital management to strive to lower cost and improve efficiency, and kept stable operation and achieved the growth in revenue.

INDUSTRY OVERVIEW

Overview of the tobacco industry

According to the National Bureau of Statistics, China's cigarette production reached 26.4714 million cases in the first half of 2022, representing a year-on-year increase of 2.5%, reflecting a stable production in the tobacco industry. In the backdrop of increasing downward pressure on the macro economy, the tobacco industry played a positive role in contributing to the country's fiscal revenue and promoting people's livelihood and economic development.

During the Reporting Period, the State Tobacco Monopoly Administration officially issued and implemented "The Administrative Measures for Electronic Cigarettes", which set out the production standards and requirements for e-cigarette products and the pipeline management for the sale of e-cigarettes, enabling the development of the e-cigarette industry to be regulated by law, thereby creating a quality business environment for the sustainable development of the e-cigarette industry and gaining wide support and recognition from participants in the e-cigarette market. In terms of the heat-not-burn ("HNB") cigarettes, most local tobacco companies in China have launched HNB cigarette products which are only available in some overseas countries and regions and are not yet allowed to be sold in China. Companies and investors in the tobacco industry chain are very concerned about the future development and policy direction of HNB cigarettes, and are looking for more opportunities to invest and develop their business in HNB cigarettes.

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

During the Reporting Period, the Chinese government adhered to its philosophy of "people and their lives first" and took stringent measures to prevent and control the Pandemic. Although these preventive and control measures had a negative impact on the operations of enterprises in many different sectors, the food and beverage industry, which is an essential consumer product for the population, still recorded growth, demonstrating the strong resilience of the food and beverage sector. According to the National Bureau of Statistics, in the first half of the year, the industrial added value of the agricultural product processing industry with enterprises of designated size or above grew by 3.3% year-on-year, the industrial added value of the food processing industry grew by 4.1% year-on-year and the industrial added value of the alcohol, beverage and refined tea processing industry grew by 8.4% year-on-year.

During the Reporting Period, the resurgence of Pandemic in various provinces and regions led to an increase in the frequency of consumer consumption at home and a rise in consumer demand for frozen foods and prepared foods. A well-made frozen food and prepared food requires strong supply chain development and management capabilities in order to stabilize product taste, reduce product costs and promote consumers' re-purchase of products. As a result of the Pandemic, consumers are more concerned about the "functionality" of foods and beverages, such as weight management, stress reduction, sleep aid and sugar control. Products with labels such as "natural" and "probiotic" are more likely to attract consumers' attention and led to purchase. Meanwhile, innovations and fusion of flavours in food and beverage products have become more appealing to young consumers' interests and desire to buy. The food and beverage industry is going further in the concepts of 'healthy', 'nutritious' and 'tasty', and the competition is becoming increasingly intense.

In the daily-use chemical industry, consumer awareness of personal hygiene has increased significantly as a result of the Pandemic, and consumer demand for strong antibacterial and bactericidal personal care and fabric washing products has increased significantly, driving demand for related fragrances products. At the same time, the government and the public have developed the habit of disinfecting their homes on a regular basis to better prevent and control the Pandemic, resulting in a significant reduction in the number of mosquitoes and insects. As a result, the growth of insect-repelling incense products slowed down.

Overview of the condiment industry

In the first half of 2022, several cities and regions in Mainland China experienced a resurgence of the Pandemic. To protect people's lives, the Chinese government adopted very stringent lockdown measures, including mobility restriction, business suspension and dine-in bans. These measures were effective in controlling the Pandemic, but they also had a negative impact on the catering industry, which is mainly focused on crowd consumption, resulting in a significant drop in revenue for catering enterprises. According to the National Bureau of Statistics, in the first half of 2022, the revenue of the catering industry was RMB2,004 billion, a decrease of 7.7% year-on-year, and a decrease of 5.8% year-on-year compared to 2019, the year before the Pandemic. The Pandemic has again hit China's catering industry, which has not yet recovered to pre-pandemic levels.

The catering industry is a major customer of condiment companies. With the normalization of Pandemic prevention and control, condiment companies have had to re-analyze the consumption scenario of condiments and diversify their revenue stream by developing customers other than catering customers such as food processors and products such as prepared foods. In addition, the profitability of condiment companies has come under greater downward pressure due to the increase in production costs as a result of higher raw materials prices caused by inflation.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB1,847 million (first half of 2021 ("1H 2021"): approximately RMB1,764 million), representing a year-on-year increase of 4.7%; gross profit margin of approximately 52.4% (1H 2021: 59.8%), representing a year-on-year decrease of 7.4 percentage points; operating loss of approximately RMB142 million (1H 2021: operating profit of approximately RMB734 million); loss attributable to the equity holders of the Company of approximately RMB314 million (1H 2021: profit attributable to the equity holders of the Company of approximately RMB481 million), representing a year-on-year decrease of 165.2%; basic loss per share of approximately RMB9.71 cents (1H 2021: basic earnings per share of approximately RMB15.48 cents), representing a year-on-year decrease of 162.7%.

During the Reporting Period, based on the applicable accounting principles on a prudent basis, the management recognised an impairment of goodwill of approximately RMB614 million for the cash generating unit ("CGU") of Jiahao Foodstuff Limited and its subsidiaries ("Jiahao"). For details of the goodwill impairment of Jiahao CGU, please refer to the section "Analysis of Jiahao CGU's goodwill impairment". The Board considers that the valuation methodology and key assumptions used in the impairment tests on goodwill of Jiahao 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 Jiahao CGU, and in conjunction with the management's knowledge and experience of the market and the actual situation, which are fair and reasonable.

In comparison to the operating profit of the first half of 2021, the Group's operating profit recorded a decrease of approximately RMB875 million for the Reporting Period. The amount in decrease includes the goodwill impairment of Jiahao CGU, the decrease in the income from the changes in fair value of financial assets at fair value through profit and loss ("FVPL"), and the loss in changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary, as well as the decrease in gross profit.

Excluding the goodwill impairment of Jiahao CGU of approximately RMB614 million, the income from the changes in fair value of financial assets at FVPL of approximately RMB21.025 million and RMB100.845 million for the Reporting Period and the corresponding period last year respectively (representing a year-on-year decrease of RMB79.82 million), and the loss in changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary of approximately RMB24.083 million, the Group would have achieved an operating profit of approximately RMB476 million(1H 2021: RMB633 million), representing a year-on-year decrease of 24.8% and the decrease was mainly attributable to the decrease in gross profit and the increase in the selling and marketing expense in response to the intense market competition.

BUSINESS REVIEW

Review of flavours and fragrances and food ingredients business

During the Reporting Period, revenue of the flavours and fragrances and food ingredients business of the Group amounted to approximately RMB888 million (1H 2021: approximately RMB910 million), representing a year-on-year decrease of 2.5%, and accounting for approximately 48.0% (1H 2021: 51.6%) of the Group's total revenue. The decrease in revenue from the business segment was mainly due to lower sales volume as a result of increased competition in the market. Operating profit of the segment for the Reporting Period amounted to approximately RMB469 million (1H 2021: approximately RMB576 million), representing a year-on-year decrease of 18.7%; and EBIT margin was approximately 52.8% (1H 2021: 63.3%), representing a year-on-year decrease of approximately 10.5 percentage points. The decline in EBIT margin was primarily attributable to lower gross margin as a result of changes in product mix and increase in the price of raw materials.

1) Flavours

In terms of tobacco flavours, the Group has a stable cooperative relationship with customers. The Group has strengthened its technology in tobacco extracts to better enhance the taste of cigarette products for customers. The Group maintained its focus on the HNB cigarette market and conducted in-depth research on the supply chain, technology and market prospect of HNB tobacco flavours to enhance its insight and competitiveness in this field and build a solid foundation for the future development of this fast-growing business. In terms of food flavours, the Company has stabilized its cooperation with existing customers while developing new and growing brands and customers in the functional beverage and leisure foods sectors, which have broad market prospects and scale. The Group's Research and Development ("R&D") center and business team in Singapore are already in operation, actively analyzing the needs of customers in Singapore, Malaysia and Indonesia and providing them with customized products to facilitate the internationalization of the Group's business.

2) Fragrances

During the Reporting Period, the Group further strengthened its technology and product innovation in the areas of microcapsules and oral care flavours, and actively developed the product needs of online e-commerce brands to provide them with comprehensive flavour solutions. In addition, the Group also initiated exchanges with international flavour companies to share market insights in the field of daily chemical fragrances, thereby enhancing its R&D and customer development capabilities in the field of daily chemical fragrances.

3) Food Ingredients

On 9 August 2021, the Group completed the acquisition of 40% stake of Shanghai Yifang Agricultural Technology Company Limited ("Shanghai Yifang"). On 8 March 2022, the Group further acquired 27% stake of Shanghai Yifang. As at the end of the Reporting Period, the Group held a total of 67% stake of Shanghai Yifang and became the controlling shareholder of Shanghai Yifang, and Shanghai Yifang becomes a subsidiary of the Group.

During the Reporting Period, the Group carried out in-depth cooperation with a number of leading customers such as Orion and Mondelez on food ingredient solutions, covering puffed food, baking, hot and spicy, catering and other fields. At the same time, the Group further strengthened R&D in customized products that meet customer needs. The Group attaches great importance to the layout of the food ingredients industry chain, and actively promotes the adjustment of industrial structure, so as to obtain incremental opportunities for future layout in the niche market.

4) 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 and Fragrances Company Limited 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 Center and Supporting Facilities Project" ("Huabao TechInno Project"), as well as launch the new "Huabao Digital Transformation Project" ("Huabao Digital Project").

As of 30 June 2022, the cumulative amount dedicated for the Huabao Yingtan Project was approximately RMB191 million (31 December 2021: approximately RMB158 million), representing an investment progress of approximately 18.47% (31 December 2021: 15.29%). The cumulative amount dedicated for the Huabao TechInno Project was approximately RMB2.13 million (31 December 2021: RMB1.68 million), representing an investment progress of 0.47%(31 December 2021: 0.37%). The cumulative amount dedicated for the Huabao Digital Project was RMB8.03 million (31 December 2021: RMB3.53 million), representing an investment progress of 13.38% (31 December 2021: 5.89%). As of 30 June 2022, the balance of unused IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,676 million (31 December 2021: approximately RMB1,685 million). As of 30 June 2022, the IPO Proceeds utilized amounted to approximately RMB869 million (31 December 2021: approximately RMB832 million), accounting for approximately 37.0% of the total proceeds from the initial public offering in 2018 of RMB2,310 million.

Review of the tobacco raw materials business

During the Reporting Period, revenue of the Group's tobacco raw materials business was approximately RMB192 million (1H 2021: approximately RMB209 million), representing a year-on-year decrease of 8.1%, and accounting for approximately 10.4% (1H 2021: approximately 11.8%) of the Group's total revenue. Operating profit of the business segment reached approximately RMB19.365 million (1H 2021: approximately RMB61.291 million), representing a year-on-year decrease of approximately 68.4%; operating profit margin was approximately 10.1% (1H 2021: 29.4%), representing a year-on-year decrease of approximately 19.3 percentage points. The decrease in the segment revenue and operating profit was mainly due to lower demand for traditional reconstituted tobacco leaves ("RTL") and lower selling prices for tobacco capsules.

1) RTL

During the Reporting Period, overcapacity and weak customer demand in the traditional RTL industry continued, with production and sales volume of traditional RTL declining year-on-year. For the RTL business, the Group has shifted its development focus to the HNB sector. Domestically, the Group's R&D team has maintained cooperation with Chinese tobacco companies in the development and production of customized RTL for Chinese tobacco companies' HNB cigarette products. The Group mainly uses slurry and dry techniques to produce HNB RTL in China with a combined production capacity of 1,600 tonnes. Overseas, the Group's HNB RTL plant in Indonesia has completed the construction of its core production line and has commenced production and recorded sales. The plant has a designed capacity of 1,000 tonnes per year and has already signed long-term orders with international customers. The Group believes that HNB RTL has a large global market and will gradually replace traditional RTL, and the penetration rate will steadily increase in the future. The Group's planning in the HNB RTL sector will be one of the growth drivers of the Group's future results.

2) Tobacco new materials

Due to intensified competition, the selling price of tobacco capsules continued to decline. The Group applied its experience and insight in flavouring to the development of food capsule products and successfully attained food customers. The share of food capsules in capsule products increased year-on-year, providing a sufficient growth momentum. For cigarette filters, Hunan Jishou Minzu Materials Co., Ltd has optimized its production line and provided more training to enable the staff to familiarize themselves with the production process and techniques, which has improved the output and quality of cigarette filters as well as the profit margin due to the economies of scale. At the same time, a new cigarette filter production line has been established in Indonesia, where the products from this line will serve international customers in the future.

Despite the decline in revenue and earnings of the tobacco raw materials segment in the past few years, the Group has made efforts to improve the performance of its tobacco raw materials business in the future by enhancing its R&D technologies, optimizing its operational strategies and developing new products, markets and customers. The Group has full confidence in the development of the tobacco raw materials business.

Review of the aroma raw materials business

During the Reporting Period, revenue of the aroma raw materials business of the Group was approximately RMB478 million (1H 2021: approximately RMB320 million), representing a year-on-year increase of 49.3%, and accounting for approximately 25.9% (1H 2021: 18.2%) of the Group's total revenue. The increase in segment revenue was mainly attributable to the mass production in Jiangxi Xianghai Biological Technology Company Limited ("Jiangxi Xianghai") during the Reporting Period. Operating profit of the business segment reached approximately RMB44.775 million (1H 2021: RMB22.435 million), representing an increase of 99.6% year-on-year; and EBIT margin was 9.4% (1H 2021: 7.0%), representing an increase of approximately 2.4 percentage points year-on-year. The increase in operating profit margin was mainly due to the economies of scale as a result of the mass production of Jiangxi Xianghai.

During the Reporting Period, international commodities' prices increased, resulting in higher production costs for aroma raw materials. On the other hand, due to the fierce competition in the market, it was difficult to offset the impact of rising costs by continuously increasing the selling price of aroma raw materials, and the profit margin of aroma raw materials products was pressured. After three years of construction, Jiangxi Xianghai has been put into full production and operation, becoming the main source of revenue growth for the segment. As the production base of the aroma raw materials segment, Jiangxi Xianghai attaches great importance to safe production. The management and employees of the Company has cooperated with the local government regulatory authorities many times to ensure that the company's various safety facilities, processes and response mechanisms meet the regulatory requirements to secure the Company's production safety and achieve sustainable development.

Review of the condiment business

During the Reporting Period, revenue of the Group's condiment business was approximately RMB289 million (1H 2021: approximately RMB324 million), representing a year-on-year decrease of 10.8%, and accounting for approximately 15.7% (1H 2021: 18.4%) of the Group's total revenue. The operating loss was approximately RMB586 million (1H 2021: operating profit of approximately RMB61.814 million). The decrease in revenue of the condiment segment was mainly due to the decrease in customer demand as a result of the impact of the Pandemic on the catering industry, and the operating loss was mainly due to the impairment of the goodwill of approximately RMB614 million of Jiahao CGU. Excluding the impact of goodwill impairment, the operating profit of the condiment segment was approximately RMB28.357 million, representing a year-on-year decrease of 54.1%; operating profit margin was approximately 9.8%, representing a year-on-year decrease of 9.3 percentage points. The decrease in operating profit margin was mainly due to lower gross margin resulted from higher raw material costs due to inflation and higher marketing expenses.

In terms of product mix, the Group's seasoning products such as chicken sauce, chicken powder and chicken essence are the main sources of revenue. In addition, the R&D team analyzed the popular market flavours and launched new products such as "red oil chili sauce", "mustard sauce" and "Jinba spicy mustard", which can be well-applied to the dishes of Sichuan and Hunan cuisines, quickly enhancing the taste and color of the products as well as the efficiency to prepare the dishes. These new products have strengthened the Group's flavouring capabilities in the "hot and sour" area, enriched the Group's product range for condiments and created more possibilities for the Group to increase revenue.

In terms of sales channel, the recession in the catering industry caused by the resurgence of the Pandemic has weakened distributors' willingness to purchase inventories and their ability to sell. Therefore, the Group has strengthened proactive communication with distributors to help them better promote and sell their products. As of 30 June 2022, the Group had approximately 420 Tier 1 distributors covering all provinces, autonomous regions and direct-controlled municipality except for Taiwan Province.

In terms of marketing strategy, the Group has defined its brand positioning as the "Expert of China Flavour". Under this brand positioning, the Group introduced products of different Chinese flavour categories to customers through thematic marketing activities. With the resurgence of the Pandemic affecting the form and scale of offline marketing activities, the Group has turned to platforms such as WeChat, TikTok, and Kwai to share with customers the use of condiments and cooking techniques, so that customers can experience the value of the Group's services, enhance the Group's brand influence and drive sales growth.

Analysis of Jiahao CGU's goodwill impairment

The background of Jiahao CGU's goodwill impairment

In September 2018, the Group completed the acquisition of 100% interest in Jiahao from an independent third party for approximately RMB4,745 million and Jiahao has since become a CGU of the Group. Jiahao is principally engaged in the production, sale, marketing and distribution of condiment products in China. Upon completion of the acquisition, the Group will focus on the ancillary products of taste-based FMCG products, including flavours and fragrances products, additives, ingredients and packaging materials, condiments and other products in the market segments, which are expected to create synergies. The goodwill arising from the acquisition of approximately RMB3,635 million is attributable to the synergies and operating benefits expected to arise from the integration of the operations of the Group and Jiahao.

During early 2020, the outbreak of the Pandemic in China and its subsequent national outbreaks, the Chinese government took various contingency measures such as extending the Chinese New Year holidays, imposing travel and work restrictions and suspending various daily consumption activities (including retail and catering), which resulted in a significant decline in the revenue of Jiahao for the six months ended 30 June 2020 and indications of impairment of Jiahao's goodwill. Accordingly, the Group has engaged a valuer to conduct an impairment test on the goodwill of Jiahao CGU as at 30 June 2020 and recognised an impairment of goodwill of approximately RMB495 million. After the impairment, the remaining balance of Jiahao CGU's goodwill is approximately RMB3,140 million. For details, please refer to the section headed "Analysis of Jiahao CGU's goodwill impairment in the Interim Period" in the "Management Discussion and Analysis" of the Group's 2020 annual report.

The reasons for Jiahao CGU's goodwill impairment

The Group originally expected the catering industry to start recovering rapidly in 2022 as the outbreak control stabilised. Unexpectedly, the Pandemic resurfaced in many cities and regions in Mainland China. To protect people's lives, the Chinese government adopted strict lockdown measures, including mobility restriction, business suspension and dine-in bans. These measures were effective in controlling the Pandemic, but they also had a negative impact on the catering industry, which is mainly focused on crowd consumption, as the recovering catering industry had to suspend normal business once again, resulting in a significant drop in revenue for catering enterprises. Revenue from the catering industry dropped by 7.7% year-on-year in the first half of 2022, and by 5.8% compared to the first half of 2019 before the Pandemic.

In addition, the first half of 2022 saw the increase in raw materials due to inflation, which increased production and operating costs for enterprises and increased downward pressure on profits. Lastly, the highly contagious and evolving nature of the novel coronavirus, has created additional challenges and uncertainties for the upcoming economic recovery and normal operations of the catering business.

For the above reasons, the Group considers that the recovery and subsequent development of the catering industry will be below the Group's expectation as at 31 December 2021 and will affect the subsequent performance of the condiment business. In accordance with prudent and appropriate accounting principles, the management performed an impairment test on Jiahao CGU and ultimately recognised the impairment.

Impairment test of goodwill

In accordance with HKAS 36, the Company performed a goodwill impairment test and conducted a value analysis on Jiahao CGU as at 30 June 2022, the valuation benchmark date, to determine the recoverable amount of Jiahao 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 VIU. In the impairment test conducted by the valuer, the market approach and the income approach were used to assess the FVLCOD and VIU of the Jiahao CGU respectively. Based on the results of the tests, the VIU amount was higher than the FVLCOD amount and the VIU amount was therefore used for the recoverable amount of Jiahao CGU, which was approximately RMB614 million lower than the carrying value of Jiahao CGU. For this purpose, an impairment loss of approximately RMB614 million on goodwill was recognised in the Group's consolidated income statement for the six months ended 30 June 2022.

The methodology, key assumptions and basis used in calculating Jiahao CGU's VIU

The Company has engaged a valuer to conduct an impairment test on goodwill of Jiahao CGU as at 30 June 2022. The Valuer used the income approach to assess the VIU of Jiahao CGU, which is consistent with the valuation methodology used for the impairment test of Jiahao CGU as at 31 December 2021. It is based on a five-year net cash-flow projection of Jiahao CGU. 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 Jiahao CGU's VIU are as follows:

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

2. Terminal growth rate – long-term average growth rate of Jiahao 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 Jiahao 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 major key assumptions

Comparing certain major key assumptions used in determining the VIU of Jiahao CGU as at 30 June 2022 against those used in assessing the VIU of Jiahao CGU as at 31 December 2021, major changes are as follows:

	Key assumptions	**VIU assessment as at** **30 June 2022**	31 December 2021
(1)	Forecast five-year sales growth rate	**3.5% - 26.8%**	6.7% - 26.4%

Reasons for change

Revenue of Jiahao CGU for the six months ended 30 June 2022 was approximately RMB289 million, representing a year-on-year decrease of approximately 10.8%. In the first half of 2022, the Pandemic made a comeback in several cities and regions in Mainland China. The Chinese government adopted strict lockdown measures to control the Pandemic, including mobility restriction, business suspension and dine-in bans, resulting in a significant drop in revenue for catering enterprises. Revenue from the catering industry dropped by 7.7% year-on-year in the first half of 2022, and by 5.8% compared to the first half of 2019 before the Pandemic. This, coupled with the highly contagious and evolving nature of the novel coronavirus, has created additional challenges and uncertainties for the upcoming economic recovery and normal operations of the catering business. As a result, the Group's management has re-evaluated the development and growth of the condiment business and has revised downward its sales revenue for the forecast period of years 2022 to 2026 by 9.4% to 18.1% as compared to the forecast sales revenue for the same period made at the end of 2021.

	Key assumptions	**VIU assessment as at** **30 June 2022**	31 December 2021
(2)	Budgeted gross profit margin	**56.5% to 57.2%**	58.5% to 59.4%

Reasons for change

Production costs increased due to the higher raw material prices as a result of inflation in the first half of 2022. The gross profit margin of Jiahao CGU decreased to 56.5% for the six months ended 30 June 2022. As a result, the management has adjusted the budgeted gross profit margin for years 2022 to 2026 downwards by approximately 1.3 to 2.9 percentage points from a forecast of 58.5% to 59.4% for this budgeted period at the end of 2021 to a forecast of 56.5% to 57.2% for this budgeted period at the mid-2022.

Key assumptions		VIU assessment as at **30 June 2022**	31 December 2021
(3)	Pre-tax discount rate	**Pre-tax discount rate of 14.6% (approximately equivalent to post-tax discount rate of 13.0%)**	Pre-tax discount rate of 13.5% (approximately equivalent to post-tax discount rate of 12.0%)

Reasons for change

The Valuer determined the post-tax discount rate based on WACC. Considering that in the first half of 2022, several cities and regions in Mainland China experienced a resurgence of the Pandemic. Chinese government adopted very stringent lockdown measures which were effective in controlling the Pandemic, but they also had a negative impact on the catering industry, which is mainly focused on crowd consumption, resulting in a significant drop in revenue for catering enterprises. In the first half of 2022, the revenue of the catering industry was RMB2,004 billion, a decrease of 7.7% year-on-year, and a decrease of 5.8% year-on-year compared to 2019, the year before the Pandemic. The catering industry is a major customer of the condiment business, and considering that the Pandemic's impact on the condiment business will last for a long period, so the external risk of Jiahao CGU has increased. Taking into account the combined effect of other factors, the post-tax discount rate was calculated as 13.0%, which is a 1.0 percentage point increase over the post-tax discount rate of 12.0% adopted at the end of 2021. 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.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB111 million (1H 2021: approximately RMB109 million). R&D expenses accounted for approximately 6.0% (1H 2021: 6.2%) of revenue, representing an decrease of 0.2 percentage point as compared to the corresponding period last year. The R&D costs were fully expensed and no R&D costs were capitalized (1H 2021: Nil).

Human Resources and Corporate Culture Construction

As at 30 June 2022, the Group employed a total of 3,967 (as at 31 December 2021: 3,583) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

The Group believes that "it's all in the hands of the talents" and that only outstanding talents can drive the development and progress of the Group's various businesses. In the face of the normalization of the Pandemic, the Group strives to care for its employees by reducing their physical and mental stress through a series of activities, so that they can work with a positive attitude.

Digital Transformation

In order to enhance operational and management efficiency, the Group set up a professional team in 2021 to establish a "data-insight-action" mindset through the introduction of artificial intelligence, big data tools and data analysis technologies, with SAP ERP digital core operating platform as the cornerstone, in order to promote intergroup collaborative business optimization changes, enhance business decision-making efficiency and build an end-to-end enterprise digital ecosystem. In the first half of 2022, the Group gradually implemented the digital transformation plan in four areas: operation, R&D, finance and funds management.

In terms of operation, the Group has integrated material, procurement and production information into a database and displayed it visually, allowing management to better analyze the real-time status of business operations and provide data support for better, faster and more accurate production decisions. In terms of R&D, the Group has officially launched the construction of the PLM (Product Lifecycle Management) project and by standardized management of the R&D data, the Group established a four-stage standardized process of "Requirement - Project - Planning - Execution" to achieve the deep mining of digital assets and effective accumulation. Driven by the workflow in the closed loop, the Group achieved synergistic R&D and repetitive use of formulas across disciplines and geographies. In terms of finance, the Group has built a financial database, and based on the principle of "unified management and hierarchical application", financial reports are integrated, standardized, automated and expandable, enhancing the efficiency of preparing financial statements and strengthening the ability of financial control. In terms of funds management, the Group has completed the initial construction of a funds management platform, linking bank account management, real-time monitoring of payments and receipts as well as settlement to realize the visualization of funds transactions and enhance the efficiency of funds management.

Digital transformation can effectively improve the Group's efficiency in R&D, production and sales, and connect more closely with suppliers, employees and customers, enabling the Group to accumulate and analyze operational information, and enabling the management to make decisions more scientifically and efficiently, which is an important driver for the Group to implement its strategies and advance its business development.

Outlook

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. The Group strives to develop business in the innovative tobacco field, and at the same time to further its development in the natural and healthy foods and condiments fields by organic growth and mergers and acquisitions. The Group is committed to offering healthy and delicious foods to improve customers' life quality and health levels, and become a reliable brand and partner of customers.

At present, Pandemic prevention and control in China has been normalized and enterprises have accumulated rich experience in Pandemic prevention and control to minimize the impact of the Pandemic on their normal operations and production. In order to promote further economic recovery, the Chinese government has introduced targeted monetary and fiscal policies to stimulate investment and consumption. The Group believes that China's economy is resilient and has great potential, and is expected to continue to recover and grow. The Group will formulate strategies to promote the business development of each segment based on their characteristics. The Group is confident in the development of each business in the second half of the year.

For flavours and fragrances and food ingredients, the Group will focus on cost control and supply assurance, increase investment in product R&D, and actively develop and expand overseas markets to promote the rapid development of its food ingredients business. As for tobacco raw materials, the Group will actively explore the demand of overseas customers for HNB cigarettes RTL, build up reputation with quality products and expand customer base. The Group will promote food capsules to more food and beverage customers to increase the revenue share of food capsules and optimize revenue sources. In terms of aroma raw materials, the Group will further optimize and release the capacity, strengthen safety production, and improve production and operation efficiency. In terms of condiments, the Pandemic prevention and control has become normalized, and the catering industry is turning to the combined operation of "dine-in + take-out". The Group will examine the product mix, optimize the sales strategy and strengthen the supply chain management, so that the condiment business can operate efficiently and normally. The Pandemic is an unpredictable and unexpected event, which has a significant and prolonged negative impact on the catering industry, thus slowing down its expected development. The Group will cooperate with the government's Pandemic prevention requirements and closely monitor the development trend and dynamics of the catering and condiment market to enhance its competitiveness and continue to promote its business development.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2022

Revenue

For the six months ended 30 June 2022, the Group's revenue amounted to RMB1,847,152,000, representing an increase of 4.7% as compared with RMB1,763,675,000 for the corresponding period last year. The increase in the revenue was mainly due to the revenue of aroma raw materials segment increased by RMB157,796,000 or 49.3% year-on-year, resulted from the mass production in Jiangxi Xianghai during the Reporting Period. However, due to lower sales volume as a result of increased competition in the market, the revenue of flavours and fragrances and food ingredient segment declined by 2.5% to RMB887,955,000. Also, due to the lower demand for traditional RTL products and intense competition in the cigarette capsule industry that resulted in a declining sales price of capsule, revenue of tobacco raw materials segment declined by 8.1% to RMB191,872,000. In addition, due to the decrease in customer demand as a result of the impact of the Pandemic on the catering industry, revenue of condiment segment decreased significantly by 10.8% year-on-year to RMB289,264,000. As a result, the increase in revenue was offset largely.

Cost of goods sold

The Group's cost of goods sold amounted to RMB880,123,000 for the six months ended 30 June 2022, representing an increase of 24.0% as compared with RMB709,694,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit decreased from RMB1,053,981,000 for the six months ended 30 June 2021 to RMB967,029,000 for the six months ended 30 June 2022, representing a decrease of approximately 8.2%. The decrease in gross profit was mainly attributable to the decrease in gross profit margin of the current reporting period. The Group's gross profit margin for the current reporting period was approximately 52.4%, representing a decrease of approximately 7.4 percentage points as compared with 59.8% for the same period last year. It was mainly attributable to the increase in production cost as a result of inflation and the price increase of major commodities, and the changes in products' mix of the Group.

Other income and other gains – net

For the six months ended 30 June 2022, other income and other gains (net) of the Group was RMB100,227,000, representing a decrease of RMB121,847,000 as compared with RMB222,074,000 for the corresponding period last year. The decrease in other income and other gains was mainly due to the income from changes in fair values of financial assets at FVPL reached approximately RMB21,025,000 in the current period, representing a decrease of RMB79,820,000 as compared with RMB100,845,000 of the corresponding period last year. Also, a loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary was recorded in the current period.

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. The selling and marketing expenses of the Group for the six months ended 30 June 2022 was RMB174,159,000, representing an increase of 28.2% as compared with RMB135,821,000 for the corresponding period last year. Selling and marketing expenses for the current reporting period accounted for approximately 9.4% of the total revenue, representing an increase of 1.7 percentage points as compared with approximately 7.7% for the six months ended 30 June 2021. The increase in such ratio and the increase in the selling and marketing expenses were mainly attributable to the Group's increase in marketing and promotion expenses in response to the fierce market competition and the increase in staff expenses.

Administrative expenses

The Group's administrative expenses amounted to RMB412,252,000 for the six months ended 30 June 2022, representing an increase of RMB7,463,000 or 1.8% as compared with RMB404,789,000 for the corresponding period last year. Administrative expenses for the current reporting period accounted for approximately 22.3% of the total revenue, which was basically the same as approximately 23.0% for the six months ended 30 June 2021.

Operating profit/loss

For the six months ended 30 June 2022, the Group's operating loss was RMB141,776,000, representing a decrease of RMB875,349,000 as compared with the operating profit of RMB733,573,000 for the six months ended 30 June 2021. It was mainly due to Jiahao's goodwill impairment of RMB614,331,000 and a loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary were recognised in the current period whereas no such losses were recorded in the same period last year. Also, the income from changes in fair value of financial assets at FVPL decreased by RMB79,820,000 year-on-year, and the decline in gross profit.

If Jiahao's goodwill impairment of RMB614,331,000 and the loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary were excluded, and the income from changes in fair values of financial assets at FVPL of RMB21,025,000 for the current period and RMB100,845,000 for the corresponding period last year were both excluded respectively, the operating profit for the current reporting period would be RMB475,613,000, representing a decrease of 24.8% as compared with the corresponding period last year of RMB632,728,000 (income from changes in fair values of financial assets at FVPL were excluded); the operating profit margin for the current period would be approximately 25.7%, representing a decrease of 10.2 percentage points as compared with approximately 35.9% (income from changes in fair values of financial assets at FVPL were excluded) for the corresponding period last year, which was mainly due to the decrease in gross profit margin and the increase in the ratio of selling and marketing expenses to revenue.

Income tax expenses

For the six months ended 30 June 2022, the income tax expenses of the Group was RMB105,639,000, representing a decrease of 38.5% as compared with RMB171,899,000 for the six months ended 30 June 2021. If Jiahao's goodwill impairment of the current period were excluded, income tax rate of the current reporting period would be approximately 21.7, representing a decrease of approximately 1.1 percentage points as compared with approximately 22.8% for the six months ended 30 June 2021, which was mainly attributable to the decrease in withholding income tax on dividends distribution by subsidiaries in Mainland in the current reporting period.

Profit/loss for the period

For the six months ended 30 June 2022, the Group's loss for the period was RMB233,031,000, representing a decrease of RMB814,496,000 as compared with the profit for the period of RMB581,465,000 for the six months ended 30 June 2021. It was mainly due to Jiahao's goodwill impairment of RMB614,331,000 and a loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary were recognised in the current period whereas no such losses were recorded in the same period last year, the income from changes in fair value of financial assets at FVPL decreased by RMB79,820,000, and the decline in gross profit.

If Jiahao's goodwill impairment of RMB614,331,000, the loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary were excluded, and the income from changes in fair values of financial assets at FVPL of RMB21,025,000 for the current period and RMB100,845,000 for the corresponding period last year were both excluded respectively, the profit for the current reporting period would be RMB384,358,000, representing a decrease of 20.0% as compared with the corresponding period last year of RMB480,620,000 (income from changes in fair values of financial assets at FVPL were excluded).

Profit/loss attributable to the equity holders of the Company

For the six months ended 30 June 2022, the loss attributable to the equity holders of the Company was RMB313,531,000, representing a decrease of RMB794,660,000 as compared with the profit attributable to the equity holders of the Company of RMB481,129,000 in the same period last year. It was mainly due to Jiahao's goodwill impairment of RMB614,331,000 and the loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary were recognised in the current period whereas no such losses were recorded in the same period last year, the income from changes in fair value of financial assets at FVPL decreased by RMB79,820,000, and the decline in gross profit.

Net current asset value and financial resources

As at 30 June 2022, the net current asset value of the Group was RMB6,899,443,000 (31 December 2021: RMB6,738,947,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2022, the Group's cash and bank balances (including fixed deposit) amounted to RMB4,406,236,000 (31 December 2021: RMB3,553,409,000), over 70% of which were held in RMB. In addition, the Group held bank wealth management products amounted to RMB1,512,359,000 (31 December 2021: RMB3,256,499,000) which was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 30 June 2022, the Group had bank borrowings of RMB507,009,000 (31 December 2021: RMB962,774,000), of which secured loans amounted to RMB65,000,000 (31 December 2021: nil) and the unsecured loans amounted to RMB442,009,000 (31 December 2021: RMB962,774,000), all of which were due within one year. Out of the total bank borrowings, approximately RMB421,490,000 (31 December 2021: RMB459,950,000) of which was denominated in RMB and approximately RMB85,519,000 (31 December 2021: RMB502,824,000) of which was denominated in HKD. For the six months ended 30 June 2022, the average annual interest rate of the secured loan was 4.4% (six months ended 30 June 2021: 5.7%), and the average annual interest rate of the unsecured loans was 3.2% (six months ended 30 June 2021: 2.2%). As at 30 June 2022, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 3.8%, which was decreased by 3.1 percentage points from 6.9% as of 31 December 2021.

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 six months ended 30 June 2022, the net cash generated from investing activities amounted to RMB1,212,247,000, mainly the proceeds from wealth management products upon expiry. For the six months ended 30 June 2021, the net cash used in investing activities amounted to RMB172,382,000.

Financing activities

For the six months ended 30 June 2022, the net cash used in financing activities amounted to RMB852,998,000, mainly comprised of repayment of bank loans of RMB702,144,000, payment of cash dividends of approximately RMB54,821,000 to shareholders of the Company, cash dividends of RMB176,024,000 paid to non-controlling interests, and addition of bank loans of RMB107,790,000. For the six months ended 30 June 2021, the net cash used in financing activities amounted to RMB1,332,942,000.

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 180 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with the customers. For the six months ended 30 June 2022, the Group's average trade receivables turnover period was 91 days, representing an increase of 4 days as compared with 87 days for the last financial year ended 31 December 2021, while representing a decrease of 3 days as compared with 94 days of the corresponding period last year. The ratio basically remained stable.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 180 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the six months ended 30 June 2022, the Group's average trade payables turnover period was 63 days, representing a decrease of 2 days as compared with 65 days for the last financial year ended 31 December 2021, while representing a decrease of 3 days as compared with 66 days of the corresponding period last year. The ratio basically remained stable.

Inventory and inventory turnover period

As at 30 June 2022, the Group's inventory balance amounted to RMB1,001,984,000, representing an increase of RMB104,758,000 as compared with the balance of RMB897,226,000 as at 31 December 2021. For the six months ended 30 June 2022, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 180 days) was 194 days, decreased by 31 days as compared with 225 days of the corresponding period last year. The decrease of such ratio was mainly due to the Group's effective management of inventory. Such ratio was basically remained stable as compared with 199 days of the last financial year ended 31 December 2021.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 30 June 2022, certain buildings and right-of-use for land of Shanghai Yifang with total carrying values of RMB18,158,000 were used as collateral for bank loans of RMB65,000,000 (31 December 2021: nil).

Capital Commitments

As at 30 June 2022, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, investment in a jointly controlled entity and financial assets at FVPL, contracted for but not provided in the financial statements amounted to approximately RMB202,767,000 (31 December 2021: RMB251,181,000).

Contingent liabilities

According to the information available to the Board, the Group had no contingent liabilities as at 30 June 2022.

USE OF THE PROCEEDS FROM SHARE PLACEMENT

The Group completed the top-up placing and subscription 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 fee 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. On 31 January 2022, the Company changed its unutilised use of proceeds of approximately HK$886 million, details of which are set out in the section headed "Change in Use of the Unutilised Net Proceeds" of this announcement.

As at 30 June 2022, the Group utilised approximately HK$1,931 million of the proceeds, representing approximately 89.4% of the net proceeds, and the unutilised proceeds amounted to approximately HK$229 million. As at 30 June 2022, all of the unutilised proceeds were deposited in licensed banks in Hong Kong. Taking into consideration the Group's operations and the market conditions then, the Group expects that the unutilised net proceeds will be fully utilised by 31 December 2023, details of which are set out in the table below.

Use of proceeds

In HK$ million

Intended use of proceeds	As at 31 December 2021	Change of use of unutilised net proceeds	Actual use of proceeds	As at 30 June 2022	Expected timeline of use
Repayment of bank loans ("Bank Loans Repayment")	257	358	515	100	Before December 2022
Acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise ("Acquisition and/or Investments")	300	(158)	43	99	Before December 2023
General working capital requirements and expansion of existing businesses ("General Working Capital")	329	(200)	99	30	Before June 2023
Total	886	–	657	229	

SIGNIFICANT EVENTS OR TRANSACTIONS

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 considered 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 was 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.

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 Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), a non-wholly owned subsidiary of the Company with its shares listed on the ChiNext Market of the Shenzhen Stock Exchange (Stock Code: 300741), 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, were under investigation for suspected disciplinary violations and were placed under residential surveillance at designated locations (指定居所監視居住).

On 21 July 2022, the Group was informed by Mr. Lam that he had been notified by Changsha County Police Bureau (長沙縣公安局) that they had lifted his residential surveillance and that he was on bail pending further investigation.

On 26 July 2022, the Group learned from Ms. Chu's family that Changsha County Police Bureau (長沙縣公安局) had lifted Ms. Chu's residential surveillance and that she was on bail pending further investigation. Concurrently, the Company had received a Case Filing Notice from Xinfeng County Supervisory Committee (信豐縣監察委員會立案通知書) that Xinfeng County Supervisory Committee had decided to file an investigation against Ms. Chu (進行立案調查) and the Company also had been informed by Ms. Chu's family that Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住) by Anyuan County Police Bureau (安遠縣公安局).

For details, please refer to the Company's announcements dated 24 January 2022, 26 January 2022, 27 January 2022, 21 July 2022 and 26 July 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/or Mr. Lam that were being investigated. The production and business operation of the Group remains normal. Further announcement(s) will be made to keep the shareholders of the Company ("Shareholders") and the public informed of the development in this matter as and when necessary.

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 the 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, in aggregate, reached 67% and Shanghai Yifang becomes 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 had been indirectly 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 Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules").

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Save and except as disclosed below, the Company had complied with the code provisions and, where appropriate, adopted the recommended best practices in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the Reporting Period.

The Company has not fully complied with the code provisions C.2 and F.2.2 as the performance of the chairman's duties by the Chairlady of the Board, Ms. Chu, has been affected to a certain extent since late January 2022 as Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住). For details, please refer to the section headed "Investigation Against Directors" of this announcement. The responsibilities of code provisions C.2 during the Reporting Period were shared by the Vice Chairman & President, and the Vice President & Company Secretary. Due to the reason discussed above, Ms. Chu and Mr. Lam did not attend the annual general meeting of the Company held on 20 May 2022 in accordance with code provision F.2.2. Notwithstanding the above, the Company has adopted the alternative actions and steps during the Reporting Period to redress the deficiencies in the relevant code provisions.

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. Based on the information that was available and having received Directors' written confirmations, the Company considered that Directors have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2022.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022. However, to reward Shareholders for their support for the Company, the Board has resolved to declare a special dividend of HK3.38 cents per share in cash for the six months ended 30 June 2022 (six months ended 30 June 2021: interim dividend of HK6.4 cents per share and no special dividend), representing approximately 31.0% of the adjusted earnings per share of RMB9.31 cents. The special dividend is expected to be paid on or about 6 October 2022 to Shareholders whose names appear on the register of members of the Company on 20 September 2022.

CLOSE OF REGISTER OF MEMBERS

In order to determine Shareholders who qualify for the special dividend, the register of members of the Company will be closed from 15 September 2022 to 20 September 2022, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 14 September 2022.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprise all of the independent non-executive directors of the Company, namely Mr. LEE Luk Shiu, Mr. Jonathan Jun YAN and Mr. HOU Haitao. The Audit Committee and the Board have reviewed and approved the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2022.

The Group's unaudited condensed consolidated interim financial information has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's review report will be included in the Company's 2022 interim report to be dispatched to Shareholders.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2022 interim report will be dispatched to Shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
Huabao International Holdings Limited
POON Chiu Kwok
Executive Director

Hong Kong, 26 August 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 Messrs. LEE Luk Shiu, Jonathan Jun YAN and HOU Haitao.