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 2023

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June		
	2023	2022	**Change in percentage**
	RMB'000	*RMB'000*	
Revenue	**1,535,704**	1,847,152	-16.9%
Gross profit	**706,732**	967,029	-26.9%
Gross profit margin	***46.0%***	*52.4%*	
Operating profit/(loss)	**260,740**	(141,776)	+283.9%
EBITDA margin≠	***28.2%***	*34.2%*	
EBIT margin≠≠	***17.0%***	*-7.7%*	
Adjusted EBIT margin#	***18.0%***	*25.6%*	
Profit/(loss) for the period	**200,353**	(233,031)	+186.0%
Adjusted profit for the period#	**215,300**	381,300	-43.5%
Profit/(loss) attributable to the equity holders of the Company	**153,970**	(313,531)	+149.1%
Adjusted profit attributable to the equity holders of the Company#	**168,917**	300,800	-43.8%
	RMB cents	*RMB cents*	
Basic and diluted earnings/(loss) per share	**4.77**	(9.71)	+149.1%
Adjusted basic and diluted earnings per share#	**5.23**	9.31	-43.8%
Paid special dividend per share *(note 8)*	**–**	HK3.38 cents	
Proposed interim dividend per share *(note 8)*	**HK1.60 cents**	–	
Proposed special dividend per share *(note 8)*	**HK1.90 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 RMB14,947,000 for the six months ended 30 June 2023 and 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 2023 together with the comparative figures for the six months ended 30 June 2022.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,535,704**	1,847,152
Cost of goods sold		**(828,972)**	(880,123)
Gross profit		**706,732**	967,029
Other income and other gains – net	*4*	**89,480**	100,227
Selling and marketing expenses		**(142,021)**	(174,159)
Administrative expenses		**(389,526)**	(412,252)
Impairment of goodwill		**(14,947)**	(614,331)
Net impairment reversal/(losses) on financial assets		**11,022**	(8,290)
Operating profit/(loss)		**260,740**	(141,776)
Finance income		**48,194**	31,640
Finance costs		**(15,440)**	(12,204)
Finance income – net		**32,754**	19,436
Share of results of associates and jointly controlled entities		**(6,756)**	(5,052)
Profit/(loss) before income tax		**286,738**	(127,392)
Income tax expense	*6*	**(86,385)**	(105,639)
Profit/(loss) for the period		**200,353**	(233,031)
Attributable to:			
Equity holders of the Company		**153,970**	(313,531)
Non-controlling interests		**46,383**	80,500
		200,353	(233,031)
Earnings/(loss) per share attributable to the Company's equity holders for the period		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**4.77**	(9.71)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Profit/(loss) for the period	**200,353**	(233,031)
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	**(3,104)**	–
Currency translation differences of the Company and its non-foreign operations	**58,735**	56,389
Items that may be reclassified to profit or loss		
Currency translation differences of foreign operations	**3,314**	501
Other comprehensive income for the period, net of tax	**58,945**	56,890
Total comprehensive income/(loss) for the period, net of tax	**259,298**	(176,141)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**203,010**	(270,915)
Non-controlling interests	**56,288**	94,774
	259,298	(176,141)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2023** *RMB'000* **Unaudited**	As at 31 December 2022 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**2,158,831**	2,042,644
Right-of-use assets		**383,322**	385,498
Investment properties		**29,079**	27,332
Intangible assets		**4,270,044**	4,322,720
Investments in associates		**428,230**	691,748
Investments in jointly controlled entities		**20,548**	19,802
Financial assets at fair value through other comprehensive income		**191,745**	16,006
Financial assets at fair value through profit or loss		**254,038**	253,058
Deferred income tax assets		**144,865**	152,524
Other non-current assets		**442**	8,634
		7,881,144	7,919,966
Current assets			
Biological assets		**4,319**	1,470
Inventories		**1,061,093**	1,020,023
Trade and other receivables	*9*	**976,092**	1,242,178
Financial assets at fair value through other comprehensive income		**4,515**	49,794
Financial assets at fair value through profit or loss		**2,772,623**	1,637,613
Cash and bank balances		**3,384,516**	4,747,978
		8,203,158	8,699,056
Total assets		**16,084,302**	16,619,022

	Note	As at 30 June 2023 RMB'000 Unaudited	As at 31 December 2022 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,432,585**	4,380,460
Retained earnings		**7,945,690**	7,941,787
		12,706,894	12,650,866
Non-controlling interests		**1,832,625**	1,906,572
Total equity		**14,539,519**	14,557,438
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**15,000**	–
Put option liability		**139,457**	131,836
Lease liabilities		**36,110**	37,290
Deferred income tax liabilities		**120,157**	125,368
Trade and other payables	*11*	**11,605**	12,163
		322,329	306,657
Current liabilities			
Borrowings	*10*	**451,850**	677,700
Lease liabilities		**21,772**	23,480
Trade and other payables	*11*	**563,226**	722,135
Current income tax liabilities		**116,402**	215,650
Contract liabilities		**69,204**	115,962
		1,222,454	1,754,927
Total liabilities		**1,544,783**	2,061,584
Total equity and liabilities		**16,084,302**	16,619,022

Notes:

1. **BASIS OF PREPARATION**

This condensed consolidated interim financial information for the six months ended 30 June 2023 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 2022 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. **ACCOUNTING POLICIES**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2022, as described in those financial statements.

(a) New or amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. None of these amendments have had a material impact on how the Group's results and financial position for the current period have been prepared or presented in the interim financial report. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

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

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

		Effective for the financial year beginning on or after
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 1	Classification of liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1	Disclosure of Accounting Policies	1 January 2024
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint ventures	To be determined

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

3. REVENUE AND SEGMENT INFORMATION

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

(1) Flavours and fragrances, and Food ingredients ("F&F 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 F&F and Food ingredients, tobacco raw materials, aroma raw materials and condiment segments.

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

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

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

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

The segment information for the six months ended 30 June 2023 is presented below:

	Unaudited For the six months ended 30 June 2023					
	F&F 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	**693,024**	**199,753**	**293,155**	**374,542**	**2,744**	**1,563,218**
Inter-segment revenue	**(12,090)**	**(12,274)**	**(3,150)**	**–**	**–**	**(27,514)**
Segment revenue – net	**680,934**	**187,479**	**290,005**	**374,542**	**2,744**	**1,535,704**
Segment result	**237,967**	**44,272**	**(9,968)**	**71,426**	**(82,957)**	**260,740**
Finance income						**48,194**
Finance costs						**(15,440)**
Finance income – net						**32,754**
Share of results of associates and jointly controlled entities						**(6,756)**
Profit before income tax						**286,738**
Income tax expense						**(86,385)**
Profit for the period						**200,353**
Depreciation	**34,440**	**25,025**	**32,012**	**7,397**	**2,465**	**101,339**
Amortisation	**5,780**	**4,249**	**5,878**	**37,294**	**660**	**53,861**

	Unaudited As at 30 June 2023					
	F&F 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	**8,115,777**	**2,089,126**	**1,485,755**	**3,147,266**	**1,246,378**	**16,084,302**

The segment information for the six months ended 30 June 2022 is presented below:

	Unaudited For the six months ended 30 June 2022					
	F&F 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

	Audited As at 31 December 2022					
	F&F 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	8,982,722	2,017,984	1,446,564	3,305,516	866,236	16,619,022

4. OTHER INCOME AND OTHER GAINS – NET

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Changes in fair value of financial assets at fair value through profit or loss	**14,072**	21,025
Dividend income from financial assets at fair value through profit or loss	**1,918**	344
Gains on disposal of financial assets at fair value through profit or loss	**–**	11,646
Loss on disposal of associates	**(3,442)**	–
Provision for impairment relating to the investment in Junjieshang Network Technology Co., Ltd	**(22,291)**	–
Gain on disposal of a subsidiary	**–**	6,433
Government grants	**91,953**	89,252
Currency exchange gain/(loss) – net	**1,102**	(3,373)
Net gain/(losses) on disposal of property, plant and equipment and intangible assets	**3,589**	(293)
Change in fair value of previously held interest in a jointly controlled entity upon acquisition as a subsidiary	**–**	(24,083)
Others	**2,579**	(724)
	89,480	100,227

5. EXPENSES BY NATURE

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

		Unaudited For the six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**92,992**	98,456
Amortisation	*3*	**50,302**	47,852
Employee benefit expenses		**309,362**	308,506
Research and development expenses	*(a)*	**116,321**	110,663
Short-term lease rentals		**11,211**	6,278
Travelling expenses		**13,105**	6,816
Utility expenses		**50,416**	36,880
Delivery expenses		**16,025**	20,369

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

		Unaudited For the six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**8,347**	7,679
Amortisation	*3*	**3,559**	2,874
Employee benefit expenses		**72,108**	60,231

6. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Current income tax:			
– PRC corporate income tax	*(a)*	**83,269**	120,340
– Hong Kong profits tax	*(b)*	**–**	824
– Botswana company income tax	*(c)*	**1**	143
– Germany company income tax	*(d)*	**–**	–
– Indonesia company income tax	*(e)*	**119**	3
Deferred income tax		**2,996**	(15,671)
		86,385	105,639

(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 2022: 16.5%) on the estimated assessable profit for the year. Under the current Hong Kong Inland Revenue Ordinance, with effect from the Year of Assessment 2018/2019 onwards, profits tax is payable at the rate of 8.25% on the first HK$2,000,000 of the assessable profits of subsidiaries located in Hong Kong and at the rate of 16.5% on the portion of assessable profits in excess of HK$2,000,000.

(c) Botswana company income tax has been provided at the rate of 15.0% (six months ended 30 June 2022: 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 2022: 15.0%) on the estimated assessable profit for the period.

(e) Indonesia company income tax has been provided at the rate of 22.0% (six months ended 30 June 2022: 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 2023 and 2022.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue for the six months ended 30 June 2023 and 2022.

	Unaudited For the six months ended 30 June	
	2023	2022
Profit/(loss) attributable to equity holders of the Company *(RMB'000)*	**153,970**	(313,531)
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Basic earnings/(loss) per share attributable to equity holders of the Company *(RMB cents per share)*	**4.77**	(9.71)

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share for the six months ended 30 June 2023 and 2022 was the same as basic earnings/(loss) per share, since the Company did not have any potential ordinary share outstanding that has dilution effect.

8. DIVIDENDS

	Unaudited For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Paid special dividend of HK3.38 cents per share for the six months ended 30 June 2022	**–**	95,840
Proposed interim dividend of HK1.60 cents per share for the six months ended 30 June 2023	**47,647**	–
Proposed special dividend of HK1.90 cents per share for the six months ended 30 June 2023	**56,580**	–
	104,227	95,840

Special dividend of approximately HKD109,172,000 (equivalent to approximately RMB95,840,000) for the six months ended 30 June 2022 was paid in October 2022. Special dividend of approximately HKD164,726,000 (equivalent to approximately RMB148,866,000) for the year ended 31 December 2022 was paid in June 2023.

As the interim dividend was declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2023.

9. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 June 2023 Unaudited** ***RMB'000***	As at 31 December 2022 Audited *RMB'000*
Trade receivables	*(a)*	**695,486**	1,038,189
Less: provision for impairment of trade receivables		**(31,394)**	(27,704)
Trade receivables – net		**664,092**	1,010,485
Notes receivable		**46,948**	27,574
Prepayments and other receivables		**263,933**	228,234
Advances to staff		**5,549**	2,532
Others		**1,392**	1,318
Less: provision for impairment of other receivables		**(5,822)**	(27,965)
		976,092	1,242,178

Except for prepayments of RMB44,715,000 (31 December 2022: RMB62,427,000), trade and other receivables 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 generally granted to customers ranges from 0 to 180 days. At 30 June 2023 and 31 December 2022, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice dates was as follows:

	As at 30 June 2023 Unaudited ***RMB'000***	As at 31 December 2022 Audited *RMB'000*
0 – 90 days	**433,615**	764,775
91 – 180 days	**86,581**	112,752
181 – 360 days	**67,441**	59,268
Over 360 days	**107,849**	101,394
	695,486	1,038,189

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30 June 2023, a provision for impairment RMB31,394,000 was made against the gross amount of trade receivables (31 December 2022: RMB27,704,000).

10. BORROWINGS

	Note	As at 30 June 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**15,000**	15,000
Less: current portion		**–**	(15,000)
		15,000	–
Current			
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**–**	50,000
– Unsecured bank borrowings	*(b)*	**451,850**	612,700
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**–**	15,000
		451,850	677,700
Total borrowings		**466,850**	677,700

(a) The Group's secured bank borrowings as at 30 June 2023 of RMB15,000,000 (31 December 2022: RMB65,000,000) were repayable within two years (31 December 2022: repayable within one year) and secured by certain right-of-use assets of Shanghai Yifang Rural Technology Holdings Co. Ltd and its subsidiaries ("Shanghai Yifang") with total carrying amount of approximately RMB10,931,000 (31 December 2022: secured by certain buildings, right-of-use assets of Shanghai Yifang with total carrying amount of approximately RMB17,662,000). For the six months ended 30 June 2023, the average interest rate of the loan was 4.1% (six months ended 30 June 2022: 4.4%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. For the six months ended 30 June 2023, the average interest rate was 2.9% (six months ended 30 June 2022: 3.2%) 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 2023 amounted to approximately RMB7,377,000 (six months ended 30 June 2022: RMB10,760,000). No interest expense was capitalised during the six months ended 30 June 2023 and 2022.

11. TRADE AND OTHER PAYABLES

	Note	**As at 30 June 2023 Unaudited** *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Trade payables	*(a)*	**249,846**	277,249
Notes payables		**5,000**	–
Wages payable		**67,940**	97,021
Other taxes payable		**45,923**	98,107
Accruals for expenses		**9,069**	9,677
Other payables		**185,448**	240,481
Deferred income from government grants		**11,605**	11,763
		574,831	734,298

Except for other taxes payable of RMB45,923,000 (31 December 2022: RMB98,107,000), wages payable of RMB67,940,000 (31 December 2022: RMB97,021,000) and deferred income from government grants of RMB11,605,000 (31 December 2022: RMB11,763,000), trade and other payables 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 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Non-current	**11,605**	12,163
Current	**563,226**	722,135
	574,831	734,298

(a) As at 30 June 2023 and 31 December 2022, 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 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
0 – 90 days	**220,603**	245,146
91 – 180 days	**12,375**	9,721
181 – 360 days	**2,604**	5,113
Over 360 days	**14,264**	17,269
	249,846	277,249

MANAGEMENT DISCUSSION AND ANALYSIS

General Overview

During the first half of 2023 (the "Reporting Period"), China's economic activities gradually recovered as a result of the lift of the pandemic control. According to data released by China's National Bureau of Statistics, gross domestic product grew by 5.5% year-on-year in the first half of the year, which exceeded the government's full-year target of 5% economic growth. The macroeconomic recovery has led to a rebound in consumption, with some sectors, such as tourism and catering, seeing relatively more significant growth. Nevertheless, the three-year-long pandemic has made domestic consumers more cautious in spending, while demand from overseas markets has declined due to the economic downturn. The instability and volatility of demand in both the domestic and international markets have caused enterprises to adopt a wait-and-see attitude towards expanding production and new investments. The slowdown in GDP growth in the second quarter from the previous quarter reflects signs of a slowdown in the economic recovery, and there remains considerable pressure on overall economic recovery.

In the face of a difficult operating environment, the Group coordinated its business segments to formulate plans in research and development, production, and sales in accordance with the actual market situation, and to promote business development in a stable and orderly manner. The Group actively promoted the "Lean Production" program in each business segment to reduce operating costs and improve production efficiency. In order to implement the "Plan for Huabao's Sustainable Development Goals", the Group attached great importance to environmental, social and corporate governance ("ESG") and organised a number of relevant trainings during the Reporting Period with an objective to raise the awareness of employees on sustainable development so as to facilitate the sustainable development of the business.

INDUSTRY OVERVIEW

Overview of the tobacco industry

According to the National Bureau of Statistics, China's cigarette production reached 26.932 million cases during the Reporting Period, representing a year-on-year increase of 1.7%. The stable production of the tobacco industry reflected the strong anti-cyclicality and stability of the tobacco industry. In the backdrop of increasing economic uncertainty at home and abroad, it is obvious that the stable development of the tobacco industry plays an important role in national tax revenues and improving the living standards of rural residents.

In the first half of 2023, the State Tobacco Monopoly Administration ("STMA") carried out special inspections to regulate the e-cigarette market. The STMA conducted a comprehensive inspection of e-cigarette manufacturers, wholesalers and retailers, to ensure that they were operating legally and in compliance with the law. The inspections have helped e-cigarette market participants to recognise the importance of learning and implementing e-cigarette-related policies, resulting in a more regulated e-cigarette market. Meanwhile, some e-cigarette companies with financial strength and product competitiveness began to put in more resources in developing overseas markets, so as to increase market share and expand revenue sources.

In regard to Heat-not-burn ("HNB") cigarettes, international tobacco companies continued to increase their investment in R&D and branding in this area, resulting in favourable product promotion and sales performance. Nevertheless, the popularity of HNB cigarettes has also led to increased scrutiny of the product's safety and promotional accuracy by regulatory agencies in overseas countries and territories. International tobacco companies have to devote more resources and effort to respond to regulatory requirements.

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

In the first half of 2023, the pandemic prevention and control were substantially relaxed, and people were able to have free access to a variety of different venues, with an increase in consumption for foods and beverages and a corresponding increase in consumer demand. According to the National Bureau of Statistics, the added value of the food manufacturing industry grew by 2.7% year-on-year, and the added value of the wine, beverage and refined tea manufacturing industry grew by 0.2% year-on-year. The three-year pandemic has led to a significant increase in consumer demand for the quality, safety and nutrition of food and beverages, and consumers have developed the habit of purchasing a variety of food and beverage products online. In the daily-use chemical industry, product sales rebounded, as offline sales channels for daily-use chemical brands recovered with online sales channels empowering offline channels. However, as consumers became more cautious in their spending after the pandemic, various brands had to attract customers and boost sales through more discounts, adding more intense competition to the industry with great pressure on the operations of small and medium-sized brands.

Overview of the condiment industry

During the Reporting Period, the catering industry witnessed a strong recovery as people had free access to various food and beverage establishments for dining. According to the National Bureau of Statistics, the revenue of the catering industry in the first half of the year was RMB2,432.9 billion, representing a year-on-year increase of 21.4%. Compared with the pre-pandemic year of 2019 (1H 2019: RMB2,127.9 billion), there was an increase of 14.3% year-on-year, the performance of the catering industry has already surpassed that of the pre-pandemic period. The recovery of the catering industry has driven the demand for the products of the upstream condiment enterprises, which in turn have invested more in product development, distribution network and marketing with an aim to expanding their customer base and increasing sales. Despite the recovery of the catering industry, the demand for cost reduction and efficiency enhancement in the catering industry remained strong, as consumers became more cautious in their spending and catering enterprises had to increase sales through high volumes and thin profit margins. For the condiment enterprises, the key to enhancing their competitiveness is finding ways to help their customers to improve their order fulfilment efficiency, maintain their quality and tastes of dishes and develop standardised products.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB1,536 million (1H 2022: approximately RMB1,847 million), representing a year-on-year decrease of 16.9%; gross profit margin of 46.0% (1H 2022: 52.4%), representing a year-on-year decrease of 6.4 percentage points; operating profit of approximately RMB261 million (1H 2022: operating loss of approximately RMB142 million); profit attributable to the equity holders of the Company of approximately RMB154 million (1H 2022: loss attributable to the equity holders of the Company of approximately RMB314 million); basic earnings per share of approximately RMB4.77 cents (1H 2022: basic loss per share of approximately RMB9.71 cents).

Excluding the impact of goodwill impairment of RMB614 million in relation to the cash-generating unit ("CGU") of Jiahao Foodstuff Limited and its subsidiaries ("Jiahao") in the first half of 2022 and the goodwill impairment of RMB14.947 million in relation to the aroma raw materials segment for the first half of 2023, an adjusted operating profit amounted to approximately RMB276 million (1H 2022: adjusted operating profit of approximately RMB473 million) was recorded for the Reporting Period, representing a year-on-year decrease of 41.7%; adjusted profit attributable to the equity holders of the Company was approximately RMB169 million (1H 2022: adjusted profit attributable to the equity holders was approximately RMB301 million), representing a year-on-year decrease of 43.8%; adjusted basic earnings per share was approximately RMB5.23 cents (1H 2022: adjusted basic earnings per share was approximately RMB9.31 cents), representing a year-on-year decrease of 43.8%.

BUSINESS REVIEW

Review of F&F and Food ingredients business

During the Reporting Period, revenue of the F&F and Food ingredients business of the Group amounted to approximately RMB681 million (1H 2022: approximately RMB888 million), representing a year-on-year decrease of 23.3%, and accounting for approximately 44.3% (1H 2022: 48.0%) of the Group's total revenue. The decrease in revenue from the business segment was mainly due to changes in market demand and increased market competition. Operating profit of the segment amounted to approximately RMB238 million (1H 2022: RMB469 million), representing a year-on-year decrease of 49.2%; and operating profit margin was approximately 34.9% (1H 2022: 52.8%), representing a year-on-year decrease of 17.9 percentage points. The decline in operating profit margin was primarily attributable to changes in product mix.

(1) Flavours

In terms of tobacco flavours, the Group has developed special flavouring products that can be used in cooling materials for HNB cigarettes. These products are available in different forms and flavours to meet the diversified needs of customers. For food flavours, the Group has produced tea, milk and syrup flavours for food and beverage customers in response to their demand for new flavours, to help them win the hearts and minds of consumers. In addition, the bakery market has a large capacity and rapid growth, resulting in a high demand for food flavours. However, the bakery market is characterised by intense competition and rapid product updates, which requires high demands on the ability of flavour manufacturers to provide customised products and adapt to changes. The Group monitors the development characteristics and trends of the bakery market and strives to develop more new customers.

For overseas markets, Warlbor Asia Pacific Pte Ltd in Singapore is actively developing customers in Malaysia, Thailand, Indonesia, and etc., and its products have been tested and certified by local regulatory authorities. The Group has established formulations and databases of flavouring products based on the needs of local customers, so as to better analyse the flavour preferences of local customers and optimise its product development and promotion strategies.

(2) Fragrances

After the end of the pandemic, market demand for fumigation and decontamination products declined. The Group shifted its development focus to personal care, oral care and pet care. For overseas markets, the Group has also been actively developing customers in the European and African markets to increase revenue sources and promote the internationalisation of its business.

(3) Food ingredients

The operations of the food ingredients segment resumed to normal in the first half of the year as demand from the downstream food, beverage and catering markets rebounded. In order to enhance the competitiveness of the food ingredients business, the Group provided financing, technical, regulatory and management support to the business and assisted the business segment in developing overseas markets, with an aim to improving the performance of the business in the future.

(4) Investment progress of the proceeds raised by Huabao Flavours and Fragrances Limited ("Huabao Flavours")

In April 2021 and April 2023, the Group adjusted the use of the proceeds raised from the initial public offering of Huabao Flavours in 2018 and the implementation plans for the investment projects in order to better respond to the industry changes and the Company's development. The Group will cease the construction of "Huabao Yingtan Flavours and Ingredients Production Base Project" ("Huabao Yingtan Project") and 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 2023, the cumulative amount dedicated for the Huabao TechInno Project was approximately RMB7.5463 million (31 December 2022: approximately RMB5.0323 million), representing an investment progress of 1.68% (31 December 2022: 1.1%). The cumulative amount dedicated for the Huabao Digital Project was approximately RMB19.0878 million (31 December 2022: approximately RMB17.5898 million), representing an investment progress of 31.81% (31 December 2022: 29.3%). As of 30 June 2023, the balance of unused initial public offering ("IPO") proceeds (including accumulated interest income received) amounted to approximately RMB1,648 million (31 December 2022: approximately RMB1,668) million). As of 30 June 2023, the IPO proceeds utilized amounted to approximately RMB940 million (31 December 2022: approximately RMB901 million), accounting for 40.7% (31 December 2022: 39.0%) of the total proceeds from the IPO in 2018 of approximately 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 RMB187 million (1H 2022: approximately RMB192 million), representing a year-on-year decrease of 2.3%, and accounting for approximately 12.2% (1H 2022: approximately 10.4%) of the Group's total revenue. The decline in segment revenue was mainly due to decline in sales of tobacco new materials. Operating profit of the business segment was approximately RMB44.272 million (1H 2022: approximately RMB19.365 million), representing a year-on-year increase of 128.6%; operating profit margin was approximately 23.6% (1H 2022: 10.1%), representing a year-on-year increase of 13.5 percentage points. The increase in operating profit was mainly due to strict control of costs.

(1) Reconstituted Tobacco Leaves ("RTL")

During the Reporting Period, the Group's co-operative relationship with its RTL customers was stable. With oversupply in the domestic market, the growth of the RTL business mainly came from the development of overseas business. In Indonesia, the Group's HNB RTL plant achieved mass production and volume sales, and the quality of the products and services provided by the team were recognised by customers. The team is able to develop and produce HNB RTL that suits customers' products according to their needs. As a result of the customer's recognition, the Group has decided to increase investment to increase the production capacity of HNB RTL in Indonesia from the current 1,000 tonnes per annum to 3,000 tonnes per annum. The construction of the new production line is expected to be completed by the third quarter of 2024. The Group will continue to assess the market demand to determine whether it is necessary to further increase production capacity.

(2) Tobacco new materials

Tobacco new materials mainly include cigarette capsules and filters. The decline in revenue from cigarette capsules was mainly attributable to the decrease in selling prices due to weak market demand and fierce competition in the domestic market. Meanwhile, since the cost controls by customers and the proportion of sales of products with lower profit margins increased, the overall profit margin of tobacco capsule products dropped accordingly. For cigarette filters, as the market for HNB cigarettes has not yet been opened up in Mainland China, the Group focused its efforts on improving the production efficiency for existing products, strengthening production management, and the research and development in news products.

Review of the aroma raw materials business

During the Reporting Period, revenue of the aroma raw materials business of the Group was approximately RMB290 million (1H 2022: approximately RMB478 million), representing a year-on-year decrease of 39.3%, and accounting for approximately 18.9% (1H 2022: 25.9%) of the Group's total revenue. The decrease in segment revenue was mainly attributable to decline in domestic and foreign market demand. Operating loss of the business segment was approximately RMB9.968 million (1H 2022: operating profit of RMB44.775 million). Excluding the impairment of RMB14.947 million for first half of 2023, the adjusted operating profit was approximately RMB4.979 million, representing a year-on-year decrease of 88.9%; the adjusted operating profit margin was1.7% (1H 2022: operating profit margin: 9.4%), representing a year-on-year decrease of 7.7 percentage points. The decrease in adjusted operating profit and operating profit margin were mainly due to decrease in revenue and change in product mix.

During the Reporting Period, demand for the aroma raw materials segment declined in both overseas and domestic markets. In the overseas markets, the weak economy of major economies and high inventories led to a decline in demand growth. In the domestic market, end-consumers became more cautious and conservative in consumption, triggering the effect to the upstream of the industry chain, which reduced the demand for upstream aroma raw material products. To boost the product's sales in the face of overall reduced demand, market participants adopted price reduction strategies, which put downward pressure on the sales prices of products. The decline in both product volume and selling prices resulted in lower revenue for the segment. However, the fixed costs of the segment did not decrease, resulting in a significant decrease in the segment's operating profit and operating profitability.

During the Reporting Period, national regulatory bodies placed great emphasis on the ability of chemical enterprises in production safety. The Group conducted an overall inspection of the segment's safety production management system and production competency, and provided a number of specialised trainings on production safety for its employees to raise their awareness of risk prevention and established a safe production and working environment.

Review of the condiment business

During the Reporting Period, revenue of the Group's condiment business was approximately RMB375 million (1H 2022: approximately RMB289 million), representing a year-on-year increase of 29.5%, and accounting for approximately 24.4% (1H 2022: 15.7%) of the Group's total revenue. The operating profit of the segment was approximately RMB71.426 million (1H 2022: operating loss of approximately RMB586 million); operating profit margin was 19.1%. Excluding the impact of the impairment of the goodwill of approximately RMB614 million of Jiahao CGU for the first half of 2022, operating profit increased by 151.9% year-on-year (1H 2022: adjusted operating profit was approximately RMB28.357 million), operating profit margin (1H 2022: adjusted operating profit margin 9.8%), increased by 9.3 percentage points on a year-on-year basis. The increase in the segment's revenue was mainly due to increased demand in the market as a result of the recovery of the catering industry, while the increase in operating profit and operating profit margin was mainly due to increased revenue and operating cost control. During the Reporting Period, the pandemic was finally over and the catering industry rebounded strongly as it resumed normal business. Purchasing demand from customers of the catering industry grew and product sales rose. The Group adopted the refined management model to reduce the selling and administrative expenses, resulting in improved profitability in the condiment business.

In terms of products, sales of core products such as chicken sauce, wasabi and fruit juices all recorded year-on-year growth. In order to further diversify the product mix and assist chefs in improving the efficiency and quality of their dishes, the R&D team launched the new product "Chinese Chef's Bone Broth" soup base, which is extracted and blended with high-quality raw materials with Tetra Pak packaging to preserve the taste and flavour of the soup base for a long period of time at room temperature. The launch of new products is a reflection of the continuous innovation and experimentation of the condiment segment, enhancing the segment's comprehensive competitiveness and sources of income.

In terms of sales channels, the rapid recovery of the catering industry improved distributors' willingness to increase their inventories for more sales. The Group's sales and marketing teams capitalised on the opportunity of the industry recovery and expanded its sales network, increasing the number of Tier 1 distributors to approximately 600. The increase in the number of distributors and the expansion of their coverage provided sufficient momentum for the recovery and growth of the segment's sales.

In terms of marketing strategy, all offline marketing activities resumed after the end of the pandemic. The sales team visited the end-customers to understand their experience in using the products and collected their feedback as basis for product improvements and enhancement of the product competitiveness and service quality. The sales team also actively participated in major exhibitions in the catering industry to promote products to users in various countries and regions, taking the opportunity to enhance our brand exposure and awareness.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB116 million (1H 2022: approximately RMB111 million). R&D expenses accounted for approximately 7.6% (1H 2022: 6.0%) of revenue, representing an increase of 1.6 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 2022: Nil).

Human Resources and Corporate Culture Construction

As at 30 June 2023, the Group employed a total of 4,003 (as at 31 December 2022: 3,875) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

Digital Transformation

2023 is the second year of the Group's digital transformation, and after the first year of structural construction, the digital transformation work moved forward steadily. During the Reporting Period, more subsidiaries input data on procurement, production and sales into the SAP ERP system, which further enriched the database and provided more comprehensive data for automated analyses. After training, the financial staff of subsidiaries were able to use the electronic financial system more proficiently for data entry and reconciliation, which enhanced the efficiency of preparing financial statements and strengthened the preparation efficiency of the Group's consolidated statements, financial management and analysis capabilities. The fund management system has enabled more standardised management of receipts and payments, as well as timely and visual enquiries on fund balances. The Product Lifecycle Management (PLM) system has been applied to the management of F&F formulations and the R&D project management of tobacco raw materials, and the team has been able to make use of the PLM system to better check the patents and regulations involved in the R&D process of the products and to enhance the compliance of the products in terms of intellectual property rights.

The Group attaches great importance to digital transformation efforts and believes that digital transformation can bring positive impact to the development of the organisation and its employees. The management has conducted training on artificial intelligence and Chat GPT for its staff to enable them to understand the impact and challenges of technology on the operational efficiency of the business as well as personal productivity. The Group has also set up an artificial intelligence related technology company to facilitate the study on the development and application of smart F&F preparation technology. The Group's efforts in digital transformation have been recognised by professional organisations and was awarded the "SAP Global Innovation Award" presented by SAP.

OUTLOOK

China's economic growth still remains at a relatively high level despite the slowdown in the world's major economies. However, the Chinese economy is also facing the risk of insufficient and declining internal and external consumer demand, with corporate profitability likely to come under greater pressure. In the second half of the year, the Chinese government has indicated that it will intensify its macroeconomic policies in uplifting domestic demand, boosting confidence, and promoting the economy to achieve effective qualitative improvement and reasonable quantitative growth. The Group will capitalise on the opportunities brought about by the macro policies to tap into more consumption needs and strive to develop the number of customers. Overall, the management maintains a prudent and conservative view on the Group's business in the second half of 2023.

In terms of flavours and fragrance and food ingredients, the Group will strive to grow the number of customers for food flavours, fragrances and food ingredients. In response to the market demand for healthy and natural products, the Group will provide total solutions to its customers by developing its business from product supply to creativity and co-operation, enhancing added value and competitiveness of its products and services.

As the market demand for products in the tobacco raw material business in China is saturated, the Group will focus on developing overseas customers. The Group's new production line in Indonesia has been put into construction, and the Group will steadily push forward the construction of the production line in accordance with the plan.

In terms of aroma raw materials, the recovery of market demand in the second half of the year will remain difficult due to the global macroeconomic downturn together with uncertain recovery of the domestic consumer demand. The Group will continue to optimise its supply chain, reduce consolidated operating costs and enhance operating efficiency of the segment to minimise the adverse impact of the external environment on its operations.

For condiments, the management believes that the catering industry can maintain a sustained recovery in the second half of the year and demand is expected to grow continuously. The Group will focus on the demand of the catering industry as the core to expand its market share and increase sales revenue by enhancing the competitiveness of its R&D, products, channels and sales.

ANALYSIS OF PROVISION FOR IMPAIRMENT RELATING TO THE INVESTMENT IN AN ASSOCIATE

DESCRIPTION OF INVESTMENT IMPAIRMENT OF JUNJIESHANG IN 2022

Background of investment impairment of Junjieshang

The Company and its subsidiaries (the "Group") provided a capital contribution of RMB350 million to Junjieshang Network Technology Co., Ltd. ("Junjieshang") in November 2021, and held a 10% equity interests in Junjieshang after the contribution. Junjieshang is a vertical ecosystem collaboration platform in the hairdressing industry, working with hair salons in more than 50 cities across the country. Through the electronic screen devices installed in the shops and the APP promoted by Junjieshang, it not only provides advertising services for brands, but also offers digital platform services for hair salons and consumers including time-of-use pricing service, SaaS ("Software as a Service") platform service and SaaS e-commerce service (a software for users to use as needed upon request). Hair salon is the main consumption scenario of Junjieshang's business model.

As Shanghai implemented epidemic lockdown measures in March 2022, major cities across the country went into lockdown one after another. After the release of lockdowns at the end of the year, the epidemic broke out again in major cities across the country. Since the headquarters and data center of Junjieshang are in Shanghai, the management team, R&D, customer service and broadcast control teams of Junjieshang could not work normally, and Junjieshang could not release advertisements normally. In the second half of the year, important cities such as Beijing, Zhengzhou, Shijiazhuang, Xi'an, Qingdao and Guangzhou were also closed one after another. The nationwide epidemic prevention and control measures, including the city closure, have led to the closure of many barbershops, and also caused a considerable number of sales staffs of Junjieshang to be quarantined at home. On the other hand, during the epidemic period, due to the reduction of investment by Junjieshang's advertisers, Junjieshang's advertising orders were greatly reduced, which eventually led to a sharp drop in the Junjieshang's revenue. However, in order to stabilize the team, the management of Junjieshang paid salaries to employees as usual, and provided assistance such as materials and psychological counseling to employees, so Junjieshang's expenses have not decreased with income. As a result, the annual operating revenue of Junjieshang declined by 87% in 2022. However, in order to maintain its business stability and continuity, the operating cost of Junjieshang only reduced by 40% as compared to 2021, resulting in an increase of 116% in Junjieshang's net loss in 2022 and the investment in Junjieshang showed signs of impairment. Therefore, the Group engaged an independent valuer to conduct an impairment test on the investment in Junjieshang as at 31 December 2022 and an investment impairment of RMB139 million was recognized. After impairment, the investment balance of Junjieshang amounted to RMB204 million.

Reasons for impairment of investment in Junjieshang

As Shanghai implemented epidemic lockdown measures in March 2022, major cities across the country went into lockdown one after another. In July 2022, the Group conducted follow-up discussions with the management of Junjieshang after the investment. The management of Junjieshang explained the impacts of the epidemic on Junjieshang in the first half of the year and the counter-measures, and presented plans to explore new businesses in the second half of the year. The management of Junjieshang stated that the business goals for the first half of 2022 could not be achieved, however, they believed that it was still possible to achieve the business goals in the second half of the year.

In the second half of 2022, the pandemic further spreaded in many provinces and regions and most hair salons were closed. In November 2022, the management of both the Group and Junjieshang conducted discussions in the Shanghai headquarters of Junjieshang on the business operation in 2022. The management of Junjieshang explained the situation and reasons for the drop in revenue of Junjieshang for the year and briefed on the business plans for 2023.

On 7 December 2022, the National Health Commission announced the full relaxation of the nationwide lockdown. Yet, China's economic growth was still slower than expected. According to the National Bureau of Statistics, the national total retail sales of consumer goods from January to February 2023 increased by 2.9% year-on-year and decreased by 0.02% from January to February. According to the statistics of CTR Media Intelligence under CCTV on advertisements in the national media industry, from January to February 2023, the national omni-media advertising market fell by 6.7% year-on-year, of which the advertising market spending in February fell by 11.9% year-on-year and 23.3% month-on-month.

Compared with the performance at the time of investment, the significant drop in Junjieshang's results made it unable to realize the profit forecast for 2022 as anticipated. Therefore, the management of Junjieshang made strategic adjustments and postponed its overall development plan. Also, based on the re-evaluation of the macroeconomic and market prospects, the management of Junjieshang forecasted the future performance prospects in a more cautious manner. In view of this, the Group believed that the business performance and development of Junjieshang was worse than those forecasted on 29 November 2021. According to the prudent and appropriate accounting principles, the Group performed an impairment test on the investment in Junjieshang with the assistance of an independent valuer and recognized an impairment of RMB139 million on the investment in Junjieshang as of 31 December 2022.

Investment impairment test

In accordance with HKAS 36, the Company performed an investment impairment test on Junjieshang on 31 December 2022 (the valuation benchmark date), and conducted a value analysis to determine the recoverable amount of Junjieshang. According to the standard, the recoverable amount is determined on the higher of the fair value less the costs of disposal (“FVLCOD”) and value in use (“VIU”). Since Junjieshang is an unlisted company, under the current market environment of global economic recession, low consumer confidence and significant reduction in market transaction activities, there were no comparable assets sold among market participants engaging in similar industries or activities on or around the assessment benchmark date. Therefore, an orderly transaction price was not available to provide a basis for reliable estimation of FVLCOD. As it was not practical to arrive at the FVLCD calculations, VIU was adopted in the evaluation. According to the test result, the recoverable amount of Junjieshang was RMB203,892,000. An investment impairment loss of RMB139 million was recognised in the consolidated income statement of the Group for the year ended 31 December 2022.

Methodology, key assumptions and basis used in calculating the VIU of Junjieshang

The Company has engaged an independent valuer to carry out an impairment test on the investment in Junjieshang as at 31 December 2022. The valuer used the estimated future discounted cash flow approach to assess the VIU of Junjieshang, which was consistent with the valuation methodology used in calculating the enterprise value of Junjieshang as at 29 November 2021. It was based on a free cash-flow projection of Junjieshang in the forecast period and cash flows beyond the forecast period were calculated using the terminal growth rate, and the net present value of such flow cash-flows was calculated using an appropriate discount rate.

The key assumptions and basis used in calculating Junjieshang’s VIU were as follows:

1) Revenue forecast: as determined by the management of Junjieshang based on its competitive advantages in the industry, combined with their projections of future market development.

2) Post-tax discount rate: the discount rate for impairment test, with reference to the market information of the same industry and its specific risk premium, calculated by the valuer with the applicable cost of equity capital and cost of debt capital to come up with weighted average cost of capital (“WACC”) based on Junjieshang’s capital structure.

3) Terminal compound annual growth rate (“CAGR”): long-term average growth rate of Junjieshang as estimated by its management with reference to its current market expansion progress and existing market share.

Changes in key assumptions and reasons for change

Key assumptions	As at 29 November 2021	As at 31 December 2022
Revenue forecast		
Advertising revenue	CAGR of 55.7% during the profit forecast period	CAGR of 22.3% during the profit forecast period
SaaS e-commerce service	CAGR of 113.8% during the profit forecast period	CAGR of 121.2% during the profit forecast period
SaaS platform service	CAGR of 27.7% during the profit forecast period	CAGR of 115.4% during the profit forecast period

For advertising revenue forecasting, at the time of investment, the management forecasted the advertising revenue based on expected advertising orders. However, in view of the impact of the pandemic, Junjieshang expected that there will be greater uncertainty in the advertising orders in the future; and due to the closure of hair salons, there will be greater uncertainty in advertising revenue. Therefore, the management of Junjieshang adopted a more cautious forecasting model which was based on various dimensions including the type and price, the number of screens and the release time of brand advertisements. Compared with the forecast at the time of investment, the CAGR of advertising revenue dropped by 60% during the profit forecast period.

In the face of uncertainty in advertising revenue, the management of Junjieshang adjusted its strategic direction to try to focus on promoting the innovative business of the SaaS platform. As for SaaS e-commerce service, during the forecast period, the priority will be placed on providing revenue-generating services for owners of hair salons and promoting the SaaS platform to all such owners, and then gradually strengthening the integration of supply chains and expanding the centralized procurement business for hair salons to eventually cover all hairdressing products and achieving economies of scale, thereby enhancing Junjieshang's gain from the spread of commodity prices in the business. Meanwhile, the management of Junjieshang will optimize the 2C business model, offer local procurement services to registered C-end users and provide consumers with local-based brands and services. Compared with the forecast at the time of investment, the CAGR of SaaS e-commerce revenue increased by 7.4 percentage points during the profit forecast period.

Regarding SaaS platform service, Junjieshang mainly provides SaaS platform services and quasi-financial services to owners of off-line hair salons at the time of investment. SaaS platform service includes basic services and value-added services such as on-demand, reservation, evaluation and store management services. Quasi-financial services mainly include provision of hairdressing industry supply chain financial services for hair salon owners, including store decoration, revenue system and hairdressing supplies and equipment. As of 31 December 2022, although the pandemic has come to its end, the operation of the hairdressing industry has been significantly affected by the pandemic and some hair salons were even closed or bankrupt. Therefore, to better serve the owners of hair salons, the management of Junjieshang optimized the business model, suspended quasi-financial services and reduced the originally planned platform service content, and opened the originally paid platform modules to hair salon owners for free. Meanwhile, Junjieshang focuses on the development of time-of-use pricing system for the platform service, launching a series of activities through the platform during the non-peak hours of the hair salons to attract traffic to and increase the revenue of the hair salons, and charges certain service fee based on such service. Considering that Junjieshang is a company operating a vertical ecosystem platform in the hairdressing industry with high industry barriers and its promotion targets are mainly C-end users, along with the rigid demand and high consumer stickiness of the hairdressing industry, it is expected to have a multiplier effect once the number of registered C-end users has reached a certain scale in the future. The management of Junjieshang expects that the number of registered C-end users will continue to increase rapidly during the forecast period. Therefore, the management of Junjieshang has adjusted the SaaS platform service business model and revenue forecast. Compared with the forecast at the time of investment, the CAGR of platform service revenue increased by 87.7 percentage points during the profit forecast period.

Based on the above revenue assumptions, compared with the forecast at the time of investment, the CAGR of Junjieshang's net profit decreased by 19% and the CAGR of the net present value of free cash flow decreased by 56% since the first year of profitability during the profit forecast period.

Key assumptions	**As at 29 November 2021**	**As at 31 December 2022**
Post-tax discount rate	17.2%	25%

The valuer determined the post-tax discount rate based on WACC. Taking into account factors including actual operating conditions and future financial risks, the valuer added the enterprise-specific risk adjustment coefficient, resulting in a 25% increase in the final WACC.

Key assumptions	**As at 29 November 2021**	**As at 31 December 2022**
Terminal CAGR	1%	5%

According to the report of the China Commercial Industry Research Institute, the overall market size of China's hairdressing industry in 2022 was forecasted to be approximately RMB400 billion, with an average annual growth rate of about 5%. Junjieshang is a major vertical ecosystem collaboration platform in the hairdressing industry. Taking account into the long-term development potential of its business, especially the SaaS platform and the existing business network, and with reference to the business plan of Junjieshang's management, the terminal CAGR has been adjusted to 5% in the assessment report.

DESCRIPTION OF INVESTMENT IMPAIRMENT OF JUNJIESHANG IN APRIL 2023

Background of investment impairment of Junjieshang

As one of the Group's common directors at the subsidiary level retired as a director of the subsidiary in April 2023, the Group lost its influence over Junjieshang. In accordance with the relevant accounting standards, the Group is required to transfer the equity investment in Junjieshang at fair value to "Financial assets at fair value through other comprehensive income", therefore the Group engaged an independent valuer to assess the fair value of the equity investment in Junjieshang as at 30 April 2023. Based on the assessment results, the Group recognised an impairment loss on investment of RMB22,291,000, being the difference between the fair value of the equity investment in Junjieshang of RMB179,391,000 as at 30 April 2023 and its carrying amount.

Reasons for investment impairment of Junjieshang during the Period

Since 2023, China's post-pandemic economic recovery has been slow while facing the difficulty of insufficient domestic demand, despite the release of pandemic control. According to the National Bureau of Statistics, total amount of retail sales of consumer goods increased year-on-year in April 2023, but was below market expectations. On a quarter-on-quarter basis, consumer spending grew by 0.49% in April, 0.29 percentage point lower than that in March. The slowing down of consumption for two consecutive months indicates a slowdown in the pace of consumption recovery. From January to April 2023, Junjieshang reported weaker-than-expected revenues and continued to record losses.

In April 2023, the management of the Group had a discussion with the management of Junjieshang and left the situation and reasons for the lower revenue of the company in the first quarter. During the pandemic, many hair salons were in a state of closure or even bankruptcy, coupled with the inconvenience brought about by the closure and control, and the lack of effective maintenance of the screens, resulting in some of the screens being damaged and unable to play normally. In addition, according to the "2023 China Advertisers' Marketing Trend Survey" published by CTR Media Intelligence, an organization affiliated with CCTV, the advertising market is still in the midst of a difficult recovery in 2023, and advertisers are prudent in their marketing budgets. As a result, Junjieshang's advertising clients also reduced their advertising investment. Coupled with intensified competition from peers, while clients preferred to place their advertisements on leading enterprises with stronger coverage, this resulted in the majority of the framework agreements signed by the Company not being implemented. As a result, compared to the forecast made as at 31 December 2022, the decline in Junjieshang's performance from January to April 2023 has made it difficult to realize the profit forecast for the year of 2023.

Fair Value Assessment of Equity Investment in Junjieshang

In accordance with HKAS 36, the Company assessed the fair value of the equity investment in Junjieshang by performing a value analysis of Junjieshang (with 30 April 2023 as the valuation basis date) to assess the recoverable amount of Junjieshang. According to the standard, the recoverable amount is the higher of fair value less costs of disposal ("FVLCOD") and value in use ("VIU"). As Junjieshang is an unlisted company and under the current market environment where the global economy is facing a recession, with low consumer confidence and significantly reduced market transactional activities, there are no comparable assets with similar industries and similar businesses sold among market participants in the time around the valuation basis date, it is not feasible to obtain an orderly transaction price as the basis for a reliable estimation of the FVLCOD, and therefore, the obtaining of the FVLCOD is not feasible in this valuation, so the value-in-use amount was selected for this valuation. Based on the assessment results, the fair value of Junjieshang was RMB179,391,000.

Methodology, key assumptions and basis used in calculating the VIU of Junjieshang

The Company has engaged an independent valuer to carry out an impairment test on the investment in Junjieshang as at 30 April 2023. The valuer used the estimated future discounted cash flow approach to assess the VIU of Junjieshang, which was consistent with the valuation methodology used in calculating the enterprise value of Junjieshang as at 31 December 2022. It was based on a free cash-flow projection of Junjieshang in the forecast period and cash flows beyond the forecast period were calculated using the terminal growth rate, and the net present value of such flow cash-flows was calculated using an appropriate discount rate.

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

(1) Revenue forecast: as determined by the management of Junjieshang based on its competitive advantages in the industry, combined with their projections of future market development.

(2) Post-tax discount rate: the discount rate for impairment test, with reference to the market information of the same industry and its specific risk premium, calculated by the valuer with the applicable cost of equity capital and cost of debt capital to come up with weighted average cost of capital ("WACC") based on Junjieshang's capital structure.

(3) Terminal compound annual growth rate ("CAGR"): long-term average growth rate of Junjieshang as estimated by its management with reference to its current market expansion progress and existing market share.

Changes in key assumptions and reasons for change

Key assumptions	As at 31 December 2022	As at 30 April 2023
Revenue forecast		
Advertising revenue	CAGR of 22.3% during the profit forecast period	CAGR of 12% during the profit forecast period
SaaS e-commerce service	CAGR of 121.2% during the profit forecast period	CAGR of 118.3% during the profit forecast period
SaaS platform service	CAGR of 115.4% during the profit forecast period	CAGR of 113.8% during the profit forecast period

For advertising revenue forecasting, the management forecasted the advertising revenue based on expected advertising orders at the time of investment. However, Junjieshang expected that there will be greater uncertainty in the advertising orders in the future, and due to the closure of hair salons, there will be greater uncertainty in advertising revenue. Coupled with the fact that the revenue from January to April 2023 was lower than the forecast made at 31 December 2022, therefore, the management of Junjieshang followed the adjusted strategic direction in the year 2022 to strengthen its focus on the development of SaaS e-commerce services and platform services in the future, to reduce the proportion of advertising business, and reduce the investment in increasing the number of monitors. In the short term, it plans to replace the screens that have been phased out by replacing them with newer, larger monitors in the form of old-for-new replacements, which will be installed in cooperation with some of the hairdressing salons. Compared to the estimate made as at 31 December 2022, the CAGR of advertising revenues in the forecasted earnings has declined by 46%.

Regarding SaaS e-commerce services and SaaS platform services, based on the judgement that there is insufficient demand in the market and it takes a long time for consumers to recover their consumption power, as well as the fact that the revenue for the period from January to April 2023 was lower than that the forecast as at 31 December 2022, the management of Junjieshang has also scaled-down the trend of the future development of SaaS e-commerce services and platform services, and made slight adjustments to the number of users to be acquired and the rate of conversion in the forecast period. Slight adjustments were made for the forecast period in terms of the number of users acquired and the conversion rate. Compared to the estimates made at 31 December 2022, the compounded growth rate of SaaS e-commerce revenue has decreased by 2.9 percentage points and the CAGR of SaaS platform revenue has decreased by 1.6 percentage points for the earnings forecast period.

Key assumptions	As at 31 December 2022	As at 30 April 2023
Post-tax discount rate	25%	25%

The valuer determined the post-tax discount rate based on WACC. Taking into account factors including actual operating conditions and future financial risks, the valuer has maintained the WACC at 25%.

Key assumptions	As at 31 December 2022	As at 30 April 2023
Terminal CAGR	5%	5%

Junjieshang is a leading vertical ecosystem collaboration platform in the hairdressing industry. Considering the future development trend of the hairdressing industry in the PRC and the long-term development potential of the business of Junjieshang, the terminal CAGR in the valuation report has been maintained at 5%.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2023

Revenue

The Group's revenue amounted to RMB1,535,704,000 for the six months ended 30 June 2023, representing a decrease of 16.9% as compared with RMB1,847,152,000 for the corresponding period last year. The decrease in the revenue is mainly attributable to a decrease in revenue of the F&F and Food ingredients segment by 23.3% year-on-year to RMB680,934,000 as a result of changes in market demand and keen competition in the market during the Reporting Period, and a decrease in revenue of the aroma raw materials segment by 39.3% year-on-year to RMB290,005,000 as a result of a decline in demand in both the domestic and overseas markets. The decrease was partially offset by a 29.5% year-on-year increase in revenue of the condiment segment to RMB374,542,000 due to increased demand in the upstream market as a result of the recovery of the catering industry.

Cost of goods sold

The Group's cost of goods sold amounted to RMB828,972,000 for the six months ended 30 June 2023, representing a decrease of 5.8% as compared with RMB880,123,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit decreased from RMB967,029,000 for the six months ended 30 June 2022 to RMB706,732,000 for the six months ended 30 June 2023, representing a decrease of approximately 26.9%. The decrease in gross profit was mainly attributable to the decrease in revenue and gross profit margin for the Reporting Period. The gross profit margin of the Group for the Reporting Period was approximately 46.0%, representing a decrease of approximately 6.4 percentage points as compared to 52.4% for the corresponding period last year. It was mainly attributable to the keen competition in the market as well as changes in the product mix of the Group.

Other income and other gains – net

For the six months ended 30 June 2023, other income and other gains (net) of the Group was RMB89,480,000, representing a decrease of RMB10,747,000 as compared with RMB100,227,000 for the corresponding period last year. The decrease in other income and other gains was mainly due to the decreased income from changes in fair values of financial assets at fair value through profit or loss ("FVPL") in the current period. Meanwhile, a provision for impairment of investments in associates of RMB22,291,000 was recorded in the current period, as compared to a loss of RMB24,083,000 recorded in the same period last year for the changes in the fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary.

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 2023 was RMB142,021,000, representing a decrease of 18.5% as compared with RMB174,159,000 for the corresponding period last year. Selling and marketing expenses for the Reporting Period accounted for approximately 9.2% of the total revenue, maintaining a similar level as compared with approximately 9.4% for the six months ended 30 June 2022.

Administrative expenses

The Group's administrative expenses amounted to RMB389,526,000 for the six months ended 30 June 2023, representing a decrease of 5.5% as compared with RMB412,252,000 for the corresponding period last year. Administrative expenses for the Reporting Period accounted for approximately 25.4% of the total revenue, representing an increase of 3.1 percentage points, as compared with 22.3% for the six months ended 30 June 2022. The increase in percentage was mainly attributable to the fact that revenue declined at a faster rate than administrative expenses.

Operating profit/(loss)

For the six months ended 30 June 2023, the Group's operating profit was RMB260,740,000, representing an increase of RMB402,516,000 as compared with the operating loss of RMB141,776,000 for the six months ended 30 June 2022. The increase in operating profit was mainly due to the recognition of impairment of goodwill of RMB14,947,000 in aroma raw materials segment for the Reporting Period, whereas an impairment of goodwill of RMB614,331,000 in Jiahao CGU was recognized for the corresponding period last year, resulting in a decrease in impairment of goodwill by RMB599,384,000. However, the impact was partially offset by the decrease in gross profit.

If the effect of goodwill impairment for the Reporting Period and the corresponding period last year of RMB14,947,000 and RMB614,331,000, respectively, was excluded, operating profit for the current Reporting Period was RMB275,687,000, representing a decrease of 41.7% compared with RMB472,555,000 (excluding goodwill impairment) for the corresponding period last year. Operating profit margin was approximately 18.0%, representing a decrease of 7.6 percentage points from approximately 25.6% (after goodwill impairment) for the corresponding period last year, mainly due to the drop in gross profit margin for the Reporting Period.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 June 2023 was RMB86,385,000, representing a decrease of 18.2% as compared with RMB105,639,000 for the six months ended 30 June 2022. If the effect of goodwill impairment in both the Reporting Period and the corresponding period last year was excluded, income tax rate of the Reporting Period would be approximately 28.6%, representing an increase of approximately 6.9 percentage points as compared with approximately 21.7% (excluding goodwill impairment) for the six months ended 30 June 2022, which was mainly attributable to the increase in the amount of tax losses for which no deferred income tax assets were recognized in the Reporting Period as well as higher than expected withholding income tax on dividends distribution by subsidiaries in Mainland during the Reporting Period.

Profit/(loss) for the period

For the six months ended 30 June 2023, the Group's profit was RMB200,353,000, representing an increase of RMB433,384,000 as compared with the loss of RMB233,031,000 for the corresponding period last year. The year-on-year change was mainly due to the decrease in impairment of goodwill by RMB599,384,000 during the Reporting Period, which was partially offset by the decrease in gross profit.

If the effect of goodwill impairment for the Reporting Period and the corresponding period last year of RMB14,947,000 and RMB614,331,000, respectively, was excluded, the profit for the current period would be approximately RMB215,300,000, representing a decrease of 43.5% as compared with RMB381,300,000 (excluding goodwill impairment) for the corresponding period last year.

Profit/(loss) attributable to the equity holders of the Company

For the six months ended 30 June 2023, the profit attributable to the equity holders of the Company was RMB153,970,000, representing an increase of RMB467,501,000 as compared with the loss attributable to the equity holders of the Company of RMB313,531,000 in the corresponding period last year. The year-on-year change was mainly attributable to the recognition of impairment of goodwill of RMB14,947,000 in the aroma raw materials segment, whereas there was an impairment of goodwill of RMB614,331,000 in Jiahao CGU was recognized for the corresponding period last year, resulting in a decrease in impairment of goodwill by RMB599,384,000.

Net current asset value and financial resources

As at 30 June 2023, the net current asset value of the Group was RMB6,980,704,000 (31 December 2022: RMB6,944,129,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2023, the Group's cash and bank balances (including fixed deposits) amounted to RMB3,384,516,000 (31 December 2022: RMB4,747,978,000), over 70% of which were held in RMB. In addition, the fair value of outstanding bank wealth management products held by the Group as at 30 June 2023 amounted to RMB2,744,103,000 (31 December 2022: RMB1,594,315,000), which was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 30 June 2023, the total bank borrowings of the Group amounted to RMB466,850,000 (31 December 2022: RMB677,700,000), all of which were RMB loans, including secured loans due after one year amounted to RMB15,000,000 (31 December 2022: RMB65,000,000 due within one year) and unsecured loans amounted to RMB451,850,000 (31 December 2022: RMB612,700,000) due within one year. For the six months ended 30 June 2023, the average annual interest rate for secured loans was 4.1% (six months ended 30 June 2022：4.4%), while the average annual interest rate for unsecured loans was 2.9% (six months ended 30 June 2022：3.2%). As at 30 June 2023, the Group's debt ratio (total loans (including current and non-current loans) divided by total equity, excluding non-controlling interests) was 3.7%, representing a decrease of 1.7 percentage points from 5.4% as at 31 December 2022.

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 2023, the net cash used in investing activities amounted to RMB1,261,019,000, mainly payments for the purchase of banks' wealth management products. For the six months ended 30 June 2022, the net cash generated from investing activities amounted to RMB1,212,247,000.

Financing activities

For the six months ended 30 June 2023, the net cash used in the Group's financing activities amounted to RMB462,743,000, mainly comprised of repayment of bank loans of RMB490,900,000, payment of cash dividends of approximately RMB148,866,000 to shareholders of the Company, payment of cash dividends of RMB127,885,000 to non-controlling interests, and addition of bank loans of RMB280,050,000. For the six months ended 30 June 2022, the net cash used in financing activities amounted to RMB852,998,000.

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 2023, the Group's average trade receivables turnover period was 102 days, representing an increase of 13 days as compared with 89 days for the last financial year ended 31 December 2022. The increase was mainly due to the decrease in the Group's average turnover during the period was more than the decrease in average trade receivables.

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 2023, the Group's average trade payables turnover period was 57 days, representing a slight increase of 4 days as compared with 53 days for the last financial year ended 31 December 2022. While comparing with 63 days of the corrsponding period last year, the ratio has remained stable.

Inventory and inventory turnover period

As at 30 June 2023, the Group's inventory balance amounted to RMB1,061,093,000, representing an increase of RMB41,070,000 as compared with the balance of RMB1,020,023,000 as at 31 December 2022. The increase in inventory balance was the result of an appropriate increase in inventory by the Group as a preparation for future economic growth. For the six months ended 30 June 2023, 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 226 days, increased by 32 days as compared with 194 days of the corresponding period last year. The increase of such ratio was mainly due to the fact that the decrease in the Group's average costs of sales exceeded the decrease in average inventory balance during the Period.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in Mainland China and the majority of the revenue is denominated in RMB, with the exception of only a certain amount of imported raw materials and equipment which are denominated in foreign currency such as USD or EUR. The Group's bank deposits are mainly denominated in 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 2023, the right-of-use assets of Shanghai Yifang Group with total carrying values of RMB10,931,000 (31 December 2022: buildings and right-of-use assets of RMB17,662,000) were used as collateral for bank loans of RMB15,000,000 (31 December 2022: RMB65,000,000).

Capital Commitments

As at 30 June 2023, the Group had capital commitments in respect of the purchase of property, plant, equipment, intangible assets, investment in a jointly controlled entity and investment in financial assets at FVPL, contracted for but not provided in the financial statements amounted to approximately RMB141,368,000 (31 December 2022: RMB215,563,000).

Contingent liabilities

According to the information available to the Board, the Group had no material contingent liabilities as at 30 June 2023.

SHARE OPTION SCHEME

Pursuant to a share option scheme (the "2016 Share Option Scheme") adopted on 9 August 2016 ("Adoption Date"), the 2016 Share Option Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date. At the beginning and at the end of the Reporting Period, and up to the date of this announcement, the total number of shares available for issue under the 2016 Share Option Scheme shall not exceed 310,665,796 shares, which represents approximately 9.62% of the issued shares of the Company as at the date of this announcement.

The table below summarises the movement in shares options under the 2016 Share Option Scheme since the adoption thereof and up to the date of this announcement.

Grantee and description	Number of options granted[(i)]	Date of grant (day/month/year)	Date of vesting (day/month/year)	exercise period (day/month/year)[(ii)]	Exercise price	Lapse date
* Independent Business Consultant	11,000,000	6/5/2019	5/11/2019	5/11/2019 -30/6/2020 5/5/2020-30/6/2020	HK$3.708 per share	30/6/2020

* Being service provider with options granted in any 12-month period exceeding 0.1% of the relevant class of shares in issue

(i) The number of options granted was 11,000,000 shares options, each share option entitled the Grantee to subscribe for one ordinary share of HK$0.10 in the share capital of the Company.

(ii) The share options granted were exercisable in two tranches (50% of share options granted in each), with the first tranche exercisable from 5 November 2019 to 30 June 2020 (both days inclusive) and the second tranche exercisable from 5 May 2020 to 30 June 2020 (both days inclusive).

(iii) The above granted options lapsed on 30 June 2020 with no options being exercised.

(iv) The closing price of the shares immediately preceding the date on which the options were granted was HK$3.73.

The above Grantee is not a director, chief executive or substantial shareholder of the Company, or an associate of any of them.

For further details of the above movement, please refer to the announcement of the Company dated 6 May 2019.

Save as disclosed above, no other share options were granted to the following persons under the 2016 Share Option Scheme since the adoption thereof and up to the date of this announcement:

(i) each of the directors, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) each participant with options granted in excess of the 1% individual limit;

(iii) each related entity participant or service provider with options granted in any 12-month period exceeding 0.1% of the relevant class of shares in issue of the Company;

(iv) the five highest paid individuals during the financial year; and

(v) other employee participants, related entity participants and service providers.

The 2016 Share Option Scheme will remain in force for ten years starting from 9 August 2016 (can be terminated before expiration). As at the date of this announcement, the remaining life of the 2016 Share Option Scheme is less than 4 years.

At the beginning and at the end of the Reporting Period, and up to the date of this announcement, there were no share options outstanding under the 2016 Share Option Scheme and there were no share options granted, vested, exercised, cancelled or lapsed during the Reporting Period.

The 2016 Share Option Scheme itself did not specify number of share options available for grants to the following participants in any financial year:

(i) each of the directors, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) each participant with options to be granted in excess of the 1% individual limit;

(iii) each related entity participant or service provider with options to be granted in any 12-month period exceeding 0.1% of the relevant class of shares in issue of the Company;

(iv) the five highest paid individuals during the financial year; and

(v) other employee participants, related entity participants and service providers.

GUANGDONG JIAHAO SHARE INCENTIVE SCHEME

Pursuant to a written resolution of the directors of Guangdong Jiahao Foodstuff Co., Ltd. ("Guangdong Jiahao") passed on 15 October 2020, Guangdong Jiahao, an indirect non-wholly-owned subsidiary as well as a non-principal subsidiary of the Company, approved, adopted and implemented a share incentive scheme (the "Guangdong Jiahao Share Incentive Scheme"), pursuant to which eligible participants will be entitled to participate. The Guangdong Jiahao Share Incentive Scheme does not constitute a share scheme of a principal subsidiary of a listed issuer under Chapter 17 of the Listing Rules.

For the purpose of the Guangdong Jiahao Share Incentive Scheme, four limited partnerships were established, namely Yingtan Xiangshan Corporate Advisory Centre (Limited Partnership) (鷹潭香山企業諮詢中心(有限合夥)), Yingtan Zhonghao Corporate Advisory Centre (Limited Partnership) (鷹潭中豪企業諮詢中心(有限合夥)), Yingtan Guanghao Corporate Advisory Centre (Limited Partnership) (鷹潭廣豪企業諮詢中心(有限合夥)) and Yingtan Huajia Corporate Advisory Centre (Limited Partnership) (鷹潭華嘉企業諮詢中心(有限合夥)), through which the participants indirectly hold approximately 1.98% equity interests in Guangdong Jiahao and as at 30 June 2023, those relevant awards have vested in the employees shareholding platforms.

As at 30 June 2023, the Guangdong Jiahao Share Incentive Scheme has covered in total 74 (31 December 2022: 62) participants, including directors and senior management of Guangdong Jiahao. The chairman of Guangdong Jiahao, Mr. XIA Liqun, is also a director of the Company and one of the participants.

SHARE AWARD SCHEME

The Company adopted the share award scheme (the "Share Award Scheme") on 20 May 2022 (the "Adoption Date") for a term of 10 years from the Adoption Date until 19 May 2032, unless otherwise terminated. The purposes and objectives of the Share Award Scheme are to recognise, reward, remunerate, compensate and motivate the contribution of certain participants and to provide incentives and help the Group in retaining its existing employees and recruiting suitable personnel as additional employees to further the operation and development of the Group, by providing them with a direct economic interest in attaining the Group's long-term business objectives, implementing the Group's long-term business strategy, enhancing the Group's values and promoting the Group's growth and development.

The Share Award Scheme shall be subject to the administration of the Board in accordance with the rules related to the Share Award Scheme, the respective trust deed(s) relevant to the establishment of the trust(s) to support and facilitate the operation of the Share Award Scheme, and all applicable laws and regulations.

Participants of the Share Award Scheme cover any employee, officer or director of any member of the Group or of any affiliate of the Company, and any person (including advisor, consultant or other service provider) who provides services to any member of the Group on a continuing or recurring basis in its ordinary and usual course of business which are material to the long term growth of the Group as determined by the Remuneration Committee and other person as permitted under the Listing Rules whom the Board in its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its sole and absolute discretion designate an award ("Award" and collectively "Awards") to be made to a selected person among the participants ("Selected Person" and collectively "Selected Persons"). Awards may be satisfied by (i) existing Shares to be acquired by the trustee(s) engaged by the Company for the purpose of administrating the Share Award Scheme (the "Trustee(s)"), from the market, or (ii) new Shares to be issued and allotted to the Trustee(s) by the Company, in each case the Shares will be held on trust by the Trustee(s) for the Selected Persons until the end of each vesting period subject to fulfilment of the vesting conditions (if any) in accordance with the provisions of the Share Award Scheme.

Under the terms of the Share Award Scheme, (i) the aggregate number of the Shares that may be awarded by the Board under the Share Award Scheme shall not exceed 10% of the issued share capital of the Company as at the Adoption Date (or such other limit, if any, prescribed by the Listing Rules from time to time); and (ii) unless specifically approved by the independent shareholders, the aggregate number of new Shares that may be granted as Awards annually under the Share Award Scheme shall not exceed 3% of the issued share capital of the Company as at the date on which the Shareholders' approval of a mandate for issue and allotment of new Shares under the Share Award Scheme (the "Scheme Mandate") (or such other limit, if any, prescribed by the Listing Rules from time to time) is given. As no Scheme Mandate for allotment of new Shares has been obtained, at the beginning and at the end of the Reporting Period, and up to the date of this announcement, no new Shares may be issued pursuant to the Share Award Scheme.

The maximum number of Shares which may be awarded to a Selected Person (i.e. maximum entitlement of) in any twelve months under the Share Award Scheme shall not exceed one percent of the total number of issued Shares as at the Adoption Date unless the proposed grant has been specifically approved by the Shareholders in a general meeting of the Company. The Share Award Scheme does not specify any minimum vesting period nor the grant price which is payable by a Selected Person upon acceptance of an Award. Pursuant to the Share Award Scheme, the Board has the authority to determine, among other things, the vesting schedule, number, the terms and conditions of the Award Shares and the grant price (if any) payable by the Selected Person. The grant price in respect of Awarded Shares under the Share Award Scheme is determined by the Board in its absolute discretion at the time of the grant. As at 30 June 2023, no Awarded Shares have been granted under the Share Award Scheme yet.

As at 30 June 2023, (i) no Trustee has been appointed for the purpose of the Share Award Scheme, (ii) no Award has been granted under the Share Award Scheme, and (iii) the Company has not yet obtained the approval from its shareholders with respect to the Scheme Mandate for issue and allotment of new Shares under the Share Award Scheme and hence no Shares are available for issue under the Share Award Scheme as at the date of this announcement.

The Share Award Scheme does not involve the grant of options carrying right to subscribe for any new Shares, so it does not constitute a share option scheme pursuant to the then Chapter 17 of the Listing Rules in force on the Adoption Date, but constitutes a share scheme of the Company under the new Chapter 17 of the Listing Rules which has come into effect on 1 January 2023 (the "Revised Chapter 17 of the Listing Rules"). In particular, whilst no scheme mandate for allotment of new Shares has been obtained, the Share Award Scheme is currently a share scheme that may be funded by existing Shares under the Revised Chapter 17 of the Listing Rules and shall be subject to the applicable disclosure requirements thereunder since 1 January 2023.

For more details of the Share Award Scheme, please refer to the Company's announcement dated 21 May 2022.

Given that the Revised Chapter 17 of the Listing Rules will govern, among others, all share schemes involving grants of share awards and grants of options carrying right to subscribe for new shares of issuers, the Company is in the course of assessing the implications to the implementation, operation and administration of the Share Award Scheme and will take appropriate steps to comply or re-comply with the relevant provisions of the Listing Rules as may be applicable from time to time.

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. As at 30 June 2023, the Group utilised all of the proceeds, details of which are set out in the table below.

In HK$ million

Intended use of proceeds	**As at 31 December 2022**	**Actual use of proceeds**	**As at 30 June 2023**
Acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise	50	50	–

SIGNIFICANT EVENTS OR TRANSACTIONS

Investigation Against Directors

References are made to the announcements of Company dated 24 January 2022, 26 January 2022, 27 January 2022, 21 July 2022, 26 July 2022, 20 January 2023, 3 July 2023 and 14 July 2023 respectively, in relation to the investigation for suspected disciplinary violations and residential surveillance at a designated location (指定居所監視居住) against Ms. CHU Lam Yiu ("Ms. Chu"), the chairlady, chief executive officer, executive director and controlling shareholder (approximately 71% interests in the Company's shares as at the date of this announcement) and Mr. LAM Ka Yu ("Mr. Lam"), an executive director and co-chairman of the Company of the Company.

On 20 January 2023, the Group was advised by Ms. Chu's family member that Anyuan County Police Bureau (安遠縣公安局) had lifted Ms. Chu's residential surveillance and that she was on bail pending further investigation. Concurrently, Ms. Chu was placed under residential surveillance at a designated location by Chongqing Yongchuan District Police Bureau (重慶市永川區公安局).

Performance Undertaking

Reference is made to the Company's announcement dated 8 March 2022. On 8 March 2022, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), a non-wholly owned subsidiary of the Company, Shanghai Keli Enterprise Management and Consulting Company Limited* (上海克瀝企業管理諮詢有限公司) ("Keli Enterprise"), Qian Rong (錢戎) and Wong Kam Wing (黃錦榮) (the beneficial controllers of Keli Enterprise) and other related parties entered into a shares transfer agreement (the "Share Transfer Agreement") to further acquire 27% equity interest in Shanghai Yifang Rural Technology Holdings Co. Ltd. ("Shanghai Yifang") for a total consideration of RMB121.5 million in cash. Upon completion of the transaction, Huabao Flavours's shareholding in Shanghai Yifang reached 67% and Shanghai Yifang became an indirect non-wholly owned subsidiary of Huabao Flavours and the results of Shanghai Yifang have been consolidated into the financial statements of Huabao Flavours since March 2022.

Pursuant to the Share Transfer Agreement, among others, Huabao Flavours, Qian Rong and Wong Kam Wing shall fulfill their capital increase obligations as scheduled in proportion to their respective shareholdings in Shanghai Yifang, and Qian Rong and Wong Kam Wing agreed to undertake the performance undertaking and compensation obligations to Huabao Flavours. The performance undertaking period is three years commencing from 1 January 2022 to 31 December 2024 (the "Performance Undertaking Period"). The results of Shanghai Yifang during the Performance Undertaking Period will be a consolidated net profit of not less than RMB41.00 million in 2022, a consolidated net profit of not less than RMB55.00 million in 2023 and a consolidated net profit of not less than RMB74.00 million in 2024. If Shanghai Yifang does not achieve the performance undertaking after the expiry of the Performance Undertaking Period, Qian Rong and Wong Kam Wing shall compensate Huabao Flavours in cash within 15 days after Shanghai Yifang's 2024 annual audit report is issued. As at the date of this announcement, Qian Rong and Wong Kam Wing have not yet fulfilled their obligations by paying the second instalment of the capital increase amount (RMB7,095,700 in total) under the Share Transfer Agreement, and have not rectified the same within 15 days after they have received the written notice from Huabao Flavours.

In 2022, due to multiple factors including the non-performance of the undertaking, the slowing down of economic growth, the complicated and changing external environment and insufficient external demand, Shanghai Yifang incurred a loss for the year 2022.

For the year ended 31 December 2022, the net loss of Shanghai Yifang amounted to approximately RMB41.94 million. The actual performance of Shanghai Yifang did not meet the guaranteed profits provided by Qian Rong and Wong Kam Wing. The performance shortfall of Shanghai Yifang for the year 2022 amounted to approximately RMB82.94 million.

In the first half of 2023, due to Shanghai Yifang's sales are not as good as expected, Shanghai Yifang continued to suffer a loss in the current period.

EVENTS AFTER THE REPORTING PERIOD

Investigation Against Directors

Subsequent to the Reporting Period, on 3 July 2023, the Group was advised that Chongqing Yongchuan District Police Bureau (重慶市永川區公安局) had lifted Ms. Chu's residential surveillance. Ms. Chu has resumed work accordingly. On 14 July 2023, the Company was informed that Ms. Chu and Mr. Lam are no longer subject to any bail conditions as imposed by Changsha County Police Bureau (長沙縣公安局). Further announcement(s) will be made to keep the shareholders of the Company and the public informed of the development in this matter in due course.

Update on a Director's Biographical Details

References are made to the Company's announcements dated 5 July 2023 and 6 July 2023 respectively in relation to inside information and change in biographical details of Ms. CHOY Man Har ("Ms. Choy"), an executive director and deputy chief financial officer of the Company.

On 5 July 2023, the Independent Commission Against Corruption of Hong Kong ("ICAC") conducted a search at the business offices of the Company in Hong Kong. The Company provided certain files and records for the purpose of an ICAC investigation.

In addition, the Company has been informed that Ms. Choy was arrested on 5 July 2023 by ICAC in relation to offences under the Prevention of Bribery Ordinance (Cap. 201), Crimes Ordinance (Cap. 200) and the Organized and Serious Crimes Ordinance (Cap. 455) for investigation. On 6 July, Ms. Choy has been released on bail without any charge laid against her. The Company will monitor this matter and take necessary legal advice as appropriate.

The Initiation of Arbitration by a Subsidiary

Reference is made to the announcement of the Company dated 9 August 2023 in relation to the initiation of arbitration by Huabao Flavours against Qian Rong (錢戎) and Wong Kam Wing (黃錦榮) (the beneficial controllers of Keli Enterprise).

Taking into account Shanghai Yifang sustained a loss during the Performance Undertaking Period, Huabao Flavours accordingly terminated the rights and obligations pursuant to the provisions of the Share Transfer Agreement and applied to the Shanghai International Arbitration Center with Qian Rong and Wong Kam Wing as respondents for arbitration ("Arbitration"), requesting Qian Rong and Wong Kam Wing to compensate Huabao Flavours for liquidated damages, loss of expected benefits, and legal fees totaling RMB332.03 million, as well as to bear the corresponding legal costs of the Arbitration. At the same time, Huabao Flavours also applied to the Shanghai International Arbitration Center for property security. Huabao Flavours received the "Notice of Acceptance" issued by the Shanghai International Arbitration Center on 9 August 2023.

As of the date of this announcement, as the Arbitration is still in its initial stage, the Group is unable to accurately predict the final outcome of the Arbitration or evaluate the impact of the Arbitration on the Group's financial position. Should there be any further information regarding the Arbitration, the Company will make further announcements to inform the shareholders and the public as and when appropriate in accordance with relevant requirements.

Save as disclosed above and elsewhere in this announcement, there were no significant events after the Reporting Period.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

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

The Company has not fully complied with the code provisions C.2.1 and F.2.2 as the performance of the chairman's duties by 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" on page 42 of this announcement. The responsibilities under code provisions C.2.1 during the Reporting Period were shared and undertaken by the Co-Chairman (Mr. LAM Ka Yu), Vice Chairman & President, the Vice President & Company Secretary and other directors. In addition, due to the reasons discussed above, Ms. Chu did not attend the annual general meeting of the Company held on 15 May 2023 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 2023.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has resolved to declare an interim dividend of HK1.6 cents per share (2022: nil) and a special dividend of HK1.9 cents per share (2022: HK3.38 cents) both in cash for the six months ended 30 June 2023, which are expected to be paid on or about 12 October 2023 to Shareholders whose names appear on the register of members of the Company on 20 September 2023.

CLOSE OF REGISTER OF MEMBERS

In order to determine Shareholders who qualify for the interim and special dividends, the register of members of the Company will be closed from 15 September 2023 to 20 September 2023, 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 2023.

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

During the six months ended 30 June 2023, 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 2023.

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 2023 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
LAM Ka Yu
Co-Chairman

Hong Kong, 30 August 2023

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.