Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2024

TABLE OF FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June 2024 *RMB'000*	**Unaudited For the six months ended 30 June** 2023 *RMB'000*	**Change in percentage**
Revenue	**1,582,285**	1,535,704	+3.0%
Gross profit	**709,254**	706,732	+0.4%
Gross profit margin	***44.8%***	*46.0%*	
EBITDA[1]	**262,021**	438,231	-40.2%
EBITDA margin[2]	***16.6%***	*28.5%*	
Operating profit	**100,287**	283,031	-64.6%
EBIT margin[3]	***6.3%***	*18.4%*	
Profit for the period	**46,286**	200,353	-76.9%
Profit attributable to the equity holders of the Company	**29,662**	153,970	-80.7%
Basic and diluted earnings per share	**RMB0.92 cent**	RMB4.77 cents	-80.7%
Proposed/paid interim dividend per share *(note 8)*	**HK0.3 cent**	HK1.6 cents	
Proposed/paid special dividend per share *(note 8)*	**HK3.2 cents**	HK1.9 cents	
Non-HKFRS Measures[4]			
Adjusted EBITDA	**356,172**	455,077	-21.7%
Adjusted EBITDA margin	***22.5%***	*29.6%*	
Adjusted operating profit	**194,438**	299,877	-35.2%
Adjusted EBIT margin	***12.3%***	*19.5%*	

1 *"EBITDA" equals to "Operating profit before interest, taxes, depreciation and amortisation".*

2 *"EBITDA margin" equals to "Operating profit before interest, taxes, depreciation and amortisation" divided by "Revenue".*

3 *"EBIT margin" equals to "Operating profit before interest and taxes" divided by "Revenue".*

4 *For more information about the Non-HKFRS Measures, please refer to the section under "Reconciliation of HKFRS Measures to the Non-HKFRS Measures".*

* *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 2024 together with the comparative figures for the six months ended 30 June 2023.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,582,285**	1,535,704
Cost of goods sold		**(873,031)**	(828,972)
Gross profit		**709,254**	706,732
Other income and other gains – net	*4*	**66,424**	111,771
Selling and marketing expenses		**(165,416)**	(142,021)
Administrative expenses		**(458,285)**	(389,526)
Impairment of goodwill		**(29,309)**	(14,947)
Net impairment (loss)/reversal on financial assets		**(22,381)**	11,022
Operating profit		**100,287**	283,031
Finance income		**36,034**	48,194
Finance costs		**(9,937)**	(15,440)
Finance income – net		**26,097**	32,754
Share of results of associates and jointly controlled entities		**574**	(6,756)
Provision for impairment relating to the investment in an associate		**(47,959)**	(22,291)
Profit before income tax		**78,999**	286,738
Income tax expense	*6*	**(32,713)**	(86,385)
Profit for the period		**46,286**	200,353
Attributable to:			
Equity holders of the Company		**29,662**	153,970
Non-controlling interests		**16,624**	46,383
		46,286	200,353
Earnings per share for profit attributable to the Company's equity holders for the period		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**0.92**	4.77

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Profit for the period	**46,286**	200,353
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	**(2,131)**	(3,104)
Currency translation differences of the Company and its non-foreign operations	**23,240**	58,735
Items that may be reclassified to profit or loss		
Currency translation difference of foreign operations	**(11,178)**	3,314
Other comprehensive income for the period, net of tax	**9,931**	58,945
Total comprehensive income for the period, net of tax	**56,217**	259,298
Total comprehensive income attributable to:		
Equity holders of the Company	**38,532**	203,010
Non-controlling interests	**17,685**	56,288
	56,217	259,298

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2024 RMB'000 Unaudited	As at 31 December 2023 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**2,207,056**	2,193,713
Right-of-use assets		**379,872**	374,411
Investment properties		**25,325**	27,382
Intangible assets		**4,106,479**	4,187,984
Investments in associates		**246,456**	432,442
Investments in jointly controlled entities		**23,938**	22,130
Financial assets at fair value through other comprehensive income		**8,247**	10,378
Financial assets at fair value through profit or loss		**174,044**	190,136
Deferred income tax assets		**230,875**	205,579
Other non-current assets		**1,267**	—
		7,403,559	7,644,155
Current assets			
Biological assets		**—**	210
Inventories		**1,031,796**	994,592
Trade and other receivables	*9*	**855,766**	930,782
Financial assets at fair value through other comprehensive income		**11,618**	23,168
Financial assets at fair value through profit or loss		**3,811,914**	3,869,711
Assets held for sale		**140,000**	—
Cash and bank balances		**2,183,601**	2,539,493
		8,034,695	8,357,956
Total assets		**15,438,254**	16,002,111

	Note	As at 30 June 2024 RMB'000 Unaudited	As at 31 December 2023 RMB'000 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,299,297**	4,248,159
Retained earnings		**7,775,752**	7,903,653
		12,403,668	12,480,431
Non-controlling interests		**1,766,590**	1,790,706
Total equity		**14,170,258**	14,271,137
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**21,000**	36,000
Financial liability for non-controlling interest put option		**156,241**	147,656
Lease liabilities		**32,555**	28,365
Deferred income tax liabilities		**112,708**	124,960
Other payables	*11*	**11,288**	11,446
		333,792	348,427
Current liabilities			
Borrowings	*10*	**198,000**	419,250
Lease liabilities		**23,416**	16,554
Trade and other payables	*11*	**543,839**	613,899
Current income tax liabilities		**92,471**	172,012
Contract liabilities		**76,478**	160,832
		934,204	1,382,547
Total liabilities		**1,267,996**	1,730,974
Total equity and liabilities		**15,438,254**	16,002,111

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2024 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 2023 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 2023, as described in those financial statements.

(a) New and amended standards adopted by the Group

A number of new and 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
Amendment to HKFRS 21	Lack of Exchangeability	1 January 2025
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 2024 is presented below:

	Unaudited For the six months ended 30 June 2024					
	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	**661,666**	**171,196**	**378,909**	**389,072**	**509**	**1,601,352**
Inter-segment revenue	**(9,828)**	**(7,093)**	**(2,146)**	**—**	**—**	**(19,067)**
Segment revenue – net	**651,838**	**164,103**	**376,763**	**389,072**	**509**	**1,582,285**
Segment result	**137,858**	**(3,417)**	**(16,333)**	**55,457**	**(73,278)**	**100,287**
Finance income						**36,034**
Finance costs						**(9,937)**
Finance income – net						**26,097**
Share of results of associates and jointly controlled entities						**574**
Provision for impairment relating to the investment in an associate						**(47,959)**
Profit before income tax						**78,999**
Income tax expense						**(32,713)**
Profit for the period						**46,286**
Depreciation	**33,756**	**28,340**	**33,223**	**11,469**	**3,135**	**109,923**
Amortisation	**4,502**	**4,743**	**3,312**	**37,870**	**1,384**	**51,811**

	Unaudited As at 30 June 2024					
	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	**7,880,053**	**1,929,675**	**1,412,592**	**3,264,640**	**951,294**	**15,438,254**

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	(60,666)	283,031
Finance income						48,194
Finance costs						(15,440)
Finance income – net						32,754
Share of results of associates and jointly controlled entities						(6,756)
Provision for impairment relating to the investment in an associate						(22,291)
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

	Audited As at 31 December 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	8,214,006	2,137,936	1,450,550	3,325,617	874,002	16,002,111

4. OTHER INCOME AND OTHER GAINS – NET

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Changes in fair value of financial assets at fair value through profit or loss	**17,794**	14,072
Dividend income from financial assets at fair value through profit or loss	**848**	1,918
Loss on disposal of associates	**—**	(3,442)
Loss on disposal of subsidiaries	**(2,592)**	—
Governments grants	**68,021**	91,953
Currency exchange (loss)/gain – net	**(17,669)**	1,102
Change in fair value of previously held interest in an associate upon acquisition as a subsidiary	**(938)**	—
Net gains on disposal of property, plant and equipment, intangible assets and right-of-use assets	**1,200**	3,589
Others	**(240)**	2,579
	66,424	111,771

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	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**101,672**	92,992
Amortisation	*3*	**51,429**	50,302
Provision for impairment of intangible assets		**14,380**	—
Provision for impairment of property, plant and equipment		**5,809**	—
Employee benefit expenses		**370,992**	309,362
Research and development expenses	*(a)*	**121,362**	116,321
Short-term lease rentals		**13,562**	11,211
Travelling expenses		**16,348**	13,105
Utilities expenses		**48,100**	50,416
Delivery expenses		**22,009**	16,025

(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	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Depreciation	*3*	**8,251**	8,347
Amortisation	*3*	**382**	3,559
Employee benefit expenses		**77,482**	72,108

6. INCOME TAX EXPENSE

		Unaudited For the six months ended 30 June	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Current income tax:			
– PRC corporate income tax	*(a)*	**70,178**	83,269
– Hong Kong profits tax	*(b)*	**—**	—
– Botswana company income tax	*(c)*	**—**	1
– Germany company income tax	*(d)*	**—**	—
– Indonesia company income tax	*(e)*	**237**	119
Deferred income tax		**(37,702)**	2,996
		32,713	86,385

(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 2023: 16.5%) on the estimated assessable profit for the period. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK$2,000,000 and 16.5% on any part of assessable profits over HK$2,000,000.

(c) Botswana company income tax has been provided at the rate of 15.0% (six months ended 30 June 2023: 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 2023: 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 2023: 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 2024 and 2023.

7. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue for the six months ended 30 June 2024 and 2023.

	Unaudited For the six months ended 30 June	
	2024	2023
Profit attributable to equity holders of the Company *(RMB'000)*	**29,662**	153,970
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Basic earnings per share for profit attributable to the equity holders of the Company *(RMB cents per share)*	**0.92**	4.77

(b) Diluted earnings per share

	Unaudited For the six months ended 30 June	
	2024	2023
Profit attributable to equity holders of the Company:		
Used in calculating basic earnings per share *(RMB'000)*	**29,662**	153,970
Less: profit adjusted for restricted shares granted by a subsidiary (i) *(RMB'000)*	**(10)**	—
Used in calculating diluted earnings per share *(RMB'000)*	**29,652**	153,970
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**3,229,927**	3,229,927
Diluted earnings per share for profit attributable to the equity holders of the Company *(RMB cents per share)*	**0.92**	4.77

(i) The employee share scheme of Guangdong Jiahao Foodstuff Co., Ltd. should be taken into account when calculating diluted earnings per share by adjusting the profit attributable to the equity holders of the Company.

As at 30 June 2024, unvested 1.63% restricted equity interests were not included in the calculation of diluted earnings per share because they are antidilutive. An adjustment of RMB10,000 has been made to the profit attributable to the equity holders of the Company due to the total 0.30% restricted equity interests granted during the period and year 2023.

8. DIVIDENDS

	Unaudited For the six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Paid interim dividend of HK1.6 cents per share for the six months ended 30 June 2023	**—**	47,306
Paid special dividend of HK1.9 cents per share for the six months ended 30 June 2023	**—**	56,176
Proposed interim dividend of HK0.3 cent per share for the six months ended 30 June 2024	**8,844**	—
Proposed special dividend of HK3.2 cents per share for the six months ended 30 June 2024	**94,332**	—
	103,176	103,482

Interim dividend of approximately HKD51,679,000 (equivalent to approximately RMB47,306,000) and special dividend of approximately HKD61,368,000 (equivalent to approximately RMB56,176,000) for the six months ended 30 June 2023 were paid in October 2023. Final dividend of approximately HKD25,839,000 (equivalent to approximately RMB23,495,000) and special dividend of approximately HKD135,657,000 (equivalent to approximately RMB123,349,000) for the year ended 31 December 2023 were paid in June 2024.

As the interim and special dividends were declared after the balance sheet date, they have not been recognised as dividend payable as at 30 June 2024.

9. TRADE AND OTHER RECEIVABLES

		As at 30 June 2024 Unaudited	As at 31 December 2023 Audited
	Note	***RMB'000***	*RMB'000*
Trade receivables	*(a)*	**714,101**	739,537
Less: provision for impairment of trade receivables		**(88,666)**	(66,095)
Trade receivables – net		**625,435**	673,442
Notes receivable		**39,465**	46,182
Prepayments and other receivables		**187,572**	212,025
Advances to staff		**7,105**	2,469
Others		**1,382**	2,412
Less: provision for impairment of other receivables		**(5,193)**	(5,748)
		855,766	930,782

Except for prepayments of RMB40,037,000 (31 December 2023: RMB40,517,000), 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 2024 and 31 December 2023, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on the invoice date was as follows:

	As at 30 June 2024 Unaudited *RMB'000*	As at 31 December 2023 Audited *RMB'000*
0 – 1 year	**593,853**	625,220
1 – 2 years	**14,759**	16,580
2 – 3 years	**66,906**	64,924
Over 3 years	**38,583**	32,813
	714,101	739,537

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30 June 2024, a provision for impairment of RMB88,666,000 (31 December 2023: RMB66,095,000) was made against the gross amount of trade receivables.

10. BORROWINGS

	Note	As at 30 June 2024 Unaudited *RMB'000*	As at 31 December 2023 Audited *RMB'000*
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**36,000**	36,000
Less: current portion		**(15,000)**	—
		21,000	36,000
Current			
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**18,000**	—
– Unsecured bank borrowings	*(b)*	**165,000**	419,250
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**15,000**	—
		198,000	419,250
Total borrowings		**219,000**	455,250

(a) The Group's secured bank borrowings as at 30 June 2024 of RMB54,000,000, of which RMB21,000,000 should be repayable within two years while RMB33,000,000 should be repayable within one year (31 December 2023: RMB36,000,000 should be repayable within two years) and secured by certain properties and right-of-use assets of Shanghai Yifang Rual Technology Co., Ltd. and its subsidiaries ("Shanghai Yifang") with total carrying values of RMB43,984,000 (31 December 2023: secured by certain properties and right-of-use assets of Shanghai Yifang with total carrying values of RMB39,245,000). For the six months ended 30 June 2024, the average interest rate of the loan was 4.2% (six months ended 30 June 2023: 4.1%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. For the six months ended 30 June 2024, the average interest rate was 2.6% (six months ended 30 June 2023: 2.9%) per annum.

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

11. TRADE AND OTHER PAYABLES

	Note	**As at 30 June 2024 Unaudited *RMB'000***	As at 31 December 2023 Audited *RMB'000*
Trade payables	*(a)*	**255,309**	238,732
Notes payables		**8,000**	18,530
Wages payable		**73,438**	115,466
Other taxes payable		**43,845**	59,300
Accruals for expenses		**9,139**	10,088
Other payables		**154,108**	171,783
Deferred income from government grants		**11,288**	11,446
		555,127	625,345

Except for other taxes payable of RMB43,845,000 (31 December 2023: RMB59,300,000), wages payable of RMB73,438,000 (31 December 2023: RMB115,466,000) and deferred income from government grants of RMB11,288,000 (31 December 2023: RMB11,446,000), 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 2024 Unaudited ***RMB'000***	As at 31 December 2023 Audited *RMB'000*
Non-current	**11,288**	11,446
Current	**543,839**	613,899
	555,127	625,345

The non-current portion of trade and other payables mainly represents the deferred income derived from various grants received from government authorities in PRC.

(a) As at 30 June 2024 and 31 December 2023, 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 2024 Unaudited ***RMB'000***	As at 31 December 2023 Audited *RMB'000*
0 – 90 days	**221,555**	216,774
91 – 180 days	**15,694**	8,112
181 – 360 days	**3,796**	3,704
Over 360 days	**14,264**	10,142
	255,309	238,732

RECONCILIATION OF HKFRS MEASURES TO THE NON-HKFRS MEASURES

For review of financial performance, the Group has provided non-HKFRS measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted operating profit and adjusted EBIT margin, which are supplementary to the Group's consolidated results in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The Group believes that these additional figures provide our shareholders and investors with useful supplementary information to facilitate the analysis and assessment of the performance of the Group's core operations by excluding certain non-cash items, which consist of share-based compensation expenses, impairment of goodwill, and impairment of plant, equipment and intangible assets, recognised in the condensed consolidated income statement. These non-HKFRS measures also allow the Group to evaluate its ongoing operations and are applied for internal planning and forecasting purposes.

The use of these non-HKFRS measures may have certain limitations as a tool for analysis and comparison. Shareholders and investors are advised not to consider these non-HKFRS measures in isolation from, or as a substitute for analysis of, the Group's financial performance as reported under HKFRS. Also, please note that these non-HKFRS measures may be defined differently from similar terms used by other companies.

The following table highlighted the reconciliations of the Group's financial measures prepared in accordance with HKFRS for the six months ended 30 June 2024 and six months ended 30 June 2023 to the non-HKFRS measures.

	Unaudited For the six months ended 30 June 2024 Non-HKFRS adjustments				
	As reported *RMB'000*	**Share-based compensation expenses** *RMB'000*	**Impairment of goodwill** *RMB'000*	**Impairment of plant, equipment and intangible assets** *RMB'000*	**Adjusted** *RMB'000*
EBITDA	**262,021**	**44,653**	**29,309**	**20,189**	**356,172**
EBITDA margin	**16.6%**				**22.5%**
Operating profit	**100,287**	**44,653**	**29,309**	**20,189**	**194,438**
EBIT margin	**6.3%**				**12.3%**

	Unaudited For the six months ended 30 June 2023 Non-HKFRS adjustments				
	As reported *RMB'000*	Share-based compensation expenses *RMB'000*	Impairment of goodwill *RMB'000*	Impairment of plant, equipment and intangible assets *RMB'000*	Adjusted *RMB'000*
EBITDA	438,231	1,899	14,947	—	455,077
EBITDA margin	28.5%				29.6%
Operating profit	283,031	1,899	14,947	—	299,877
EBIT margin	18.4%				19.5%

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Confronted with consistent weak momentum for global economic growth as well as frequent geopolitical conflicts and trade disputes during the first half of 2024 ("the Reporting Period"), major countries and regions undertook significant downturn pressure in economic growth. Faced with a complicated and changing external environment, the Chinese government has optimized a series of macroeconomic policies and enterprises have improved their management and production models, which has resulted in a 5% year-on-year increase of gross domestic product and has driven a steady progress of growth. Nevertheless, adjustments to domestic economic structure have resulted in less consumer spending and hence an inadequate effective demand, and also made the enterprises to take a more cautious and conservative manner in production expansion and new investments. In general, considerable uncertainty remains when it comes to the recovery of domestic and overseas economy and market demand, and operating pressure of enterprises remains tremendous, for which costs reduction and risks control are adopted by enterprises as strategies against challenges.

During the Reporting Period, efforts have been made by the management of the Group upon three aspects including market, production and risk management to enable a stable business development of the Group. In respect of market, in the case of an insufficient domestic demand, the Group has explored demands from overseas markets by exchanges and cooperations with clients from countries and regions in Southeast Asia for market expansion and sales promotion. In terms of production, the Group has implemented the "Lean Production" program in more plants to improve the resource use and production efficiency and reduce production and operating costs. As for risk management, the Group has exercised a more prudential attitude towards additional investments and acquisitions and formulated a comprehensive environmental, social and corporate governance ("ESG") strategy and work schedule, with an aim to mitigate the impact of climate risks on the business and finance of the Group and enhance business resilience against risks as well as strengthen the sustainable development of the Group.

INDUSTRY OVERVIEW

Overview of the tobacco industry

According to the data from the National Bureau of Statistics, the cigarette production volume reached 27.2838 million cases during the first half of 2024, representing an increase of 1.3% year-on-year. The cigarette industry has undergone a steady progress in production and continued to steadily contribute to the national fiscal income, while playing a critical role in promoting living conditions of farmers and balancing the development of regional economy. During the Reporting Period, regulators of certain countries and regions abroad have loosened their policies for e-cigarettes products sales, which has allowed consumers to purchase e-cigarettes in a more convenient manner. Looser policies have brought rising market space and commercial opportunities for domestic e-cigarettes-related enterprises for which e-cigarettes enterprises are required to strengthen their comprehensive competitiveness to increase their overseas market share. Regarding heat-not-burn ("HNB") cigarettes, major international tobacco companies have raised the market scale and sales prospects of HNB cigarettes in the future, also noting a higher level of safety and functions and advertising accuracy for HNB cigarettes required in the presence of increasingly strict regulation in various countries and regions. Large-scale manufacturers of brands have possessed more market shares by virtue of their advantages related to research and development, market and compliance driven by their solid and sound competence of finance and operation, which will contribute to an increasingly concentrated HNB cigarettes market in the forthcoming days.

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

According to the National Bureau of Statistics, during the first half of this year, the value-added industrial output of the agricultural product processing industry with enterprises of designated size or above, food manufacturing industry and wine, beverage and refined tea manufacturing industry increased by 1.9%, 5.4% and 6.1% year-on-year, respectively. Despite the positive trend in food and beverage industry compared with the corresponding period of previous year, food and beverage industry recorded a decrease in sales during the second quarter contributed by the weakened momentum from the downstream consumption. Manufacturers in food and beverage industry have adopted a sales-promoting strategy of high volumes and thin profit margins with an aim to stabilize and increase sales, which has formed a market of more intense competition. As far as the daily-use chemical industry is concerned, consumers have prioritized the fundamental functions and cost-effectiveness of products, in the case of which manufacturers should adjust their product mix and market positioning to maintain their market shares.

Overview of the condiment industry

During the Reporting Period, domestic catering industry reached a revenue of RMB2.6243 trillion, representing a year-on-year increase of 7.9%, while reduction of consumer spending from the second quarter caused a quarterly-over-quarterly drop in the revenue and year-on-year decrease in the growth rate of the catering industry. Catering enterprises have utilized discounts and price cut to solicit customers and stabilize their sales, which has formed an increasingly intense-competitive catering industry. Threatened by competitions, catering enterprises are required to optimize their supply chains and lower their costs of raw materials than ever, thus more susceptible to the price changes of condiments. Under conditions above, condiment enterprises have been restricted in their capabilities in price bargaining and increasing. Also, condiment enterprises should optimize their own supply chains, reduce production and operation costs, and optimize product mix to increase their price competitiveness and profitability.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB1,582 million (1H 2023: approximately RMB1,536 million), representing a year-on-year growth of 3.0%; gross profit margin of 44.8% (1H 2023: 46.0%), representing a year-on-year decrease of 1.2 percentage points; operating profit of approximately RMB100 million (1H 2023: approximately RMB283 million), representing a year-on-year decline of 64.6%; profit attributable to the equity holders of the Company of approximately RMB29.662 million (1H 2023: approximately RMB154 million), representing a year-on-year drop of 80.7%; basic earnings per share of approximately RMB0.92 cents (1H 2023: approximately RMB4.77 cents), representing a year-on-year decrease of 80.7%.

The decline in operating profit was mainly due to the fact that Huabao Flavours and Fragrances Company Limited ("Huabao Flavours"), the principal subsidiary of the Group, held a general meeting on 5 January 2024 to approve, adopt and implement the share incentive scheme, and granted 14.5 million restricted shares to 46 qualified persons of the company. During the Reporting Period, Huabao Flavours recognised a share-based compensation expense approximately RMB42.184 million (1H 2023: nil) for this share incentive scheme. In addition, an impairment of goodwill of approximately RMB29.309 million (1H 2023: RMB14.947 million) and an impairment of assets of approximately RMB20.189 million (1H 2023: nil) were recognised for the aroma raw materials business segment during the Reporting Period. For details, please refer to the section headed "Analysis of goodwill impairment of Yancheng City Chunzhu Aroma Co., Ltd. Cash generating units".

Meanwhile, the Group signed a memorandum of understanding ("MOU") with an independent third party for the disposal of an associate at the end of June 2024. The main business of the associate is to produce and sell Reconstituted Tobacco Leaves ("RTL") in China. Considering the domestic market situation, including the oversupply and intense competition in the domestic RTL market, the operation of the associate and the development of the industry in the past few years, the Group decided to make strategic adjustments, including reducing its reliance on the domestic market and increasing its investment in overseas markets to enhance capital utilization. After several negotiations and consultations, and based on an independent valuation report, the Group planned to dispose of the equity interest in the associate to an independent third party for RMB140 million. As of the reporting date, the investment in the associate was reclassified to "assets held for sale" as measured at fair value less costs to sell, and a provision for impairment relating to the reclassification of the investment in the associate of approximately RMB47.959 million was provided. The Group believes that the terms of the MOU and the sale price were determined after arm's length negotiations and on normal commercial terms, where the sale price was determined with reference to the valuation report issued by an independent third-party appraiser, the development prospect of the industry, the adjustment of the Group's strategy and the operation of the associate in the past few years.

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 RMB652 million (1H 2023: approximately RMB681 million), representing a year-on-year decrease of 4.3%, and accounting for approximately 41.2% (1H 2023: 44.3%) of the Group's total revenue. The decrease in revenue of the segment was due to the reduction in purchases by customers of tobacco flavours. Operating profit of the segment amounted to approximately RMB138 million (1H 2023: approximately RMB238 million), representing a year-on-year decrease of 42.1%; operating profit margin was approximately 21.1% (1H 2023: 34.9%), representing a year-on-year decrease of 13.8 percentage points. The decline in operating profit and operating profit margin was attributable to the decrease of revenue, changes in product mix and a share-based compensation expense for share incentive scheme.

(1) *Flavours*

In terms of tobacco flavours, customers reduced their purchases. The Group developed and introduced products that customers need to maintain the partnership with them based on market changes and customer needs. For food flavours, revenues have remained stable, but the degradation of consumption has enabled customers to further control costs, and they also prefer lower-priced products when purchasing, resulting in an increase in the proportion of lower-margin products sold. Following the market trend, the Group introduced flavours such as thick milk, coriander and spicy hotpot, which have been well received by customers, making their products more delicious and giving customers new tastes to enjoy. In the first half of the year, the Group actively promoted the development of food flavours business in Southeast Asia. The Group established a research and development center in Indonesia, which not only further studied the flavor preference of the local market, but also facilitated the orderly construction of a new local factory. The Group also started exchanges and cooperation with food and beverage manufacturers from Vietnam to explore more business opportunities. The Southeast Asia market is an important new market in which the Group will continue to strengthen research, investment and customer development to expand market coverage and increase sales.

(2) *Fragrances*

The fragrances business made steady progress with year-on-year sales and profit growth, mainly due to the development of new customers and the stable raw material prices. Sales of fragrances to customers in Southeast Asia and Africa have boosted its internationalization level. The Group strived to promote the progress and development of this business by studying new technologies, developing new products and expanding into new markets.

(3) *Food ingredients*

Food ingredients customers are mainly food and beverage manufacturers, as well as catering and new tea brands. As consumers spend less, customers need to control costs and reduce prices to promote sales, which weakens the bargaining power of food ingredients products and results in a decrease in revenue of food ingredients. The black truffle seasoning powder, jam, syrup and plant extract launched by the Group have effectively enhanced the flavour of customers' products, some of which were exported and sold to customers in Indonesia, the Philippines and the United Kingdom, thus successfully developing the overseas business.

(4) Investment progress of the proceeds raised by Huabao Flavours

As of 30 June 2024, the cumulative amount dedicated for the Huabao Technology Innovation Center and Supporting Facilities Project was approximately RMB9.8513 million (31 December 2023: approximately RMB9.423 million), representing an investment progress of 2.189% (31 December 2023: 2.09%). The cumulative amount dedicated for the Huabao Digital Transformation Project was approximately RMB23.2793 million (31 December 2023: approximately RMB21.4969 million), representing an investment progress of 38.80% (31 December 2023: 35.83%). As of 30 June 2024, the balance of unused initial public offering ("IPO") proceeds (including accumulated interest income) amounted to approximately RMB1,680 million (31 December 2023: approximately RMB1,660 million). As of 30 June 2024, the IPO proceeds utilized amounted to approximately RMB950 million (31 December 2023: approximately RMB940 million), accounting for 41.1% (31 December 2023: 40.8%) of the 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 RMB164 million (1H 2023: approximately RMB187 million), representing a year-on-year decrease of 12.5%, and accounting for approximately 10.4% (1H 2023: 12.2%) of the Group's total revenue. The decrease in segment revenue was due to a decline in customer purchases. Operating loss of the business segment was approximately RMB3.417 million, while the operating profit was approximately RMB44.272 million in the first half of 2023. Operating loss of the business segment was due to lower revenues and changes in the product mix.

(1) RTL

RTL includes traditional RTL and HNB RTL. During the Reporting Period, customers reduced their purchases of traditional RTL, resulting in a decline in traditional RTL revenue. In terms of HNB RTL, the construction of the Group's three production lines in Indonesia have been completed, with the first production line already in production and sales made, and the other two in commissioning mode and expected to commence production in the third quarter. The Indonesian factory mainly produces high-quality HNB RTL and supplies them to customers in different countries and regions. In view of the fact that overseas markets are the target market for HNB RTL, the Group recruited outstanding R&D, technical and sales talents to actively promote the development of this business overseas.

(2) Tobacco new materials

Tobacco new materials mainly include capsules and filters. In terms of capsules, the Group turned to developing overseas markets due to the oversupply in the domestic market. Through our efforts, the overseas market has become the main market for capsules and achieved year-on-year sales growth during the Reporting Period. Through the "Lean Production" program, the Group can provide high-quality capsule products and services for overseas customers on time and in quantity, and enhance the reputation and popularity of the Group's products in overseas markets. In terms of filter, the Group strengthened its product delivery capacity and further won the trust of customers by investing in the transformation of production facilities, which improved production efficiency and product quality.

Review of the aroma raw materials business

During the Reporting Period, revenue of the aroma raw materials business of the Group was approximately RMB377 million (1H 2023: approximately RMB290 million), representing a year-on-year growth of 29.9%, and accounting for approximately 23.8% (1H 2023: 18.9%) of the Group's total revenue. The increase in segment revenue was mainly attributable to the resumption of purchase demand as a result of destocking by client. Operating loss of the business segment was approximately RMB16.333 million (1H 2023: operating loss of approximately RMB9.968 million), which was mainly attributable to the drop in gross profit margin, impairment on goodwill and assets totaling approximately RMB49.498 million in the business segment.

In the first half of the year, downstream clients completed destocking and resumed normal purchase demand, resulting in an increment in production and sales volume. However, under the sluggish macroeconomic environment, clients became more sensitive to product price and competitors promoted sales by price cut, which squeezed business profits. To increase profit margin, the Group strictly managed raw materials purchase schemes and optimized the level and efficiency of automatic production by implementing the "Lean Production" program.

During the Reporting Period, the construction of the new production base of the Group in Zhaoqing, Guangdong has been completed and put into operation. Equipped with new production facilities, clean office environment and perfect environmental facilities and system, the new production base can provide premium maltol products for its clients. The new plant is not only conductive to the improvement of product competitiveness, but also conductive to the enhancement of clients' confidence on the operation strength of the Group and improvement of the Group's brand recognition. The Group will strive to sell its products to more markets through its sales network, so as to improve results performance.

Analysis of goodwill impairment of Yancheng City Chunzhu Aroma Co., Ltd. ("Yancheng Chunzhu") Cash generating unit ("CGU")

Yancheng Chunzhu CGU's revenue for the six months ended 30 June 2024 was approximately RMB129 million, representing an increase of 58.5% year-on-year, but its gross profit and operating profit declined to approximately RMB13.311 million and approximately RMB5.553 million, respectively, representing a decrease of 32.2% and 52.6% year-on-year, respectively. Gross profit and operating profit failed to meet the expectations set on 31 December 2023. Based on the principle of prudence and conservatism, the Group engaged an independent valuer to conduct an impairment test on the goodwill of Yancheng Chunzhu CGU as at 30 June 2024. Based on the assessment results, Yancheng Chunzhu CGU recognised an impairment of goodwill of approximately RMB29.309 million in the first half of 2024.

Yancheng Chunzhu's products consist primarily of low-carbon alcohol, esters, acids, aldehydes and other food flavors, which are mainly exported and sold to companies such as food and daily chemical flavors, feed flavors, pharmaceuticals, healthcare products and chemicals, with customers mainly concentrated in Europe, the United States, Southeast Asia and Japan. After the COVID-19 pandemic, affected by weak global economy and more cautious and conservative end use consumption, Chinese peers have further homogenized their products for their own survival and development needs, resulting in intensified competition in the industry. Secondly, competitors reduced prices to promote sales in order to reduce inventory due to the oversupply of products in the market last year, which resulted in product prices remaining at a low level during the Reporting Period and lower product gross margins compared to expectations set as of 31 December 2023. Meanwhile, the external environment situation is unstable due to the Russian-Ukrainian war and the Palestinian-Israeli conflict, which poses a challenge to the global economic recovery and further squeezes product profit margins. The above factors resulted in Yancheng Chunzhu's results being worse than the Group's expectations as of 31 December 2023. Based on the principle of prudence and conservatism, the Group has lowered its future profit forecast for Yancheng Chunzhu and recognised a goodwill impairment of approximately RMB29.309 million of Yancheng Chunzhu CGU. Yancheng Chunzhu CGU has a goodwill balance of nil after the impairment was recognised.

Review of the condiment business

During the Reporting Period, revenue of the Group's condiment business was approximately RMB389 million (1H 2023: approximately RMB375 million), representing a year-on-year increase of 3.9%, and accounting for approximately 24.6% (1H 2023: 24.4%) of the Group's total revenue. The growth in segment revenue was mainly due to the increase in sales volume of new products. The operating profit of the segment was approximately RMB55.457 million (1H 2023: approximately RMB71.426 million), representing a year-on-year decrease of 22.4%. Operating profit margin was 14.3% (1H 2023: 19.1%), representing a year-on-year decline of 4.8 percentage points. The decline in operating profit and operating profit margin was mainly due to the changes in products' sales structure. In the first half of the year, although revenue in catering industry increased by 7.9% year-on-year, the revenue in the second quarter decreased by 4.9% quarter-over-quarter, showing that the extent of industry prosperity turned from strong to weak. To face challenges, clients further controlled costs and increased purchase of low-price products when purchasing condiments, resulting in decrease in sales of high profit products of the Group and decline in segment's operating profit and operating profit margin.

In terms of product mix, as clients have more demand for affordable products such as chicken essence, chicken powder and soup base for the purpose of cost control, the Group carried out more introduction, publicity and promotion on usage of such products. Also, the Group launched soy source products with different usages according to the trend in catering industry to help clients improve the flavor of their new cuisine.

In terms of sales network, the number of Tie 1 distributors increased to 850, further expanding the sales scope of products. Along with the increase of number of distributors, the Group has also optimized its management system for distributors by sending designated personnels to guide and manage distributors for better results and operating efficiency of distributors. The sales team has visited customers on a regular basis followed by their feedback thereafter on problems through the course of using products to our development and manufacturing team to improve the quality of products.

In relation to marketing strategy, the Group has cooperated with catering associations by holding cuisine contests in various cities to expand the brand recognition of Jiahao in the catering industry while online promotional films and advertisements have strengthened the brand image of Jiahao among customers.

Review of R&D

During the Reporting Period, the Group's investment in research and development ("R&D") was approximately RMB121 million (1H 2023: RMB116 million). R&D expenses accounted for 7.7% (1H 2023: 7.6%) of revenue, representing a year-on-year increase of 0.1 percentage point. All (1H 2023: 100%) of the R&D expenses were expensed, with no capitalized R&D cost (1H 2023: Nil).

Human Resources and Corporate Culture Construction

As at 30 June 2024, the Group employed a total of 4,032 (as at 31 December 2023: 3,995) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

Digital Transformation

During the Reporting Period, each of four platforms under digital transformation (including SAP ERP platform, combination and decision-making management platform, funds management platform and product life cycle management platform) underwent steady and orderly operations. Based on the duty and assignment of employees, they are allowed to proficiently use the four platforms, which have enriched the operating database of the Group and accordingly improved the ability of employees in respect of production and decision making.

With a vision to systematize and standardize the operation of the Group, four projects have been further implemented, which includes confidentiality system, contract management platform, procurement management platform and human resources management, serving as an in-depth supplementation to existing digital projects and an effective boost for the capacity of the Group in terms of data security, legal compliance, efficiency and costs for procurement and talent management. In addition, the Group has collaborated with leading AI companies to explore the AI application for the value chains and business development of the Group, which ends up with the launch of the AI android "Junior Huabao (華小寶)" on the internal working platform by the Group, and our employees can improve their efficiency at work and broaden their knowledge while solving problems at work by queries to Junior Huabao. The Group believes that the application of AI to the research and development and manufacture of flavours and fragrances will materialize in the future and it will accordingly continue to focus on the development and breakthrough of AI to better use this high-tech for the development of the Group.

In 2024, the third year for the digital transformation of the Group, each project related to digital transformation has met the need of assignment as scheduled in different stages. Application of projects for digital transformation has effectively enhanced the operating efficiency of the Group and has supported the strategy optimization of the Group with reliable foundation by accumulating sufficient information assets. The Group has fully practiced the training and popularization in connection with digital transformation to strengthen the ability of our employees to handle data management platforms and further enhance the operating capacity and efficiency of the Group.

OUTLOOK

Looking forward to the second half of this year, the Group remains confronted with a complicated and changing external operating environment. The adjustments to domestic economic structure have turned the approach to the recovery and expansion of demand into a challenge jointly faced by the government and enterprises. Holding a prudential and conservative view on the operating environment in market during the second half of this year, the Group expects further monetary and fiscal policies implemented to improve economy and consumption and optimize external operating environment of enterprises. The Group will continue to reduce costs and increase efficiency and reasonably utilize its assets for more operating returns.

In terms of flavours and fragrance and food ingredients, the Group will focus on developing domestic and Southeast Asia markets and launch clients-suitable products to generate more sales through conducting more research and analysis. As for tobacco raw materials, the Group will continue to invest in the research and development of emerging tobacco products and expand international markets to promote product sales. In respect of aroma raw materials, the Group will save no efforts to implement the "Lean Production" program and continue to reduce costs and increase efficiency and develop more demands from Southeast Asia and other overseas markets. For condiments, the Group will further enlarge the number of distributors and dedicate more efforts to promote new products while applying intelligent management to reduce costs for supply chains and production and increase profitability.

FINANCIAL REVIEW

Analysis of interim results for the six months ended 30 June 2024

Revenue

The Group's revenue amounted to RMB1,582,285,000 for the six months ended 30 June 2024, representing an increase of 3.0% as compared with RMB1,535,704,000 for the corresponding period last year. The increase in the revenue is mainly attributable to an increase in revenue of the aroma raw materials segment by 29.9% year-on-year to RMB376,763,000 as a result of the increase in demand in both domestic and overseas markets during the Reporting Period, and a 3.9% year-on-year increase in revenue of the condiment segment to RMB389,072,000 due to increased demand in the upstream market as a result of the recovery of the catering industry. However, the increase was partially offset by a 4.3% year-on-year decrease in revenue of the F&F and Food ingredients segment to RMB651,838,000 and a 12.5% year-on-year decrease in revenue of the tobacco raw materials segment to RMB164,103,000 due to the changes in market demand and keen competition.

Cost of goods sold

The Group's cost of goods sold amounted to RMB873,031,000 for the six months ended 30 June 2024, representing an increase of 5.3% as compared with RMB828,972,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit increased from RMB706,732,000 for the six months ended 30 June 2023 to RMB709,254,000 for the six months ended 30 June 2024, representing a slight increase of approximately 0.4%. The increase in gross profit was mainly attributable to the increase in revenue for the Reporting Period, but such increase in gross profit was mostly offset by the decrease in gross profit margin. The gross profit margin of the Group for the Reporting Period was approximately 44.8%, representing a decrease of approximately 1.2 percentage points as compared to 46.0% 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 2024, other income and other gains (net) of the Group was RMB66,424,000, representing a decrease of RMB45,347,000 as compared with RMB111,771,000 for the corresponding period last year. The decrease in other income and other gains was mainly because government grants amounted to RMB68,021,000 during the Reporting Period (six months ended 30 June 2023: RMB91,953,000), representing a year-on-year decrease of RMB23,932,000; and an exchange loss of RMB17,669,000 was recorded during the Reporting Period, compared to an exchange gain of RMB1,102,000 for the corresponding period last year. The exchange loss during the Reporting Period was mainly due to the depreciation of IDR against USD and RMB during the Reporting Period.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, advertising and promotion expenses, salaries and office expenses, etc. The selling and marketing expenses of the Group for the six months ended 30 June 2024 was RMB165,416,000, representing an increase of 16.5% as compared with RMB142,021,000 for the corresponding period last year. Selling and marketing expenses for the Reporting Period accounted for approximately 10.5% of the total revenue, representing an increase of approximately 1.3 percentage points as compared with approximately 9.2% for the six months ended 30 June 2023. The increase in such ratio and selling and marketing expenses was mainly attributable to the Group's increase in the business and marketing expenses in response to the fierce market competition during the Reporting Period.

Administrative expenses

The Group's administrative expenses amounted to RMB458,285,000 for the six months ended 30 June 2024, representing an increase of 17.7% as compared with RMB389,526,000 for the corresponding period last year. Administrative expenses for the Reporting Period accounted for approximately 29.0% of the total revenue, representing an increase of 3.6 percentage points, as compared with 25.4% for the six months ended 30 June 2023. The increase in such ratio and administrative expense was mainly attributable to the provision of share-based compensation expenses of approximately RMB40,719,000 due to the grant of restricted shares by Huabao Flavours, a subsidiary of the Company, during the Reporting Period, and a provision for impairment of intangible assets of RMB14,380,000 provided for during the Reporting Period as a result of the gross profit and operating profit of Yancheng Chunzhu CGU failing to meet the expectations as assessed by an independent valuer.

Operating profit

For the six months ended 30 June 2024, the Group's operating profit was RMB100,287,000, representing a decrease of RMB182,744,000 or 64.6% as compared with RMB283,031,000 for the six months ended 30 June 2023. The decrease in operating profit was mainly due to the fact that the Group recognized goodwill impairment of RMB29,309,000 (six months ended 30 June 2023: RMB14,947,000), plant and equipment impairment provision of RMB5,809,000 (six months ended 30 June 2023: nil), intangible asset impairment provision of RMB14,380,000 (six months ended 30 June 2023: nil), and share-based compensation expenses accrued at the subsidiary level of RMB44,653,000 (six months ended 30 June 2023: RMB1,899,000) during the Reporting Period. Meanwhile, provisions for impairment of receivables (net) of approximately RMB22,381,000 (presented as impairment loss on financial assets in the condensed consolidated income statement) were made during the Reporting Period, as compared to the reversal of provisions for impairment of receivables (net) of approximately RMB11,022,000 in the corresponding period last year, as well as the year-on-year decrease in other income and other gains (net) and year-on-year increase in selling and marketing expenses during the Reporting Period.

Profit before income tax

For the six months ended 30 June 2024, the Group's profit before income tax was RMB78,999,000, representing a decrease of RMB207,739,000 or 72.4% as compared with RMB286,738,000 for the corresponding period last year. The year-on-year change was mainly due to the recognition of goodwill impairment of RMB29,309,000 (six months ended 30 June 2023: RMB14,947,000), plant and equipment impairment provision of RMB5,809,000 (six months ended 30 June 2023: nil), intangible asset impairment provision of RMB14,380,000 (six months ended 30 June 2023: nil), and share-based compensation expenses accrued at the subsidiary level of RMB44,653,000 (six months ended 30 June 2023: RMB1,899,000) during the Reporting Period. At the same time, provisions for impairment of receivables (net) of approximately RMB22,381,000 were made during the Reporting Period as compared to the reversal of provisions for impairment of receivables (net) of RMB11,022,000 in the corresponding period last year, coupled with the provision for impairment of approximately RMB47,959,000 arising from the reclassification of investment in an associate to assets held for sale during the Reporting Period, as well as the year-on-year decrease in other income and other gains (net) and the year-on-year increase in selling and marketing expenses during the Reporting Period.

Income tax expenses

The income tax expenses of the Group for the six months ended 30 June 2024 was RMB32,713,000, representing a decrease of RMB53,672,000 as compared with RMB86,385,000 for the six months ended 30 June 2023, which was mainly attributable to the significant decrease in profit before income tax.

Profit for the period

For the six months ended 30 June 2024, the Group's profit was RMB46,286,000, representing a decrease of RMB154,067,000 or 76.9% as compared with RMB200,353,000 for the corresponding period last year. The year-on-year change was mainly due to the recognition of goodwill impairment of RMB29,309,000 (six months ended 30 June 2023: RMB14,947,000), plant and equipment impairment provision of RMB5,809,000 (six months ended 30 June 2023: nil), intangible asset impairment provision of RMB14,380,000 (six months ended 30 June 2023: nil), and share-based compensation expenses accrued at the subsidiary level of RMB44,653,000 (six months ended 30 June 2023: RMB1,899,000) during the Reporting Period. At the same time, provisions for impairment of receivables (net) of RMB22,381,000 were made during the Reporting Period as compared to the reversal of the provision for impairment of receivables (net) of RMB11,022,000 in the corresponding period last year, coupled with the provision for impairment of approximately RMB47,959,000 arising from the reclassification of investment in an associate to assets held for sale during the Reporting Period, as well as the year-on-year decrease in other income and other gains (net) and the year-on-year increase in selling and marketing expenses during the Reporting Period.

Net current asset value and financial resources

As at 30 June 2024, the net current asset of the Group was RMB7,100,491,000 (31 December 2023: RMB6,975,409,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 30 June 2024, the Group's cash and bank balances (including fixed deposits) amounted to RMB2,183,601,000 (31 December 2023: RMB2,539,493,000), over 60.0% 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 2024 amounted to RMB3,798,085,000 (31 December 2023: RMB3,847,748,000), which was classified as financial assets at fair value through profit or loss ("FVPL").

Bank borrowings and gearing ratio

As at 30 June 2024, the total bank borrowings of the Group amounted to RMB219,000,000 (31 December 2023: RMB455,250,000), all of which were RMB loans, including secured loans amounting to RMB54,000,000 with RMB33,000,000 due within one year and RMB21,000,000 due within two years respectively (31 December 2023: RMB36,000,000 due within two years) and unsecured loans amounting to RMB165,000,000 (31 December 2023: RMB419,250,000) due within one year. For the six months ended 30 June 2024, the average annual interest rate for secured loans was 4.2% (six months ended 30 June 2023: 4.1%), while the average annual interest rate for unsecured loans was 2.6% (six months ended 30 June 2023: 2.9%). As at 30 June 2024, the Group's debt ratio (total loans (including current and non-current loans) divided by total equity, excluding non-controlling interests) was 1.8%, representing a decrease of 1.8 percentage points from 3.6% as at 31 December 2023.

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 2024, the net cash generated from investing activities amounted to RMB39,886,000, mainly the proceeds from wealth management products upon expiry. For the six months ended 30 June 2023, the net cash used in investing activities amounted to RMB1,261,019,000.

Financing activities

For the six months ended 30 June 2024, the net cash used in the Group's financing activities amounted to RMB444,621,000, mainly comprising of repayment of bank loans of RMB374,250,000, payment of cash dividends of approximately RMB146,844,000 to shareholders of the Company, payment of cash dividends of RMB51,638,000 to non-controlling interests, and addition of bank loans of RMB138,000,000. For the six months ended 30 June 2023, the net cash used in financing activities amounted to RMB462,743,000.

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 2024, the Group's average trade receivables turnover period was 83 days, representing a decrease of 19 days as compared with 102 days for the corresponding period last year. The decrease was mainly due to the Group's strengthened management for 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 2024, the Group's average trade payables turnover period was 51 days, representing a decrease of 6 days as compared with 57 days for the corresponding period last year. While comparing with 51 days of the last financial year ended 31 December 2023, the ratio has remained stable.

Inventory and inventory turnover period

As at 30 June 2024, the Group's inventory balance amounted to RMB1,031,796,000, representing an increase of RMB37,204,000 as compared with the balance of RMB994,592,000 as at 31 December 2023. For the six months ended 30 June 2024, 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 209 days, decreased by 17 days as compared with 226 days of the corresponding period last year. The decrease of such ratio was mainly due to the Group's effective inventory management.

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 2024, the properties and right-of-use assets of Shanghai Yifang Rual Technology Co., Ltd. and its subsidiaries ("Shanghai Yifang") with total carrying values of RMB43,984,000 (31 December 2023: properties and right-of-use assets of RMB39,245,000) were used as collateral for bank loans of RMB54,000,000 (31 December 2023: RMB36,000,000).

Capital Commitments

As at 30 June 2024, the Group had capital commitments in respect of the purchase of property, plant and 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 RMB96,123,000 (31 December 2023: RMB140,455,000).

Contingent liabilities

According to the information available to the Board, the Group had no material contingent liabilities as at 30 June 2024.

SIGNIFICANT EVENTS OR TRANSACTIONS

Adoption of 2024 Share Award Scheme and 2024 Share Option Scheme and Termination of 2022 Share Award Scheme and 2016 Share Option Scheme

On 14 May 2024, the shareholders of the Company approved the adoption of a new share award scheme (the "2024 Share Award Scheme") and a new share option scheme (the "2024 Share Option Scheme") at a special general meeting of the Company (the "SGM") and also approved the termination of the share award scheme of the Company (the "2022 Share Award Scheme") and the share option scheme of the Company (the "2016 Share Option Scheme"), which was respectively adopted at the annual general meeting held on 20 May 2022 and 9 August 2016. Details of the adoptions and terminations were disclosed in the circular of the Company dated 18 April 2024 and the announcement of the results of the SGM on 14 May 2024.

Further Disclosure of Non-Fulfillment of Profit Guarantee under Rule 14.36B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

References are made to the Company's announcements dated 8 March 2022, 9 August 2023, and 11 March 2024 respectively.

Huabao Flavours, a non-wholly owned subsidiary of the Company, submitted for the Arbitration in August 2023 to seek compensation for liquidated damages, expected loss of profits, and legal fees (the "Compensation Amount") totaling RMB332.03 million. Based on the information available to the Group at that time, including the Arbitration strategy and Huabao Flavours' analysis and evaluation of the Arbitration, and according to the Share Transfer Agreement, the Group initiated the Arbitration to safeguard the interests of the Company and shareholders. The amount of the Compensation Amount was determined after considering various factors including the consideration paid by Huabao Flavours, the scheduled capital contribution obligation, the default amount calculated based on the default terms, relevant transaction costs, and Shanghai Yifang's operating losses at that time. The board of directors of the Company believed that the Compensation Amount, the relevant amount of which shall be subject to the discretion of the arbitral tribunal, is in the interests of the shareholders.

According to the information currently available to the Group, Huabao Flabours will discuss the subsequent Arbitration strategy with its legal team in due course based on the progress of the Share Transfer Agreement and the breach of contract by the relevant parties.

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.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed 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 set out in Appendix C1 to the Listing Rules (the "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 code provision C.2.1 in part 2 of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. CHU Lam Yiu, Chairlady of the Board and Executive Director of the Company, took up the position of chief executive officer on 9 April 2013. As the Board meets regularly to consider the matters relating to the business operations of the Group, the Board is of the view that the above arrangement will not impair the balance of power and authority of the Board and the executive management. The effectiveness of corporate planning and implementation of corporate strategies and decisions will generally not be affected.

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 (the "Model Code") as set out in Appendix C3 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the Directors. Based on the information that was available and having received the Directors' written confirmations, the Company considered that the Directors have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2024.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has resolved to declare an interim dividend of HK0.3 cent (2023: HK1.6 cents) per Share and a special dividend of HK3.2 cents (2023: HK1.9 cents) per Share both in cash for the six months ended 30 June 2024 which are expected to be paid on 9 October 2024 to Shareholders whose names appear on the register of members of the Company on 23 September 2024.

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 17 September 2024 to 23 September 2024, 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 16 September 2024.

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

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares as defined under the Listing Rules). The Company did not hold any treasury shares as at 30 June 2024.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfil 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 2024.

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 2024 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
CHU Lam Yiu
Chairlady

Hong Kong, 28 August 2024

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.