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Helens International Holdings Company Limited

海倫司國際控股有限公司

(A company incorporated in the Cayman Islands with limited liability)

(Stock Code: 9869)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2022, PROPOSED AMENDMENTS TO THE EXISTING MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF THE NEW MEMORANDUM AND ARTICLES OF ASSOCIATION

The board (the “**Board**”) of directors (the “**Directors**”) of Helens International Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2022 (the “**Reporting Period**”), together with the audited comparative figures for the year ended December 31, 2021. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the prospectus of the Company dated August 31, 2021 (the “**Prospectus**”).

FINANCIAL HIGHLIGHTS

	For the year ended	
	December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Revenue	1,559,308	1,835,616
Loss before income tax	(1,616,472)	(176,850)
Loss for the year attributable to owners of the Company	(1,601,150)	(230,000)
Adjusted net (loss)/profit ⁽¹⁾	(244,879)	111,230

Non-HKFRS Measures

	For the year ended	
	December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Loss for the year	(1,601,150)	(230,000)
Add:		
Listing expenses	—	30,893
Equity settled share-based payments	503,191	91,683
Fair value changes of convertible preferred shares	—	207,669
Losses from bars optimization and adjustment ⁽²⁾	853,080	10,985
Adjusted net (loss)/profit	<u>(244,879)</u>	<u>111,230</u>

Note (1): We define adjusted net (loss)/profit as loss for the year adjusted by adding back listing expenses, equity settled share-based payments, fair value changes of convertible preferred shares and losses from bars optimization and adjustment. For details of non-HKFRS measures, please refer to the sub-section headed “Management Discussion and Analysis — Non-HKFRS Measures”. We consider this change in definition to be more meaningful to the management for review and analysis purposes. We have updated the comparative figures for the year ended December 31, 2021 accordingly.

Note (2): Losses from bars optimization and adjustment in 2022 represented losses arising from the decline in operating results of our bars as a result of the significant impact of COVID-19 pandemic, and the implementation of strategic adjustments in order to cope with the pandemic, such as closure of some bars, and suspension of operation of our bars during the peak of the pandemic. In particular, such losses included the sum of impairment losses of plant and equipment and right-of-use assets, loss on disposal of plant and equipment and expected credit loss on rental deposits which amounted to approximately RMB712,905,000, RMB142,040,000, and RMB17,436,000, respectively, and offset by gain on termination of leases amounting to RMB19,301,000.

Consolidated Statement of Financial Position

	As at December 31, 2022 (RMB in thousands) (audited)	As at December 31, 2021 (RMB in thousands) (audited)
Non-current assets	1,286,524	2,572,643
Current assets	1,390,244	1,714,123
Total assets	2,676,768	4,286,766
Total equity	1,822,868	2,876,720
Non-current liabilities	565,202	1,060,620
Current liabilities	288,698	349,426
Net current assets	1,101,546	1,364,697
Total liabilities	853,900	1,410,046
Total equity and liabilities	2,676,768	4,286,766

BUSINESS HIGHLIGHTS

Distribution of Our Bar Network

As of March 19, 2023, we had a total number of 749 bars in the PRC, covering 27 provincial-level administrative regions and 168 cities. The following table sets forth the number of Helen's bars located in each geographic location as of March 19, 2023 and dates indicated.

	March 19, 2023	As of December 31, 2022	December 31, 2021
Mainland China			
Bars in first-tier cities	80	80	82
Bars in second-tier cities	360	372	433
Bars in third and lower-tier cities	308	314	266
Hong Kong, PRC	1	1	1
Total	<u>749</u>	<u>767</u>	<u>782</u>

OPERATING INDICATORS

Average Daily Sales Per Bar Opened in Each City

The table below shows the average daily sales per bar opened in different tier cities during the indicated period.

	For the year ended December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Average daily sales per bar		
Mainland China		
Bars in first-tier cities	7.6	10.9
Bars in second-tier cities	6.6	8.7
Bars in third and lower-tier cities	7.3	9.4
Overall	<u><u>7.0</u></u>	<u><u>9.2</u></u>

Average Daily Sales Per Bar Opened in Each Year

The table below shows the performance of bars opened at different times in 2022 and 2021. Subject to the significant impact of the constant and repeated COVID-19 pandemic, our average daily sales per bar decreased by 23.9% from RMB9.2 thousand in 2021 to RMB7.0 thousand in 2022. With a series of timely strategy adjustments, we fully mobilized high-quality social resources through franchising cooperation model and focus on developing potential markets that are less affected. In the second half of 2022, the average daily sales per newly opened bar reached RMB7.8 thousand, an increase of 34.5% compared to RMB5.8 thousand newly opened bars in the first half of 2022 and an increase of 6.8% compared to RMB7.3 thousand newly opened bars in 2021.

	For the year ended December 31,	
	2022	2021
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Average daily sales per bar		
Mainland China		
Bars newly opened in second half of 2022	7.8	N/A
Bars newly opened in first half of 2022	5.8	N/A
Bars newly opened in 2021	5.9	7.3
Bars newly opened in 2020	8.1	11.1
Bars newly opened in 2019 and before	9.0	11.9
Overall	<u><u>7.0</u></u>	<u><u>9.2</u></u>

Same-store Performance

The following table sets forth the same-store sales of Helen's bars during the Reporting Period. "Same-store" means bars that opened for at least 200 days in 2021 and 2022, respectively.

	For the year ended December 31,	
	2022	2021
Number of same-store	313	
Same-store sales (<i>RMB'000</i>)	844,605.3	1,282,794.8
Growth of same-store sales (%)	-34.2	
Same-store sales per day ⁽¹⁾ (<i>RMB'000</i>)	2,931.2	3,886.9
Growth of same-store sales per day (%)	-24.6	
Same-store average daily sales per store ⁽²⁾ (<i>RMB'000</i>)	9.4	12.4
Growth of same-store average daily sales per store (%)	-24.6	

Notes:

- (1) The aggregate amount of all same-store average daily sales.
- (2) The average amount of all same-store average daily sales.

In 2022, the same-store performance decreased, mainly because the constant and repeated COVID-19 pandemic in various regions of China resulting in a significant decrease in customer flow of our bars.

Contribution from Our Featured Products

The following table sets forth the overall contribution and contribution margin of all of Helen's branded alcoholic drinks and third-party brand alcoholic drinks during the indicated years.

	For the year ended December 31,	
	2022	2021
All Helen's branded alcoholic drinks		
Contribution (<i>RMB'000</i>)	650,680	860,890
Contribution margin	<u>75.6%</u>	<u>80.2%</u>
All third-party brand alcoholic drinks		
Contribution (<i>RMB'000</i>)	156,068	170,850
Contribution margin	<u>50.1%</u>	<u>48.8%</u>

Note:

Our contribution margin represents (i) the contribution of a given product, i.e. the revenue generated from the sales of a given product, less the costs of raw materials and consumables, divided by (ii) the revenue generated from the sales of the given product.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the repeated COVID-19 pandemic in various regions of China had an impact on the operation of our bars. Especially in the second half of 2022, with the significant increase in the frequency of outbreaks and the continued expansion of the affected areas, our performance in the second half of 2022 has been significantly affected. To cope with challenges brought by the repeated COVID-19 pandemic and adapt to the complex and changing environment, we adjusted our development strategies. After the closure of some bars and the suspension certain bars in the fourth quarter of 2022 to reduce cash expenses, we focused on developing the markets that are less affected and have greater potential. Meanwhile, we actively explored and turned to adopt new business cooperation models related to franchise. We fully mobilized high-quality social resources via joint creation and profit-sharing to enhance the flexibility of bar operation, improved profitability of bars and mitigated the impact of COVID-19 on our business development.

In 2022, we opened 179 new bars and closed 194 bars. As at December 31, 2022, the number of our bars was 767. As at March 19, 2023, the number of our bars was 749, covering 27 provincial-level administrative regions and 168 cities, including 126 franchised bars.

Suffering from the setback brought by the COVID-19, our revenue amounted to RMB1,559.3 million in 2022, representing a year-on-year decrease of 15.1% as compared with the revenue of RMB1,835.6 million in 2021. We recorded an adjusted net loss of RMB244.9 million in 2022, compared to an adjusted net profit of RMB111.2 million in 2021.

Due to the cancellation of current dynamic-zero COVID-19 measures, our bars are gradually resuming normal operations. However, there is still uncertainty in economy recovery cycle after COVID-19. Therefore, we will closely monitor market conditions and continue to strengthen refined management, as well as cost savings and expense control brought by economies of scale, so as to minimize negative impacts and ensure our long-term healthy development.

Looking forward, we will continuously expand the bar network. We will reconstruct the development model and transform from a linear chain model to a platform-based company while stepping up the presence in broader lower-tier markets. We will also closely follow users' needs to improve customers' consumption experience. Moreover, we will increase investment in optimizing digital platforms and strengthening brand building to improve operational efficiency and brand awareness. In the meantime, further efforts will be made to integrate the supply chain and market resources, optimize product portfolios, and upgrade the decoration style, with a view to achieving differentiated and diversified operations.

Revenue

Our revenue decreased by 15.1% from RMB1,835.6 million for the year ended December 31, 2021 to RMB1,559.3 million for the year ended December 31, 2022, primarily due to the impact of the recurrent outbreaks of COVID-19 in China on the operation of our bars.

The following table sets forth the revenue by segment and services and a breakdown of revenue during the indicated years.

	For the year ended December 31,			
	2022		2021	
	Revenue (RMB in thousands)	% of total revenue	Revenue (RMB in thousands)	% of total revenue
Helen's branded products	1,192,374	76.5	1,431,605	78.0
Helen's beer	280,798	18.0	456,759	24.9
Spirituous drinks	579,749	37.2	616,652	33.6
Snacks	331,827	21.3	358,194	19.5
Third-party brand alcoholic drinks	311,213	20.0	350,455	19.1
Other products⁽¹⁾	36,277	2.3	40,334	2.2
Revenue from franchising cooperation	11,320	0.7	508	0.0
Other revenue⁽²⁾	8,124	0.5	12,714	0.7
Total	<u>1,559,308</u>	<u>100</u>	<u>1,835,616</u>	<u>100</u>

Notes:

(1) Including paper towels and other consumer goods that we provide to customers in bars.

(2) Including the revenue generated from our mobile device charging service in bars.

In 2022, we strategically explored the possibility of shifting to new business cooperation models related to franchise, which in our opinion would bring more considerable revenue to both our partners and ourselves. Firstly, through the cooperation with partners, we could fully mobilized high-quality social resources via joint creation and profit-sharing, so as to enhance vitality in our bars' operation and improve our ability to fight against risks, especially the impact from COVID-19 resurgence in 2022. Secondly, the franchising cooperation model would enable us to increase our market share, in particular, such model could help us to enter the broader lower-tier markets in China, which represents a major step to speed up our long-term business development. Furthermore, under the franchising cooperation model, our partners could manage their operational risks more effectively, benefiting from our brand awareness, standardized management model and strong supply chains.

Government Grants and Concessions

Our government grants and concessions increase from RMB14.0 million for the year ended December 31, 2021 to RMB38.2 million for the year ended December 31, 2022. It mainly refers to investment incentives granted by the government to foreign-funded enterprises, and increase in gain from COVID-19 rent concessions.

Cost of Raw Materials and Consumables Used

The cost of our raw materials and consumables used decreased by 2.6% from RMB576.8 million for the year ended December 31, 2021 to RMB561.9 million for the year ended December 31, 2022. The decrease in the cost of raw materials and consumables used was primarily due to a decrease in number of our bars. The decrease in the cost of raw materials and consumables used was lower than the decrease in revenue, primarily due to the intensified efforts in our promotion activities, which mainly included marketing giveaway campaign in the first half of 2022 and promotion of the increased inventory closed to maturity caused by closure and suspension of operation of our bars in the second half of 2022.

Employee Benefit and Manpower Service Expenses

Our employee benefit and manpower service expenses increased by 72.5% from RMB581.6 million for the year ended December 31, 2021 to RMB1,003.5 million for the year ended December 31, 2022. The substantial increase in employee benefit and manpower service expenses was mainly attributable to:

- (1) Our equity settled share-based payments for the year ended December 31, 2022 were RMB503.2 million (for the year ended December 31, 2021: RMB91.7 million);
- (2) Our wages, salaries, other benefits and pension costs decreased from RMB246.4 million for the year ended December 31, 2021 to RMB186.0 million for the year ended December 31, 2022. The decrease mainly due to the continued impact of the COVID-19 pandemic. In 2022, we closed and suspended some bars, resulting in a simultaneous decrease in employee salaries and benefits; and
- (3) For the year ended December 31, 2022, we incurred RMB314.3 million for manpower services expenses as we hired outsourcing staff from third-party labor outsourcing companies (for the year ended December 31, 2021: RMB243.5 million) .

Depreciation of Right-of-use Assets

The depreciation of our right-of-use assets increased by 43.5% from RMB220.2 million for the year ended December 31, 2021 to RMB315.9 million for the year ended December 31, 2022. The increase is primarily due to the increase in the number of bars from the second half of 2021 to the first half of 2022.

Depreciation of Property, Plant and Equipment

The depreciation of our property, plant and equipment increased by 142.1% from RMB82.6 million for the year ended December 31, 2021 to RMB200.0 million for the year ended December 31, 2022. The increase was primarily due to increase in the fixed assets of our bars with the rapid growth in the number of bars from the second half of 2021 to the first half of 2022 and commencement of use for the newly acquired building.

Amortisation of Intangible Assets

Our amortisation of intangible assets remained at RMB17,000 for the years ended December 31, 2021 and 2022, representing the amortisation expenses incurred in software.

Short-Term Rental and Other Related Expenses

Our short-term rental and other related expenses increased by 80.8% from RMB46.9 million for the year ended December 31, 2021 to RMB84.8 million for the year ended December 31, 2022. The increase was primarily due to 1) the number of our bars increased rapidly from the second half of 2021 to the first half of 2022 resulting in an increase in bars rental fee and property fees; 2) the increase in staff dormitories we leased for a short term as the number of our bar staff increased with the rapid expansion of our bar network and an increase in the rental fee from the second half of 2021 to the first half of 2022.

Utilities Expenses

Our utilities expenses increased by 12.8% from RMB57.7 million for the year ended December 31, 2021 to RMB65.1 million for the year ended December 31, 2022. The increase was primarily due to our fast expansion of bar network from the second half of 2021 to the first half of 2022.

Travelling and Related Expenses

Our travelling and related expenses decreased by 8.7% from RMB12.6 million for the year ended December 31, 2021 to RMB11.5 million for the year ended December 31, 2022. The decrease was primarily due to the frequency of employees' business travel has decreased and travel expenses have also decreased simultaneously affected by the pandemic control.

Listing Expenses

For the year ended December 31, 2022, we did not have any listing expenses.

Advertising and Promotion Expenses

Our advertising and promotion expenses decreased by 19.1% from RMB42.5 million for the year ended December 31, 2021 to RMB34.4 million for the year ended December 31, 2022. The decrease is mainly due to our implementation of refined management and cost savings.

Other Expenses

Our other expenses increased by 5.0% from RMB98.9 million for the year ended December 31, 2021 to RMB103.8 million for the year ended December 31, 2022 mainly due to slight increases in repair and maintenance and others miscellaneous expenses.

Impairment Losses of Plant and Equipment and Right-of-use Assets

Our impairment losses significantly increased from RMB11.0 million for the year ended December 31, 2021 to RMB712.9 million for the year ended December 31, 2022. The increase was primarily due to the continued impact of COVID-19 pandemic in 2022, and the Group is facing adverse circumstances, including the closure and suspension of operations of certain bars during certain periods of the year, greatly reduction in passenger flow as a result of the prevention and control measures, and the resulting decline in the operating performance of certain bars; the management of the Group identified impairment indicators on the plant and equipment and right-of-use assets of certain bars, and conducted impairment assessment on these bars after considering the uncertainties in economic recovery cycle in future.

Other Losses, net

For the year ended December 31, 2022, we incurred net other losses of RMB83.2 million which primarily comprised (i) net losses of RMB140.2 million arising from the aggregation of disposal of plant and equipment, termination of leases, impairment of plant and equipment, and expected credit losses on rental deposits, all of which were incurred due to the continued impact of the COVID-19 pandemic and the Group's strategic consideration of bars' optimization and adjustments including the closure of certain bars; and (ii) exchange gain of RMB61.1 million due to appreciation of USD and/or HKD denominated assets.

Fair Value Changes of Convertible Preferred Shares

For the year ended December 31, 2022, we did not have any fair value changes of convertible preferred shares.

Finance Income

Our finance income increased by 781.0% from RMB563,000 for the year ended December 31, 2021 to RMB4,960,000 for the year ended December 31, 2022. The increase was primarily due to the increase in interest income from bank deposits in 2022 as a result of the proceeds raised from our Global Offering in September 2021.

Finance Costs

Our finance expenses decreased by 27.2% from RMB57.7 million for the year ended December 31, 2021 to RMB42.0 million for the year ended December 31, 2022. The decrease in financial costs was mainly attributable to no new bank borrowings during the year as well as early termination of leases in 2022.

Loss Before Income Tax

As a result of the foregoing, our loss before income tax was RMB176.9 million for the year ended December 31, 2021, and the loss before income tax was RMB1,616.5 million for the year ended December 31, 2022. The loss before income tax margin was 9.6% and 103.7% for the same periods, respectively.

Income Tax (Credit)/Expense

The income tax expense was RMB53.2 million for the year ended December 31, 2021 compared with the income tax credit of RMB15.3 million for the year ended December 31, 2022. This was mainly due to the loss before income tax incurred during the year ended December 31, 2022.

Non-HKFRS Measures

To supplement the comprehensive statement of profit or loss presented in accordance with Hong Kong Financial Reporting Standards, we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRSs. We believe that the presentation of such non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain non-operating or non-recurring expenses and incomes that do not affect our ongoing operating performance (including listing expenses, equity settled share-based payments, fair value changes of convertible preferred shares and losses from bars optimization and adjustment (which comprise impairment losses of plant and equipment and right-of-use assets, loss on disposal of plant and equipment, expected credit loss on rental deposits and gain on termination of leases)). Such non-HKFRS measures allow investors to consider metrics used by our management in evaluating our performance. We believe that listing expenses, equity settled share-based payments, fair value changes of convertible preferred shares and losses from bars optimization and adjustment are non-operating or non-recurring expenses and incomes that will not affect our ongoing operating performance. We believe that adjusted net (loss)/profit provides investors with useful information in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of listing expenses, equity settled share-based payments, fair value changes of convertible preferred shares and losses from bars optimization and adjustment.

	For the year ended	
	December 31,	
	2022	2021
	(RMB in	(RMB in
	thousands)	thousands)
Loss for the year	(1,601,150)	(230,000)
Add:		
Listing expenses	—	30,893
Equity settled share-based payments	503,191	91,683
Fair value changes of convertible preferred shares	—	207,669
Losses from bars optimization and adjustment	853,080	10,985
	<hr/>	<hr/>
Adjusted net (loss)/profit	<u>(244,879)</u>	<u>111,230</u>

From time to time in the future, there may be other items that we may exclude from reviewing our financial results. The use of the non-HKFRS measures has limitations as an analytical tool, and Shareholders of the Company and potential investors should not consider it in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial condition as reported under HKFRS. In addition, the non-HKFRS financial measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Property, Plant and Equipment

Our property, plant and equipment represent (i) building, (ii) office equipment such as printers, (iii) computer equipment, (iv) furniture and fixture used in bars such as tables and chairs and facilities in kitchens, (v) leasehold improvement and (vi) motor and vehicle. Our property, plant and equipment decreased from RMB871.3 million as of December 31, 2021 to RMB693.3 million as of December 31, 2022. The decrease is mainly due to the optimization and adjustment measures that we conducted during the Reporting Period which resulted in disposals and impairment losses of plant and equipment.

Intangible Assets

Our intangible assets mainly include office systems and software that we have purchased. Our intangible assets remained generally stable at RMB92,000 and RMB75,000, respectively, as of December 31, 2021 and December 31, 2022.

Right-of-use Assets

Our right-of-use assets (i.e. our confirmed long-term leased properties) decreased from RMB1,348.3 million as of December 31, 2021 to RMB457.0 million as of December 31, 2022. The decrease is mainly due to the derecognition and the impairment loss generated from the optimization and adjustment measures that we conducted during the Reporting Period.

Inventories

Our inventories represent the alcoholic drinks, food and consumables used in our bar operations.

The following table sets forth our inventory balance as of the dates indicated.

	As at	
	December 31,	December 31,
	2022	2021
	<i>(RMB in</i>	<i>(RMB in</i>
	<i>thousands)</i>	<i>thousands)</i>
Inventories		
Alcoholic drinks	26,936	51,739
Food	6,614	8,356
Consumables	2,412	1,407
	<hr/>	<hr/>
Total	<u>35,962</u>	<u>61,502</u>

Our inventories decreased from RMB61.5 million as of December 31, 2021, to RMB36.0 million as of December 31, 2022. The decrease in our inventories was mainly driven by a decrease in customer flow due to the frequent standstill of bars under pandemic control in 2022, resulting in a decrease in the amount of inventory sold by bars on a daily basis.

Our inventory turnover days increased from 31.1 days as of December 31, 2021 to 31.7 days as of December 31, 2022, maintaining stable.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily include rental and other deposits, other tax receivable and other prepayments. The decrease in balance from approximately RMB348.9 million as of December 31, 2021 to approximately RMB145.4 million as of December 31, 2022 was mainly because prepayments for acquisitions of properties amounting to RMB223.3 million as of December 31, 2021 were fully converted as the acquisitions were completed in 2022.

Cash and Cash Equivalents

Our cash and cash equivalents were RMB1,626.7 million and RMB1,298.6 million as of December 31, 2021 and December 31, 2022, respectively. The decrease was mainly due to the capital expenditure incurred by expansion of our bar network and the daily operating expenses of the bars.

Lease Liabilities

We had lease liabilities of RMB1,246.1 million and RMB741.0 million as of December 31, 2021 and December 31, 2022, respectively. The decrease in lease liabilities is due to the termination of store lease agreements resulted from the optimization and adjustment of our bars network during the year.

Trade Payables

Our trade payables mainly represent the expenses payable to our suppliers to purchase raw materials, equipment and other supplies that are necessary for our bar operations. Our trade payables decreased from RMB75.1 million as of December 31, 2021 to RMB62.7 million as of December 31, 2022. The decrease was primarily due to the decreased number of our bars, leading to the corresponding decrease of our product purchase amount.

The turnover days of our trade payables increased from 34.3 days as of December 31, 2021 to 44.8 days as of December 31, 2022, which was mainly due to our fine operational strategy enabling us to manage our purchases and make payments more effectively.

Other Payables and Accruals

Our other payables and accruals decreased from RMB63.2 million as of December 31, 2021 to RMB37.8 million as of December 31, 2022. Such decrease was mainly due to the decrease in the number of bars caused by the optimization and adjustment of bars, leading to a decrease in our product procurement and other payables for logistics, labor, and other related operations.

Liquidity and Capital Resources

We have adopted a prudent treasury management policy. We place a strong emphasis on having funds readily available and accessible and are in a stable liquidity position with sufficient funds in standby banking facilities to cope with daily operations and meet its future development demands for capital.

During the Reporting Period, we mainly used cash generated from operating activities for our business. Our cash and cash equivalents were RMB1,626.7 million and RMB1,298.6 million as of December 31, 2021 and December 31, 2022, respectively. Our cash is mainly used to meet the needs of business operations.

Going forward, we expect to continue to fund our operations with revenue generated from operations of our bars. However, with the continuing expansion of our business, we may require further funding through public or private equity offerings, debt financing and other sources. We currently do not have any plan for material additional external debt financing. We will continue to evaluate potential financing opportunities based on our need for capital resources and market conditions.

Indebtedness

Bank borrowings

As of December 31, 2022, we did not have any bank borrowings.

Lease liabilities

As of December 31, 2022, our lease liabilities amounted to RMB741.0 million.

Convertible Preferred Shares

As of December 31, 2022, we had no convertible preferred shares issued to investors.

Contingent Liabilities

As of December 31, 2022, we did not have any material contingent liabilities.

Capital Commitments

As of December 31, 2022, we did not have any capital commitments.

Capital Expenditures

Our capital expenditures were incurred primarily for opening new bars, acquiring equipment, refurbishing existing bars and purchasing furniture and equipment required for bar operations. Our total capital expenditures decreased from RMB771.4 million as of December 31, 2021 to RMB607.7 million as of December 31, 2022. Such decrease resulted from slower pace of expansion and opening of new bars in the Reporting Period.

Gearing Ratio

As of December 31, 2022, as we did not have any bank borrowings, the gearing ratio is not applicable to our Group. The gearing ratio is calculated by the total debt (including interest-bearing bank and other borrowings) divided by total equity at the end of the year multiplied by 100%.

Foreign Exchange Risk

For the year ended December 31, 2022, we mainly operated in China, with one bar located in Hong Kong, PRC. We are exposed to foreign exchange risk primarily because the proceeds from the Global Offering are denominated in Hong Kong dollars and certain bank deposits denominated in US dollars.

During the Reporting Period, the Group had not engaged in any foreign exchange hedging related activity. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures should the need arise in the future.

Pledge and Charge of Assets

As of December 31, 2022, the Group did not pledge any group assets and no charge was created on the Group's assets.

Significant Investment, Material Acquisition and Disposal

For the year ended December 31, 2022, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures. In addition, except for the expansion plan disclosed in sections "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group did not have any specific plans for significant investments or acquisition of material capital assets or other businesses. The Group, however, will continue to identify new business development opportunities.

Employees and Remuneration Policies

As of December 31, 2022, we had 1,637 employees and 4,029 outsourced personnel, most of whom were based in China. We offer competitive wages and other benefits to the employees and provide discretionary performance bonus as a further incentive. For more details, please refer to the sections headed “Pre-IPO RSU Schemes” and “Post-IPO RSU Scheme” in the Report of the Directors of the annual report of the Company which will be published in due course. We have also improved career development pathways and talent training systems for employees to facilitate their self-growth. The Group’s remuneration policies are formulated based on the performance of individual employees and are reviewed regularly.

During the year ended December 31, 2022, the total employee benefit (including directors’ remuneration) and manpower service expenses were RMB1,003.5 million.

In accordance with the rules and regulations in the PRC, we participate in the applicable housing provident funds and various social insurance plans for employees initiated by local and provincial governments. The Group and the PRC-based employees are required to make monthly contributions to these plans calculated as a specific percentage of the employees’ salaries. There was no forfeited contribution utilized to offset employers’ contributions and there was no forfeited contribution available to reduce the contribution for the years ended December 31, 2021 and 2022.

FINANCIAL INFORMATION

The Board announces the audited consolidated results of the Group for the year ended December 31, 2022, with comparative figures for the year ended December 31, 2021, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	3	1,559,308	1,835,616
Government grants and concessions	4	38,202	14,024
Raw materials and consumables used		(561,906)	(576,787)
Employee benefit and manpower service expenses	5	(1,003,455)	(581,628)
Depreciation of right-of-use assets		(315,923)	(220,246)
Depreciation of property, plant and equipment		(199,996)	(82,600)
Amortisation of intangible assets		(17)	(17)
Short-term rental and other related expenses		(84,769)	(46,865)
Utilities expenses		(65,050)	(57,710)
Travelling and related expenses		(11,528)	(12,601)
Listing expenses		—	(30,893)
Advertising and promotion expenses		(34,384)	(42,500)
Other expenses	7	(103,787)	(98,862)
Impairment losses of plant and equipment and right-of-use assets	12&13	(712,905)	(10,985)
Fair value changes of convertible preferred shares		—	(207,669)
Other losses, net	8	(83,215)	—
Finance income	6	4,960	563
Finance costs	6	(42,007)	(57,690)
Loss before income tax		(1,616,472)	(176,850)
Income tax credit/(expense)	9	15,322	(53,150)
Loss for the year attributable to owners of the Company		(1,601,150)	(230,000)
Other comprehensive income/(loss): <i>Item that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		44,107	(5,415)
Total comprehensive loss for the year attributable to owners of the Company		(1,557,043)	(235,415)
Loss per share for loss attributable to owners of the Company (expressed in RMB per share)			
Basic	10	(1.459)	(0.213)
Diluted	10	(1.459)	(0.213)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022

		As of 31 December	
	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	12	693,254	871,280
Intangible assets		75	92
Right-of-use assets	13	457,037	1,348,338
Deposits and prepayments	14	89,689	323,047
Deferred tax assets		46,469	29,886
		<u>1,286,524</u>	<u>2,572,643</u>
Current assets			
Inventories		35,962	61,502
Prepayments, deposits and other receivables	14	55,718	25,890
Cash and bank balances		1,096,998	1,626,731
Term deposit with original maturity over three months		201,566	—
		<u>1,390,244</u>	<u>1,714,123</u>
Total assets		<u>2,676,768</u>	<u>4,286,766</u>
Equity			
Equity attributable to owners of the Company			
Share capital		1	1
Reserves		1,822,867	2,876,719
Total equity		<u>1,822,868</u>	<u>2,876,720</u>

		As of 31 December	
	<i>Notes</i>	2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Liabilities			
Non-current liability			
Lease liabilities	<i>13</i>	<u>565,202</u>	<u>1,060,620</u>
Current liabilities			
Trade payables	<i>15</i>	62,742	75,139
Other payables and accruals		37,810	63,197
Lease liabilities	<i>13</i>	175,800	185,520
Current income tax liabilities		<u>12,346</u>	<u>25,570</u>
		<u>288,698</u>	<u>349,426</u>
Total liabilities		<u>853,900</u>	<u>1,410,046</u>
Total equity and liabilities		<u>2,676,768</u>	<u>4,286,766</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

The Company was incorporated in the Cayman Islands on 16 January 2018 as an exempted company with limited liability under the Companies Act (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is 3–212 Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 30746, Seven Mile Beach, Grand Cayman KY1-1203, Cayman Islands. The Company’s shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Listing**”) on 10 September 2021 (the “**Listing Date**”).

The Company is an investment holding company and its subsidiaries comprising the Group principally engage in bar operations and franchise business in the People’s Republic of China (the “**PRC**”) and Hong Kong. The ultimate holding company of the Company is Helens Hill Holding Limited (“**Helens Hill (BVI)**”), a company incorporated in the British Virgin Islands (“**BVI**”). The ultimate controlling shareholder is Mr. Xu Bingzhong (“**Mr. Xu**” or the “**Controlling Shareholder**”) who has been controlling the group companies since their incorporation.

The financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated, and have been approved for issue by the Company’s board of directors (the “**Board**”) on 24 March 2023.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors of the Company to exercise judgement in the process of applying the Group’s accounting policies.

(a) *New amendments early adopted by the Group*

The Group has early adopted the Amendments to HKFRS 16 — COVID-19 Related Rent Concession from 1 January 2020.

The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments due on or before 30 June 2022; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. As a result, rent concessions totaling approximately RMB11,711,000 (2021: RMB484,000) have been recognised under “government grants and concessions” in the consolidated statement of comprehensive income during the year ended 31 December 2022 with a corresponding adjustment to the lease liabilities as detailed in Notes 4 and 13.

(b) New or revised standards, amendments and interpretations not yet adopted

Standards, amendments and interpretations that have been issued but not yet effective and not been early adopted by the Group during the year ended 31 December 2022 are as follows:

		Effective for annual periods beginning on or after
HK 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
HKFRS 17 Insurance Contracts	Insurance contracts	1 January 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of accounting estimates	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendment to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. Management has performed a preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments and interpretations to the existing HKFRSs.

3 Revenue and segment information

The Company is an investment holding company and its subsidiaries now comprising the Group are principally engaged in bar operations and franchise business.

The chief operating decision-maker (“**CODM**”) has been identified as the directors of the Company. The directors review the Group’s internal reporting in order to assess performance and allocate resources. The directors have determined the operating segment based on these reports.

The directors consider the Group’s operation from a business perspective and determine that the Group is managed as one single reportable operating segment.

During the years ended 31 December 2022 and 2021, all of the Group’s revenues are from contracts with customers.

(a) *Disaggregation of revenue*

Disaggregation of revenue from contracts with customers by major service lines and timing of revenue recognition is as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB’000</i>	<i>RMB’000</i>
Revenue from:		
— Bar operations	1,547,988	1,835,108
— Franchising cooperation	11,320	508
	<u>1,559,308</u>	<u>1,835,616</u>
Disaggregated by timing of revenue recognition:		
— Point in time	1,547,988	1,835,108
— Over time	11,320	508
	<u>1,559,308</u>	<u>1,835,616</u>

No customers contributed over 10% of the total revenue of the Group for the years ended 31 December 2022 and 2021.

(b) Segment revenue by customers' geographical location

The Group's revenue by geographical location, which is determined by the operation's locations, is as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
The PRC	1,555,202	1,832,982
Hong Kong	4,106	2,634
	<u>1,559,308</u>	<u>1,835,616</u>

(c) Non-current assets by geographical location

As of 31 December 2022 and 2021, most of the Group's non-current assets (other than intangible assets and deferred tax assets) were located in the PRC.

4 Government grants and concessions

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Government grants (a)	26,491	13,540
Gain on COVID-19 rent concessions	11,711	484
	<u>38,202</u>	<u>14,024</u>

(a) During the year ended 31 December 2022, government grants mainly represented the grants amounting to a total of approximately RMB19,184,000 in respect of certain foreign enterprise investment funding programs operated by the PRC government, and the exemptions on value-added tax granted by the government authorities in the PRC which were applicable to certain subsidiaries of the Group.

5 Employee benefit expenses (including directors' emoluments) and manpower service expenses

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries, and other benefits	157,784	213,871
Pension costs — defined contribution schemes	28,230	32,572
Equity settled share-based payments	503,191	91,683
	<hr/>	<hr/>
Total employee benefit expenses (including directors' remunerations)	689,205	338,126
Manpower service expenses	314,250	243,502
	<hr/>	<hr/>
	1,003,455	581,628
	<hr/> <hr/>	<hr/> <hr/>

6 Finance costs, net

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	(4,960)	(563)
	<hr/>	<hr/>
Interest expenses on lease liabilities	42,007	54,222
Interest expenses on borrowings	—	3,468
	<hr/>	<hr/>
Finance costs	42,007	57,690
	<hr/>	<hr/>
Finance costs, net	37,047	57,127
	<hr/> <hr/>	<hr/> <hr/>

7 Other expenses

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Logistics and warehousing-related costs	43,829	51,731
Office expenses	7,367	11,369
Repair and maintenance	8,576	5,033
Auditor's remuneration		
— Audit services	5,800	4,900
— Non-audit services	1,035	715
Cleaning and garbage handling fees	4,083	4,736
Service fees to third-party platform service providers	10,845	8,520
Software development fees	7,636	4,404
Others	14,616	7,454
	<u>103,787</u>	<u>98,862</u>

8 Other losses, net

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Loss on disposal of plant and equipment (a)	(142,040)	—
Expected credit loss on rental deposits (a)	(17,436)	—
Penalties and compensation for early termination	(4,095)	—
Gain on termination of leases (a)	19,301	—
Exchange gain	61,055	—
	<u>(83,215)</u>	<u>—</u>

- (a) Due to the continued impact of the COVID-19 pandemic and the Group's strategic consideration of bars' optimization and adjustments including the closure of certain bars, the Group incurred net losses arising from the aggregation of disposal of plant and equipment, termination of leases, impairment of plant and equipment, and expected credit losses on rental deposits during the year ended 31 December 2022.

Additional details on the impairment of plant and equipment are set out in Note 12.

9 Income tax (credit)/expense

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	1,261	64,714
Deferred income tax	<u>(16,583)</u>	<u>(11,564)</u>
Income tax (credit)/expense	<u><u>(15,322)</u></u>	<u><u>53,150</u></u>

(a) *Hong Kong profits tax*

During the years ended 31 December 2022 and 2021, no provision for Hong Kong profits tax has been made at the rate of 16.5% as the Group did not derive any income subject to Hong Kong profits tax during the years ended 31 December 2022 and 2021.

(b) *PRC corporate income tax*

During the years ended 31 December 2022 and 2021, the Group's subsidiaries in the PRC are subject to corporate income tax ("CIT") at a standard rate of 25%, except for Shenzhen Helens Management Co., Ltd. which is an enterprise established in the Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone ("**Qianhai Zone**") and is engaged in business that falls within the catalogue for CIT preferential treatments of Qianhai Zone and therefore subject to a preferential corporate income tax rate of 15%.

10 Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021.

In determining the weighted average number of ordinary shares deemed to be in issue during the years ended 31 December 2022 and 2021, 1,000 shares, being the number of ordinary shares issued by the Company on 16 January 2018 (date of incorporation), were deemed to have been issued and allocated on 1 January 2018 as if the Company has been incorporated by then, when computing the basic and diluted earnings per share for the years ended 31 December 2022 and 2021.

On 9 February 2021, the shareholders of the Company resolved that all issued and unissued ordinary shares of the Company increased from 500,000,000 shares of USD0.0001 each to 500,000,000,000,000 shares of USD0.0000000001 each by subdivision of one share at par value of USD0.0001 each to 1,000,000 shares at par value of USD0.0000000001 each (the “**Subdivision**”). Immediately following the Subdivision, the number of ordinary shares in issue was 1,000,000,000. In determining the weighted average number of ordinary shares in issue, the Subdivision has been adjusted retrospectively as if the Subdivision was effective since the beginning of the year ended 31 December 2018.

During the year ended 31 December 2022, the company has granted an aggregate of 52,996,468 RSUs (2021: 266,901,524) and vested immediately. The basic earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2022	2021
Loss for the year attributable to owners of the Company (<i>RMB'000</i>)	(1,601,150)	(230,000)
Weighted average number of ordinary shares in issue (<i>Thousand</i>)	1,097,175	1,079,014
Basic loss per share (<i>RMB</i>)	<u>(1.459)</u>	<u>(0.213)</u>

(b) Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year with the weighted average number of ordinary shares deemed to be issued assuming the dilutive impact on the shares pursuant to the restricted shares granted.

For the year ended 31 December 2022, the Group incurred losses and the potential ordinary shares were not included in the calculation of the diluted loss per share as they are anti-dilutive. Accordingly, diluted loss per share for the year ended 31 December 2022 is the same as basic loss per share.

11 Dividends

No dividend was declared or paid by the Company during the years ended 31 December 2022 and 2021.

12 Property, Plant and equipment

	Building RMB'000	Office equipment RMB'000	Computer equipment RMB'000	Furniture and fixture RMB'000	Motor and Vehicle RMB'000	Leasehold improvement RMB'000	Total RMB'000
At 1 January 2021							
Cost	—	27	291	59,911	—	181,056	241,285
Accumulated depreciation	—	(11)	(103)	(13,678)	—	(38,650)	(52,442)
Net book amount	<u>—</u>	<u>16</u>	<u>188</u>	<u>46,233</u>	<u>—</u>	<u>142,406</u>	<u>188,843</u>
Year ended 31 December 2021							
Opening net book amount	—	16	188	46,233	—	142,406	188,843
Additions	—	—	3	120,990	—	649,265	770,258
Business combinations	—	—	—	—	—	1,130	1,130
Depreciation	—	(5)	(63)	(19,015)	—	(63,517)	(82,600)
Impairment losses (a)	—	—	—	(326)	—	(6,025)	(6,351)
Closing net book amount	<u>—</u>	<u>11</u>	<u>128</u>	<u>147,882</u>	<u>—</u>	<u>723,259</u>	<u>871,280</u>
At 31 December 2021							
Cost	—	27	294	180,901	—	831,451	1,012,673
Accumulated depreciation	—	(16)	(166)	(32,693)	—	(102,167)	(135,042)
Impairment losses	—	—	—	(326)	—	(6,025)	(6,351)
Net book amount	<u>—</u>	<u>11</u>	<u>128</u>	<u>147,882</u>	<u>—</u>	<u>723,259</u>	<u>871,280</u>

	Building	Office equipment	Computer equipment	Furniture and fixture	Motor and Vehicle	Leasehold improvement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022							
Cost	—	27	294	180,901	—	831,451	1,012,673
Accumulated depreciation	—	(16)	(166)	(32,693)	—	(102,167)	(135,042)
Impairment losses	—	—	—	(326)	—	(6,025)	(6,351)
Net book amount	<u>—</u>	<u>11</u>	<u>128</u>	<u>147,882</u>	<u>—</u>	<u>723,259</u>	<u>871,280</u>
Year ended 31 December 2022							
Opening net book amount	—	11	128	147,882	—	723,259	871,280
Additions	211,082	—	1,191	145,300	6,173	243,913	607,659
Depreciation	(4,976)	(5)	(278)	(50,097)	(378)	(144,262)	(199,996)
Disposals	—	(6)	(372)	(20,560)	—	(131,302)	(152,240)
Impairment losses (a)	—	—	—	(49,459)	—	(383,990)	(433,449)
Closing net book amount	<u>206,106</u>	<u>—</u>	<u>669</u>	<u>173,066</u>	<u>5,795</u>	<u>307,618</u>	<u>693,254</u>
At 31 December 2022							
Cost	211,082	21	1,113	305,641	6,173	944,062	1,468,092
Accumulated depreciation	(4,976)	(21)	(444)	(82,790)	(378)	(246,429)	(335,038)
Impairment losses	—	—	—	(49,785)	—	(390,015)	(439,800)
Net book amount	<u>206,106</u>	<u>—</u>	<u>669</u>	<u>173,066</u>	<u>5,795</u>	<u>307,618</u>	<u>693,254</u>

- (a) Management reviews the performance of each bar at the end of each Reporting Period to identify impairment indicators, and performs impairment assessment where impairment indicator is identified.

Each of the bars is identified as a cash generating unit (“CGU”) by management in the impairment assessment. The recoverable amount of each of the bars with impairment indicators identified is assessed at the end of each Reporting Period.

As a result of the continuous impact of COVID-19 in 2022, the Group has experienced negative conditions including closure and suspension of operation of certain bars, lukewarm customer consumptions for certain periods of time during the year and the consequential decline in operating results of certain bars.

The management of the Group therefore concluded that there were impairment indicators identified on the plant and equipment and right-of-use assets of certain bars and conducted impairment assessment on these bars.

The recoverable amount of each CGU is determined based on value-in-use calculations derived from cash flow projections forecasted by management covering the remaining lease term, which is higher than the fair value less costs of disposal. The cash flows are discounted using pre-tax discount rates primarily ranging from 16.13% to 23.94% as at 31 December 2022 (2021: 11.99% to 15.65%). The discount rates used reflect the specific risks relating to the restaurant and beverage industries in which the relevant CGUs operate and the CGUs themselves. The discount rates used have been reassessed as at 31 December 2022 and increase in discount rates are primarily attributable to overall increase in the market risk premium of the PRC market and the risk of the restaurant and beverage industries due to macroeconomic uncertainties.

Other than discount rates, other key assumptions for the value-in-use calculations related to the estimation of CGUs' cash flows included revenue growth rates, raw material costs-to-revenue ratio, employee benefit and manpower service expenses-to-revenue ratio, which are estimated based on the CGUs' past performance and management's plan for these CGUs. All of these assumptions have been reassessed as at 31 December 2022 taking into account the uncertainties on how the forward-looking customer consumptions in the PRC will recover from the COVID-19 impact.

Based on the results of the impairment assessment conducted, the carrying amount of certain bars exceeded their recoverable amount and therefore impairment of approximately RMB433,449,000 and RMB279,456,000 (Note 13) was recognised for these bars' plant and equipment and right-of-use assets, respectively, in the Group's consolidated statement of comprehensive income for the year ended 31 December 2022 (2021: RMB6,351,000 and RMB4,634,000, respectively).

Furthermore, due to the closure of certain bars, the Group disposed of certain plant and equipment, resulting in a loss of approximately RMB142,040,000.

13 Leases

(a) *The Group's leasing activities*

The Group leases various properties and the rental contracts are typically made for fixed periods of 5 to 8 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. None of the Group's leases contain variable lease payment terms that are linked to sales generated from the leased premises.

Certain of the Group's leases contain extension options to allow the Group to notify and negotiate with the lessors on renewal of leases a few months in advance before the expiry of leases. Termination options are also included in a number of the Group's property leases and exercisable by the Group. Options which are reasonably certain to be exercised are taken into account when determining lease terms and measuring lease liabilities.

(b) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position included the following amounts relating to leases:

	As of 31 December	
	2022	2021
	RMB'000	RMB'000
Right-of-use assets-properties		
Opening net book amount	1,348,338	554,506
Additions	197,657	1,018,712
Depreciation charge	(315,923)	(220,246)
Impairment losses (<i>Note 12(a)</i>)	(279,456)	(4,634)
Derecognition from termination of leases	(493,579)	—
	<u>457,037</u>	<u>1,348,338</u>
Closing net book amount		
Lease liabilities		
Non-current portion	565,202	1,060,620
Current portion	175,800	185,520
	<u>741,002</u>	<u>1,246,140</u>

14 Prepayments, deposits, and other receivables

	As of 31 December	
	2022	2021
	RMB'000	RMB'000
Non-current portion		
Rental and other deposits	37,126	83,179
Prepayments for acquisitions of property, plant, and equipment		
— Properties	—	223,260
— Others	3,373	16,608
Other prepayments	49,190	—
	<u>89,689</u>	<u>323,047</u>
Current portion		
Rental and other deposits	10,974	21,641
Prepayments	2,461	743
Other tax receivable	25,667	1,841
Other prepayments	10,656	—
Others	5,960	1,665
	<u>55,718</u>	<u>25,890</u>

15 Trade payables

	As of 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables	<u>62,742</u>	<u>75,139</u>

As of 31 December 2022 and 2021, the aging analysis of trade payables, based on invoice date, were as follows:

	As of 31 December	
	2022	2021
	RMB'000	RMB'000
0–90 days	<u>62,742</u>	<u>75,139</u>

16 Equity settled share-based payments

The equity settled share-based payments expense recognized during the years ended 31 December 2022 and 2021 are summarized as below:

	As of 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Share-based payments expenses	<u>503,191</u>	<u>91,683</u>

On 16 January 2022, 6 July 2022, and 31 October 2022, the board of the Company resolved to grant an aggregate of 52,996,468 RSUs under the Post-IPO RSU Scheme to the Grantees for nil consideration. All of these restricted share units shall be vested immediately upon the later of the (i) execution of the relevant grant letter and acceptance by the Grantees within the time period stipulated in the relevant grant letter; and (ii) satisfaction of certain relevant vesting condition as set out in the relevant grant letter.

During the year ended 31 December 2022, all of the aforementioned 52,996,468 RSUs were granted. The fair value of these RSUs was determined with reference to the share price of the Company on 17 January 2022, 6 July 2022, and 31 October 2022. Save as 6,097 RSUs which had subsequently lapsed, the remaining 52,990,371 RSUs were fully vested. The excess of the fair value of the equity interest of the Group on the grant date over the cash consideration of par value paid by the grantees is accounted for as share-based payment expenses in the Group's consolidated statement of comprehensive income. Accordingly, share-based payment expenses of approximately RMB503,191,000 were recognised during the year ended 31 December 2022.

CORPORATE GOVERNANCE RELATED INFORMATION

Compliance with the Corporate Governance Code

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Company has adopted corporate governance practices based on the principles and code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (“**Corporate Governance Code**”) as its own code of corporate governance practices.

The Board is of the view that during the Reporting Period, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code, except for the code provision C.2.1 described in the paragraph headed “C. Directors’ Responsibilities, Delegation and Board Proceedings — C.2 Chairman and Chief Executive”. The Board will continue to review and monitor the code of corporate governance practices of the Company with an aim of maintaining a high standard of corporate governance.

Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of Chairman of the Board and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The roles of Chairman of the Board and Chief Executive Officer of the Company are currently held by Mr. Xu Bingzhong (“**Mr. Xu**”). As Mr. Xu has extensive contributions since the establishment of the Group and has rich experience, we believe that vesting the role of Chairman and Chief Executive Officer by Mr. Xu will enable the Group’s leadership to be strong and consistent, and enhance the efficiency of business strategy execution. We believe that it is appropriate for Mr. Xu to continuously serve as Chairman and Chief Executive Officer, which is beneficial to the business development and prospects of the Group. Therefore, we have no intention at present to separate the functions of Chairman and Chief Executive Officer. Although this arrangement deviates from code provision C.2.1 of the Corporate Governance Code, the Board considers that the structure will not impair the balance of power and authority between the Board and the management of the Company. The reasons are: (i) the Board has sufficient checks and balances because its decisions must be approved by at least a majority of directors and the Board includes three independent non-executive directors, which complies with the Listing Rules; (ii) Mr. Xu and the other Directors acknowledge and undertake to fulfil their fiduciary duties as directors, which require them, among other things, to act in the interests of the Company in a manner that is in the best interests of the Company and to make decisions for the Group accordingly; and (iii) the Board is made up of experienced and talented people who meet regularly to discuss matters affecting the operations of the Company to ensure a balance of power and authority. In addition, the Group’s overall strategic and other major businesses, financial and operational policies have been formulated jointly by the Board and senior management after detailed discussion.

The Board will continuously review the effectiveness of the Group's corporate governance structure to assess whether there is a need to distinguish between the roles of Chairman of the Board and Chief Executive Officer.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors, and the Group's employees who, because of his/her office or employment, are likely to possess inside information in relation to the Group or the Company's securities. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

No incident of non-compliance of the Model Code by the employees was noted by the Company for the Reporting Period.

Purchase, Sale or Redemption of the Company's Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

Material Litigation

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the Reporting Period.

Use of Net Proceeds

The Company's Shares were listed on the Stock Exchange on September 10, 2021 and the net proceeds raised by the Company from the initial public offering and the full exercise of the Over-allotment Option amounted to approximately HK\$2,980.1 million.

The balance of unutilized net proceeds amounted to approximately HK\$1,453.7 million as at the end of the Reporting Period and the Company intends to use them in the same manner and proportions as described in the Prospectus and proposes to use the unutilized net proceeds in accordance with the expected timetable disclosed in the table below.

As at the end of the Reporting Period, the Group has used the net proceeds as follows:

Intended use of net proceeds ⁽¹⁾	Percentage of total net proceeds (at the same rate as stated in the Prospectus)	Amount of net proceeds (at the same rate as stated in the Prospectus) (HK\$ in million)	Amount of net proceeds utilized up to December 31, 2022 (HK\$ in million)	Balance of net proceeds as at December 31, 2021 (HK\$ in million)	Amount of net proceeds utilized during the Reporting Period (HK\$ in million)	Balance of net proceeds December 31, 2022 (HK\$ in million)	Intended timetable for use of the unutilized net proceeds
Used for opening new bars and realizing our expansion plan over the next three years	70.0%	2,086.1	1,074.6	1,330.0	318.5	1,011.5	Before December 31, 2024
Used for further enhancing the construction of the talent echelon of our bars to optimize the human resource management system	10.0%	298.0	206.0	252.7	160.7	92.0	Before December 31, 2024
Used for further enhancing the construction of infrastructural capacity of our bars and continuing to invest in technology research and development	5.0%	149.0	8.2	146.4	5.6	140.8	Before December 31, 2024
Used for further strengthening the brand awareness of the Helens'	5.0%	149.0	76.7	117.5	45.2	72.3	Before December 31, 2024
Used for working capital and general corporate purposes	10.0%	298.0	160.9	137.1	—	137.1	Before December 31, 2024
Total	100.0%	2,980.1	1,526.4	1,983.7	530.0	1,453.7	

Note (1):

Figures in the table are approximate.

Audit Committee

The audit committee of the Board (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Li Dong, Mr. Wang Renrong and Mr. Wong Heung Ming Henry. The chairman of the Audit Committee is Mr. Li Dong who holds the appropriate qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules. The Audit Committee has reviewed the audited Consolidated Financial Statements for the year ended December 31, 2022 with the management and the auditor of the Company. The Audit Committee considers that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management of the Company.

Auditor

The figures in respect of the Group's consolidated statements of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2022 set forth in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set forth in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

EVENTS AFTER THE REPORTING PERIOD

The Company is not aware of any material subsequent events from December 31, 2022 to the date of this Announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from Tuesday, June 13, 2023 to Friday, June 16, 2023, both days inclusive, in order to determine the identity of Shareholders who are entitled to attend and vote at the annual general meeting of the Company (the "AGM") to be held on Friday, June 16, 2023. Shareholders whose names appear on the register of members of the Company on Friday, June 16, 2023 will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfers accompanied by relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Monday, June 12, 2023.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.helensbar.com).

The annual report of the Company for the year ended December 31, 2022 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the websites of the Stock Exchange and the Company in due course.

PROPOSED AMENDMENTS TO THE EXISTING MEMORANDUM AND ARTICLES OF ASSOCIATION AND ADOPTION OF THE NEW MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board announces that it proposed to amend the existing memorandum of association and articles of association of the Company (the “**Memorandum and Articles of Association**”) and to adopt the new Memorandum and Articles of Association incorporating the amendments (the “**Proposed Amendments**”) for the purpose of, among others, (i) bringing the articles of the Memorandum and Articles of Association in line with the Core Shareholders Protection Standards as set out in Appendix 3 to the Listing Rules effective from January 1, 2022; and (ii) allowing all general meetings to be held by physical, electronic or hybrid meetings. Other minor amendments to the Memorandum and Articles of Association are also made for corresponding as well as housekeeping changes.

The Proposed Amendments and the adoption of the new Memorandum and Articles of Association are subject to the approval of the Shareholders by way of a special resolution at the AGM. A circular containing, among other things, particulars relating to the Proposed Amendments and the adoption of the new Memorandum and Articles of Association together with a notice convening the AGM will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Helens International Holdings Company Limited
Mr. Xu Bingzhong
*Chairman of the Board and
Chief Executive Officer*

Hong Kong, March 24, 2023

As at the date of this announcement, the executive Directors are Mr. Xu Bingzhong, Ms. Lei Xing, Ms. Cai Wenjun and Ms. Yu Zhen, and the independent non-executive Directors are Mr. Li Dong, Mr. Wang Renrong and Mr. Wong Heung Ming Henry.