HUABAO INTERNATIONAL HOLDINGS LIMITED
華 寶 國 際 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change in percentage
	2023	2022	
	RMB'000	*RMB'000*	
Revenue	**3,307,839**	3,828,984	**-13.6%**
Gross profit	**1,469,365**	1,877,563	**-21.7%**
Gross profit margin	***44.4%***	*49.0%*	
Operating profit/(loss)	**378,051**	(607,975)	**N/A**
EBITDA margin ≠	***22.9%***	*32.2%*	
EBIT margin ≠≠	***11.4%***	*-15.9%*	
Adjusted EBIT margin #	***13.1%***	*23.5%*	
Profit/(loss) for the year	**290,483**	(901,050)	**N/A**
Adjusted profit for the year #	**346,985**	606,660	**-42.8%**
Profit/(loss) attributable to the equity holders of the Company	**233,633**	(1,054,547)	**N/A**
Adjusted profit attributable to the equity holders of the Company #	**290,135**	453,163	**-36.0%**
	RMB cents	*RMB cents*	
Basic and diluted earnings/(loss) per share	**7.23**	(32.65)	
Proposed final dividend per share *(note 8)*	**HK0.8 cents**	—	
Proposed/paid special dividend per share *(note 8)*	**HK4.2 cents**	HK5.1 cents	
Total dividend per share for the year *(note 8)*	**HK8.5 cents**	HK8.48 cents	
Dividend payout ratio for the year	**106.9%**	N/A	

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

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

Excluding impairment of goodwill of RMB56,502,000 for the year ended 31 December 2023 and RMB1,507,710,000 for the year ended 31 December 2022.

* *For identification purpose only*

On 26 March 2024, the board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") approved the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023 together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**3,307,839**	3,828,984
Cost of goods sold	*4*	**(1,838,474)**	(1,951,421)
Gross profit		**1,469,365**	1,877,563
Other income and other gains - net	*5*	**146,608**	212,812
Selling and marketing expenses	*4*	**(326,809)**	(344,405)
Administrative expenses	*4*	**(830,866)**	(825,959)
Impairment of goodwill		**(56,502)**	(1,507,710)
Net impairment losses on financial assets		**(23,745)**	(20,276)
Operating profit/(loss)		**378,051**	(607,975)
Finance income		**84,952**	71,791
Finance costs		**(24,846)**	(37,970)
Finance income – net		**60,106**	33,821
Share of results of associates and jointly controlled entities		**59**	(7,056)
Provision for impairment relating to the investment in an associate		**(22,291)**	(139,000)
Profit/(loss) before income tax		**415,925**	(720,210)
Income tax expense	*6*	**(125,442)**	(180,840)
Profit/(loss) for the year		**290,483**	(901,050)
Attributable to:			
Equity holders of the Company		**233,633**	(1,054,547)
Non-controlling interests		**56,850**	153,497
		290,483	(901,050)
Earnings/(loss) per share for profit/(loss) attributable to the Company's equity holders for the year		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**7.23**	(32.65)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Profit/(loss) for the year	**290,483**	(901,050)
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	**(183,855)**	(1,583)
Currency translation differences of the Company and its non-foreign operations	**39,307**	107,178
Items that may be reclassified to profit or loss		
Currency translation differences of foreign operations	**39**	(2,762)
Other comprehensive (loss)/income for the year, net of tax	**(144,509)**	102,833
Total comprehensive income/(loss) for the year, net of tax	**145,974**	(798,217)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**77,810**	(958,614)
Non-controlling interests	**68,164**	160,397
	145,974	(798,217)

CONSOLIDATED STATMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,193,713**	2,042,644
Right-of-use assets		**374,411**	385,498
Investment properties		**27,382**	27,332
Intangible assets		**4,187,984**	4,322,720
Investments in associates		**432,442**	691,748
Investment in jointly controlled entities		**22,130**	19,802
Financial assets at fair value through other comprehensive income		**10,378**	16,006
Financial assets at fair value through profit or loss		**190,136**	253,058
Deferred income tax assets		**205,579**	152,524
Other non-current assets		**—**	8,634
		7,644,155	7,919,966
Current assets			
Biological assets		**210**	1,470
Inventories		**994,592**	1,020,023
Trade and other receivables	*9*	**930,782**	1,242,178
Financial assets at fair value through other comprehensive income		**23,168**	49,794
Financial assets at fair value through profit or loss		**3,869,711**	1,637,613
Cash and bank balances		**2,539,493**	4,747,978
		8,357,956	8,699,056
Total assets		**16,002,111**	16,619,022

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,248,159**	4,380,460
Retained earnings		**7,903,653**	7,941,787
		12,480,431	12,650,866
Non-controlling interests		**1,790,706**	1,906,572
Total equity		**14,271,137**	14,557,438
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**36,000**	—
Financial liability for non-controlling interest put option		**147,656**	131,836
Lease liabilities		**28,365**	37,290
Deferred income tax liabilities		**124,960**	125,368
Other payables	*11*	**11,446**	12,163
		348,427	306,657
Current liabilities			
Borrowings	*10*	**419,250**	677,700
Lease liabilities		**16,554**	23,480
Trade and other payables	*11*	**613,899**	722,135
Current income tax liabilities		**172,012**	215,650
Contract liabilities		**160,832**	115,962
		1,382,547	1,754,927
Total liabilities		**1,730,974**	2,061,584
Total equity and liabilities		**16,002,111**	16,619,022

Notes:

1. **BASIS OF PREPARATION**

   (a) Compliance with Hong Kong Financial Reporting Standards ("HKFRS") and the Hong Kong Companies Ordinance ("HKCO")

   The consolidated financial statements of the Group have been prepared in accordance with HKFRS as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the HKCO Cap. 622.

   HKFRS comprise the following authoritative literature:

   - Hong Kong Financial Reporting Standards
   - Hong Kong Accounting Standards
   - Interpretations developed by the HKICPA.

   (b) Historical cost convention

   The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at fair value through profit or loss ("FVPL"), which are carried at fair value.

2. **ACCOUNTING POLICIES**

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

   (a) New and amended standards adopted by the Group

   The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2023:

   - HKFRS 17 Insurance Contracts
   - Definition of Accounting Estimates – Amendments to HKAS 8
   - International Tax Reform – Pillar Two Model Rules – Amendments to HKAS 12
   - Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to HKAS 12
   - Disclosure of Accounting Policies – Amendments to HKAS 1 and HKFRS Practice Statement 2

   The amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards and interpretations not yet adopted

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

		Effective for the financial year beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with covenants	1 January 2024
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier finance arrangements	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
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 Group has already commenced an assessment of the impact of these new or revised standards, amendments and interpretations, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors of the Company, these standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. REVENUE AND SEGMENT INFORMATION

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

(1) Flavours and fragrances, 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 ingredients.

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

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

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

The segment information for the year ended 31 December 2023 is presented below:

	Year ended 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*
Total revenue	**1,484,628**	**485,751**	**630,255**	**754,060**	**—**	**3,354,694**
Inter-segment revenue	**(20,195)**	**(21,091)**	**(5,569)**	**—**	**—**	**(46,855)**
Segment revenue – net	**1,464,433**	**464,660**	**624,686**	**754,060**	**—**	**3,307,839**
Segment result	**405,526**	**90,768**	**(83,412)**	**116,751**	**(151,582)**	**378,051**
Finance income						**84,952**
Finance costs						**(24,846)**
Finance income – net						**60,106**
Share of results of associates and jointly controlled entities						**59**
Provision for impairment relating to the investment in an associate						**(22,291)**
Profit before income tax						**415,925**
Income tax expense						**(125,442)**
Profit for the year						**290,483**
Depreciation	**66,679**	**57,861**	**64,112**	**16,890**	**5,456**	**210,998**
Amortisation	**12,367**	**8,688**	**9,105**	**74,793**	**1,646**	**106,599**

	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**

The segment information for the year ended 31 December 2022 is presented below:

	Year ended 31 December 2022					
	F&F and Food ingredients *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total revenue	1,893,883	475,082	929,619	573,069	—	3,871,653
Inter-segment revenue	(16,547)	(20,825)	(5,297)	—	—	(42,669)
Segment revenue – net	1,877,336	454,257	924,322	573,069	—	3,828,984
Segment result	824,095	(237,514)	79,526	(1,116,941)	(157,141)	(607,975)
Finance income						71,791
Finance costs						(37,970)
Finance income – net						33,821
Share of results of associates and jointly controlled entities						(7,056)
Provision for impairment relating to the investment in an associate						(139,000)
Loss before income tax						(720,210)
Income tax expense						(180,840)
Loss for the year						(901,050)
Depreciation	67,075	83,945	58,713	10,595	5,010	225,338
Amortisation	9,548	8,645	11,200	74,546	964	104,903

	As at 31 December 2022					
	F&F and Food ingredients *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	8,982,722	2,017,984	1,446,564	3,305,516	866,236	16,619,022

Segment result represents the profit before income tax earned by each segment without inclusion of unallocated corporate expenses, finance costs, finance income, share of results of associates and jointly controlled entities and provision for impairment relating to the investment in an associate. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

4. EXPENSES BY NATURE

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

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Depreciation		**195,292**	207,173
Amortisation		**101,446**	98,253
Provision for impairment of property, plant and equipment		**76,353**	31,774
Provision for impairment of intangible assets		**9,850**	—
Provision for impairment of inventories		**3,421**	1,760
Changes in inventories of finished goods and work in progress		**51,844**	(8,106)
Raw materials and consumables used		**1,142,332**	1,385,390
Short-term lease rentals		**30,830**	29,669
Auditor's remuneration			
– Audit services		**9,360**	10,418
– Non-audit services		**311**	—
Consulting service fee		**21,724**	18,229
Travelling expenses		**32,004**	17,307
Employee benefit expenses		**652,530**	608,149
Research and development expenses	*(a)*	**253,196**	266,233
Delivery expenses		**37,730**	38,064
Utilities expenses		**98,990**	92,055
Motor vehicle expenses		**7,119**	6,163
Maintenance expenses		**22,335**	16,123
Advertising, promotion and agency service expenses		**92,894**	124,624
Office administrative and communication expenses		**9,350**	9,370
Other surcharges		**39,025**	44,738
Others		**108,213**	124,399
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**2,996,149**	3,121,785

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Depreciation	**15,706**	18,165
Amortisation	**5,153**	6,650
Employee benefit expenses	**147,318**	137,114
	168,177	161,929

5. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Change in fair value of financial assets at FVPL	**(8,810)**	106,052
Dividend income from financial assets at FVPL	**10,251**	3,444
Loss on disposal of associates	**(3,442)**	—
Loss on disposal of a subsidiary	**(3)**	(1,184)
Gain on disposal of property, plant and equipment	**3,743**	5,085
Government grants	**151,051**	126,085
Foreign exchange losses - net	**(5,635)**	(17,871)
Change in fair value of previously held interest in a jointly controlled entity upon acquisition as a subsidiary	—	(24,083)
Written-off of payables	**195**	12,234
Donations	**(302)**	(839)
Others	**(440)**	3,889
	146,608	212,812

6. INCOME TAX EXPENSE

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Current income tax			
– PRC corporate income tax	*(a)*	**176,938**	196,512
– Hong Kong profits tax	*(b)*	**61**	2,955
– Botswana company income tax	*(c)*	**1**	142
– Germany company income tax	*(d)*	**58**	54
– Indonesia company income tax	*(e)*	**683**	77
Deferred income tax		**(52,299)**	(18,900)
		125,442	180,840

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profit for the year. 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% (2022: 15.0%) on the estimated assessable profit for the year.

(d) Germany company income tax has been provided at the rate of 15.0% (2022: 15.0%) on the estimated assessable profit for the year.

(e) Indonesia company income tax has been provided at the rate of 22.0% (2022: 22.0%) on the estimated assessable profit for the year.

(f) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the years ended 31 December 2023 and 2022.

7. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2023 and 2022.

	Year ended 31 December	
	2023	2022
Profit/(loss) attributable to equity holders of the Company *(RMB'000)*	**233,633**	(1,054,547)
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Basic earnings/(loss) per share attributable to the equity holders of the Company *(RMB cents per share)*	**7.23**	(32.65)

(b) Diluted earnings/(loss) per share

	Year ended 31 December	
	2023	2022
Profit/(loss) attributable to equity holders of the Company:		
Used in calculating basic earnings/(loss) per share *(RMB'000)*	**233,633**	(1,054,547)
Less: profit adjusted for restricted equity interests granted by a subsidiary *(RMB'000)*	**(15)**	—
Used in calculating diluted earnings/(loss) per share *(RMB'000)*	**233,618**	(1,054,547)
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/(loss) per share attributable to the equity holders of the Company *(RMB cents per share)*	**7.23**	(32.65)

8. DIVIDENDS

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Paid interim dividend of HK1.60 cents per share for the six months ended 30 June 2023	**47,306**	—
Paid special dividend of HK1.90 cents per share for the six months ended 30 June 2023	**56,176**	—
Paid special dividend of HK3.38 cents per share for the six months ended 30 June 2022	**—**	95,840
	103,482	95,840
Proposed final dividend of HK0.8 cents per share for the year ended 31 December 2023	**23,416**	—
Proposed special dividend of HK4.2 cents per share for the year ended 31 December 2023	**122,935**	—
Paid special dividend of HK5.1 cents per share for the year ended 31 December 2022	**—**	148,866
	146,351	148,866
	249,833	244,706

On 26 March 2024, the Board proposed a final dividend of HK0.8 cent per share and a special dividend of HK4.2 cents per share, totalling approximately RMB146,351,000 for the year ended 31 December 2023. The proposed dividend in respect of the year ended 31 December 2023 is calculated based on the total number of shares in issue as at the date of this report. The proposed dividend is subject to the shareholder's approval at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this dividend payable.

9. TRADE AND OTHER RECEIVABLES

	Note	As at 31 December	
		2023	2022
		RMB'000	*RMB'000*
Trade receivables	*(a)*	**739,537**	1,038,189
Less: provision for impairment of trade receivables		**(66,095)**	(27,704)
Trade receivables - net		**673,442**	1,010,485
Notes receivable		**46,182**	27,574
Prepayments and other receivables		**212,025**	228,234
Advances to staff		**2,469**	2,532
Others		**2,412**	1,318
Less: provision for impairment of other receivables		**(5,748)**	(27,965)
		930,782	1,242,178

(a) The credit period generally granted to customers ranges from 0 to 180 days. As at 31 December 2023 and 2022, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice date were as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 - 1 year	**625,220**	936,796
1 - 2 years	**16,580**	68,068
2 - 3 years	**64,924**	28,592
Over 3 years	**32,813**	4,733
	739,537	1,038,189

10. BORROWINGS

	Note	As at 31 December 2023 RMB'000	2022 RMB'000
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**36,000**	15,000
Less: current portion		**—**	(15,000)
		36,000	—
Current			
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**—**	50,000
– Unsecured bank borrowings	*(b)*	**419,250**	612,700
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**—**	15,000
		419,250	677,700
Total borrowings		**455,250**	677,700

(a) As at 31 December 2023, the Group's secured bank borrowings of RMB36,000,000 (31 December 2022: RMB65,000,000) were repayable within two years (31 December 2022: repayable within one year) and secured by certain buildings and right-of-use assets of Shanghai Yifang Rual Technology Holding Co., Ltd. and its subsidiaries with total carrying amount of approximately RMB39,245,000 (31 December 2022: RMB17,662,000). During the year, the average interest rate of the loan was 4.2% (2022: 4.2%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 2.9% (2022: 2.8%) per annum.

(c) As at 31 December 2023 and 2022, the carring amounts of the Group's borrowings were denominated in RMB.

11. TRADE AND OTHER PAYABLES

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Trade payables	*(a)*	**238,732**	277,249
Notes payable		**18,530**	—
Wages payable		**115,466**	97,021
Other taxes payable		**59,300**	98,107
Accruals for expenses		**10,088**	9,677
Other payables		**171,783**	240,481
Deferred income from government grants		**11,446**	11,763
		625,345	734,298

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

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Non-current	**11,446**	12,163
Current	**613,899**	722,135
	625,345	734,298

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 31 December 2023 and 2022, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates were as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
0 - 90 days	**216,774**	245,146
91 - 180 days	**8,112**	9,721
181- 360 days	**3,704**	5,113
Over 360 days	**10,142**	17,269
	238,732	277,249

MANAGEMENT DISCUSSION AND ANALYSIS

In 2023, both the domestic and international economies have experienced great challenges and difficulties. Internationally, due to the outbreak of geopolitical conflicts and the continuation of tight monetary policies, market demand in major countries and regions declined. Domestically, economic activities began to return to normal after the pandemic. Given consumer confidence was still depressed, with a conservative sentiment in consumption, the demand for goods and services did not rebound as expected. Amidst insufficient or even reduced market demand at home and abroad, enterprises paid more attention to costs control and improvement in production efficiency, and were more cautious and conservative in investment. In order to cope with pressures arising from the domestic and international macroeconomic downturn, the management of the Group took numerous measures to reduce its operating risks and pressures. In particular, in terms of production, the Group implemented the "Lean Production" program to improve the resource use and production efficiency for business development and reduce production costs. In terms of market, the Group consolidated the domestic market and promoted the development of overseas markets to expand business coverage. In terms of sustainable development, the Group formulated an ESG (environmental, social and corporate governance) development strategy, improved its management system for the sustainable development, enhanced its ability to cope with climate risks and conduct corporate management, enabling the Group to meet the ever-increasing ESG-related requirements of customers on suppliers and strengthening its ability to sustainably and steadily create values.

INDUSTRY OVERVIEW

Overview of the tobacco industry

According to the data from the National Bureau of Statistics, the cigarette production volume in China reached 48.855 million cases in 2023, representing an increase of 0.4% year-on-year. The tobacco industry realised industrial and business tax and profit amounted to RMB1,521.7 billion, representing a year-on-year increase of 5.6%; realized a fiscal income of RMB1,502.8 billion, representing a year-on-year increase of 4.3%. In view of the low demand elasticity of tobacco products and the slight impact of macroeconomic fluctuations, the tobacco industry has developed steadily in terms of the production and sales, which has made positive contributions to stabilizing the economic market, ensuring the national and local fiscal revenue growth, and promoting the social development.

During the Reporting Period, domestic and foreign market regulators further strengthened the supervision of e-cigarettes. Internationally, regulators in major e-cigarette markets formulated more explicit requirements for the taste, naming standards, advertising, and promotion of e-cigarettes to avoid the use of e-cigarettes by teenagers. Domestically, regulators provided guidance for e-cigarette enterprises to learn *the National Standards for Electronic Cigarettes* and *the Administrative Measures for Electronic Cigarettes*, and issued *the Guidelines on Promoting the Construction of Export E-cigarette Product Quality Assurance System*, urging Chinese e-cigarette enterprises to continuously strengthen the process and management, and improve the competitiveness and reputation of China's e-cigarettes products in the international market. With the continuous improvement of e-cigarette supervision in recent years, the e-cigarette industry at home and abroad entered into a stage of standardized development. In the future, the market share and potential development of e-cigarette enterprises will depend on its comprehensive competitiveness.

According to the data released by major international tobacco companies, the proportion and growth rate of heat-not-burn ("HNB") cigarettes in the sales of their products continued to increase, and international tobacco companies regarded HNB cigarettes as an important product for strategic transformation and sustainable development. The vigorous development of HNB cigarettes brought business opportunities for suppliers in the industrial chain, which, on the other hand, represented the gradually increasing investment opportunities in the industry, further resulting in a more intense competition. For suppliers, their competitiveness in the industry and market shares could be improved only if they have established competition barriers, improved product quality and strengthened cooperation with customers.

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

After the end of the pandemic, the Chinese government issued several papers to boost consumption, and the food and beverage industry also ushered in a rebound. According to the National Bureau of Statistics, the value-added industrial output of the food manufacturing industry with enterprises of designated size or above increased by 3.3% year-on-year, the value-added industrial output of the agricultural product processing industry grew by 0.2% year-on-year, and the value-added industrial output of the wine, beverage and refined tea manufacturing industry grew by 0.8% year-on-year. Although the business environment of the food and beverage industry improved after the pandemic, the residents' conservative sentiment forced food and beverage enterprises to adopt promotions and cost reduction methods to increase their sales. In the daily-use chemical industry, a group of Chinese local daily-use chemical brands gained consumers' attention through live streaming and other marketing methods, and acquired more market share by virtue of cost-effective products. Amidst such overall gloom environment with subdued consumer sentiment, local daily-use chemical brands are expected to win the favour of more consumers and grow stronger with their high quality and low price attributes.

Overview of the condiment industry

In 2023, the catering industry rebounded sharply, with annual revenue exceeding RMB5 trillion, reaching RMB5,289 billion, representing a year-on-year increase of 20.4%. The revenue of the catering industry in 2023 increased by 13.3% year-on-year compared with 2019 before the outbreak of the pandemic, and the strong recovery of the catering industry boosted the demand for condiments. During the post-pandemic period, given the fierce competition in the catering industry, catering enterprises actively adopted promotion, discounts and other ways to increase customer traffic, and improved their sales by creating popular dishes in segmented tracks. Condiment companies realized the change in customer demand and began to introduce more compound condiments to help customers create popular dish items and improve their order fulfilment efficiency as well as operation efficiency.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB3,308 million (2022: approximately RMB3,829 million), representing a year-on-year decrease of 13.6%; gross profit margin of approximately 44.4% (2022: approximately 49.0%), representing a year-on-year decrease of 4.6 percentage points; operating profit of approximately RMB378 million (2022: operating loss of approximately RMB608 million); profit attributable to the equity holders of the Company of approximately RMB234 million (2022: loss attributable to the equity holders of the Company of approximately RMB1,055 million); basic earnings per share of approximately RMB7.23 cents (2022: basic loss per share of approximately RMB32.65 cents).

Excluding the impact of the goodwill impairment of RMB56.5 million in 2023 (2022: goodwill impairment of RMB1,508 million), the Group recorded an adjusted operating profit of approximately RMB435 million (2022: adjusted operating profit of approximately RMB900 million), representing a year-on-year decrease of 51.7%; adjusted profit attributable to the equity holders of the Company of approximately RMB290 million (2022: adjusted profit attributable to the equity holders of the Company of approximately RMB453 million), representing a year-on-year decrease of 36.0%.

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 RMB1,464 million (2022: approximately RMB1,877 million), representing a year-on-year decrease of 22.0%, and accounting for approximately 44.3% (2022: approximately 49.0%) of the Group's total revenue. The decrease in revenue was mainly due to the changes in market demand and the increased market competition. Operating profit of the segment amounted to approximately RMB406 million (2022: approximately RMB824 million), representing a year-on-year decrease of 50.8%; and operating profit margin was approximately 27.7% (2022: approximately 43.9%), representing a year-on-year decrease of 16.2 percentage points. The decline in operating profit and operating profit margin was primarily attributable to changes in product mix.

Flavours

In terms of tobacco flavours, the fierce market competition resulted in the decreased customer purchases. The sales team actively communicated with customers, presented the Group's comprehensive competitive strength to customers and maintained a stable cooperation relationship with customers. For food flavours, the demand of downstream customers for food and beverage rebounded, boosting the sales growth of food flavours. The Group produced heat-resisting flavours for baking and puffed food manufacturers, and heat-resisting flavour products include potato microcapsule powder flavor and ginger microcapsule flavor, etc., which may well preserve the food's flavour and delicious taste during the high temperature production process. The Group studied the prevailing flavours in the market and launched products with regional characteristics such as pandan and coconut to provide customers with more options. For overseas markets, Warlbor Asia Pacific Pte Ltd. in Singapore considered the demand of major surrounding markets and obtained halal certification for several flavour products so that products could be adapted to the eating habits and preferences of local consumers. Warlbor Asia Pacific Pte Ltd. also analyzed the development trend of the Southeast Asian and global food and beverage market, optimized its recipe and order system, with an aim to provide customers with personalized products and high-quality and efficient services. The Group also acquired land in Indonesia for the construction of a local plant for the production of flavours and food ingredients, so as to make its products be easily and quickly available to the Southeast Asian market.

Fragrances

After the pandemic, domestic daily-use chemical brands were recognised by consumers with their excellent cost-effective products. The Group strengthened communications with existing local customers and actively developed certain new customers. Internationally, the Group's marketing and sales teams visited countries in Africa and Southeast Asia to study local consumer preferences, strengthen relationships with local suppliers and customers, and further explore the international market.

Food ingredients

The food ingredient market has a broad prospect for development, and consumers are increasingly focusing on the functionality and health of food ingredients. The Group's food ingredients mainly include natural fruit products, and have been recognized by customers with their excellent appearance, taste and nutrition. In response to the Group's internationalization strategy, the management of the food ingredients business studied the laws and regulations of overseas markets and consumer demand, actively participated in various exhibitions to enhance the understanding of overseas markets and strengthen the Group's visibility and influence in the international market. The Group made more efforts in providing major customers with product supporting services, and carried out in-depth cooperation in food ingredients solutions with leading customers such as Mondelez and Orion by leveraging its own technical advantages, covering beverage, baking, puffed food, hot and spicy food, catering and other sectors. In addition, the Group actively promoted new superior products such as natural fruit and vegetable powder and IceFire Magic Ball Popping Boba, conducted regular in-depth exchanges regarding product technology with customers, actively provided customers with creative planning of new products and a full set of solutions for customized research and development through its research and evaluation on the market trend.

Investment progress of the proceeds raised by Huabao Flavours

In April 2021 and April 2023, the Group adjusted the use of the proceeds raised from the IPO of Huabao Flavours in 2018 and the implementation plans for the investment projects in order to better respond to the industry changes and the Company's development. The Group ceased the construction of "Huabao Yingtan Flavours and Ingredients Production Base Project" and the "Lhasa Pure Land Healthy Food Project" and transformed the "Huabao H&K Food Flavours and Food Technology Development Project" into the "Huabao Technology Innovation Center and Supporting Facilities Project" ("Huabao TechInno Project"), and launched the new "Huabao Digital Transformation Project" ("Huabao Digital Project").

As of 31 December 2023, the cumulative amount dedicated for the Huabao TechInno Project was approximately RMB9.423 million (31 December 2022: approximately RMB5.0323 million), representing an investment progress of 2.09% (31 December 2022: 1.1%). The cumulative amount dedicated for the Huabao Digital Project was approximately RMB21.4969 million (31 December 2022: approximately RMB17.5898 million), representing an investment progress of 35.83% (31 December 2022: 29.3%). As of 31 December 2023, the balance of unused IPO proceeds (including accumulated interest income received) amounted to approximately RMB1,660 million (31 December 2022: approximately RMB1,668 million). As of 31 December 2023, the IPO proceeds utilized amounted to approximately RMB940 million (31 December 2022: approximately RMB901 million), accounting for 40.8% (31 December 2022: 39.0%) of the total proceeds from the IPO in 2018 of approximately RMB2,310 million.

Review of the tobacco raw materials business

During the Reporting Period, revenue of the Group's tobacco raw materials business was approximately RMB465 million (2022: approximately RMB454 million), representing a year-on-year increase of 2.3%, and accounting for approximately 14.0% (2022: approximately 11.9%) of the Group's total revenue. The increase in the segment revenue was mainly due to the sales growth of reconstituted tobacco leaves ("RTL") in overseas market. Operating profit of the business segment was approximately RMB90.77 million (2022: operating loss of approximately RMB238 million), representing a year-on-year increase of 63.0% in comparison to the adjusted operating profit of RMB55.68 million (excluding the goodwill impairment of RMB293 million) in 2022; operating profit margin was approximately 19.5%, representing a year-on-year increase of 7.2 percentage points in comparison to the adjusted operating profit margin of 12.3% in 2022. The increase in operating profit and operating profit margin was mainly due to the Group's efforts to reduce production costs and operating expenses.

RTL

RTL includes traditional RTL and HNB RTL. Due to the weak demand for traditional RTL in the domestic market, the output and sales of traditional RTL in China have not increased, and the Group failed to implement scale production of HNB RTL as the market was not open yet. In response to the "One Belt, One Road" Initiative, the Group invested in the construction of a plant in Indonesia for the production of HNB RTL, in order to provide quality products to international customers, and the plant had achieved sales growth. The Group's plant in Indonesia has a total of three production lines, one of which has been put into production and steadily provided some customers with products, and the other two production lines are still under construction and are expected to be completed in the third quarter of 2024, bringing the total production capacity of HNB RTL to 3,000 tonnes. The Indonesian plant has successfully completed customers' inspection in terms of process, management and social responsibility, and is able to provide customers with high-quality products and services in the future, contributing to the development of the Group's international business.

Tobacco new materials

Due to changes in customer demand and product structure, the sales of tobacco new materials in China declined. In order to boost sales, the sales team developed overseas markets, leading to a significant increase in sales of products in overseas markets. The overseas market has a strong demand for high-quality tobacco new materials products, and the Group has the confidence to further expand its overseas market share and improve the overall business segment performance leveraging its superior product process and quality.

Review of the aroma raw materials business

During the Reporting Period, revenue of the aroma raw materials business of the Group was approximately RMB625 million (2022: approximately RMB924 million), representing a year-on-year decrease of 32.4%, and accounting for approximately 18.9% (2022: approximately 24.1%) of the Group's total revenue. The decrease in segment revenue was mainly attributable to a decline in domestic and foreign market demand. Operating loss of the business segment was approximately RMB83.41 million (2022: operating profit of approximately RMB79.53 million), which was mainly due to lower revenue and the impairment of the segment's goodwill and fixed assets.

During the Reporting Period, the decline in domestic and international market demand was mainly due to the following factors: (1) reduced purchases of customers for the purpose of inventory reduction; (2) the decline in consumption and demand resulting from the sluggish macroeconomy. In addition, to cope with product oversupply, competitors lowered product prices to promote sales, intensifying the industry competition and further resulting in a decline in revenue and profit of the business segment.

In the aroma raw materials business segment, the Group prioritized safe production and sustainable development, and conducted several safety production trainings for employees to enhance their safety awareness and prevent accidents. Additionally, the subsidiaries under the segment updated equipment, improved product process and efficiency and reduced exhaust gas and waste emissions, improving the sustainable development performance of the segment.

Analysis of goodwill impairment of Yancheng City Chunzhu Aroma Co., Ltd ("Yancheng Chunzhu") cash generating unit ("CGU")
At the end of the reporting period, the Group engaged an independent valuer to conduct an impairment test on the goodwill of Yancheng Chunzhu CGU as at 31 December 2023. Based on the assessment results, Yancheng Chunzhu CGU recognised an impairment of goodwill of approximately RMB28.425 million in the second half of 2023, together with the RMB8.995 million recognised in the first half of 2023, the total impairment of goodwill was RMB37.42 million in 2023.

Background of goodwill impairment of Yancheng Chunzhu CGU
In August 2015, the Group acquired 30% equity in Yancheng Chunzhu from an independent third party at a cash consideration of RMB84 million. In December 2015, the Group acquired a further 30% equity in Yancheng Chunzhu from an independent third party at a cash consideration of RMB84 million, pursuant to which Yancheng Chunzhu became a subsidiary of the Group. The goodwill generated by the Group's acquisition of Yancheng Chunzhu was RMB66.73 million.

Reasons for recognising the impairment of goodwill of Yancheng Chunzhu CGU
Following the acquisition of Yancheng Chunzhu, the Group integrated its competitive advantages with Yancheng Chunzhu and exerted the synergistic effect to improve the revenue and profit of Yancheng Chunzhu. However, there were negative impacts on Yancheng Chunzhu's operations and performance by the occurrence of a series of events such as the COVID-19 pandemic in recent years. Firstly, 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. In the aftermath of the pandemic, the long period of destocking in the market was attributed to the large inventory of customers, caused by repeated outbreaks worldwide. Secondly, affected by Sino-US trade disputes and rising international transportation prices, there is no competitive advantage in product prices compared to other regions. Thirdly, weak

global economy and more cautious and conservative end use consumption had led to falling demand for products. Competition in the market has intensified as peers have adopted price reduction strategies to promote sales. The above factors have resulted in the performance of Yancheng Chunzhu failing to meet the expectation. Based on the principle of prudence and conservatism, with reference to the impairment test report prepared by an independent valuer, the Group has lowered its future profit forecast for Yancheng Chunzhu and recognised a goodwill impairment of approximately RMB37.42 million on Yancheng Chunzhu CGU. Yancheng Chunzhu CGU has a goodwill balance of approximately RMB29.31 million after the impairment was recognised.

Analysis of goodwill impairment of Jiangxi Xianghai Biological Co. Ltd. ("Jiangxi Xianghai") CGU
At the end of the reporting period, the Group engaged an independent valuer to conduct an impairment test on the goodwill of Jiangxi Xianghai CGU as at 31 December 2023. Based on the assessment results, Jiangxi Xianghai CGU recognised an impairment of goodwill of approximately RMB7.552 million in the second half of 2023, together with the RMB5.952 million recognised in the first half of 2023, the total impairment of goodwill was approximately RMB13.504 million in 2023.

Background of goodwill impairment of Jiangxi Xianghai CGU
In September 2017, the Group acquired 95% shares in Jiangxi Xianghai from an independent third party at a cash consideration of RMB25.208 million, pursuant to which Jiangxi Xianghai became a subsidiary of the Group. The goodwill generated by the Group's acquisition of Jiangxi Xianghai was RMB13.504 million.

Reasons for recognising the impairment of goodwill of Jiangxi Xianghai CGU
Following the acquisition, the Group integrated its competitive advantages with Jiangxi Xianghai and exerted the synergistic effect to improve the revenue and profit of Jiangxi Xianghai. To realize the long-term planning and sustainable development of the enterprise, the Group has strengthened the construction of its second phase project with multi-product and multi-capacity capabilities, which has been substantially completed. However, there were negative impacts on Jiangxi Xianghai's operations and performance by the occurrence of a series of events such as the COVID-19 pandemic in recent years. The reduced demand for business in the post-pandemic market was due to changes in the market environment, restrictions on Sino-US trade due to tariff barriers, the Russian-Ukrainian war, the reduction in the momentum of international economic and trade growth, and the insufficient domestic demand due to degradation in consumption. In addition, as Jiangxi Xianghai belongs to the fine chemical industry, it invests heavily in fixed assets such as environmental protection, safety and fire protection, which cannot be fully diluted in the case of poor sales, further reducing the profit margin. The above factors have resulted in the performance of Jiangxi Xianghai failing to meet the expectation. Based on the principle of prudence and conservatism, with reference to the impairment test report prepared by an independent valuer, the Group has lowered its future profit forecast for Jiangxi Xianghai and recognised a goodwill impairment of RMB13.504 million on Jiangxi Xianghai CGU. Jiangxi Xianghai 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 RMB754 million (2022: approximately RMB573 million), representing a year-on-year increase of 31.6%, and accounting for approximately 22.8% (2022: approximately 15.0%) of the Group's total revenue. The revenue growth of the segment was mainly due to a strong recovery in the catering industry leading to increased customer demand for condiments. The operating profit of the business segment was approximately RMB117 million (2022: operating loss of approximately RMB1,117 million), representing a year-on-year increase of 117.3% in comparison to the adjusted operating profit of approximately RMB53.73 million (excluding the goodwill impairment of RMB1,171 million) in 2022. Operating profit margin was 15.5%, representing an increase of 6.1 percentage points in comparison to the adjusted operating profit margin of 9.4% in 2022. The increase in operating profit and operating profit margin was due to the increase in revenue.

In terms of product mix, during the post-pandemic period, consumers pursued cost-effective products, forcing catering enterprises to lower prices to obtain market share, and catering enterprises had a more urgent demand for "cost reduction and efficiency improvement". The soup base products, chicken essence products and sauce products launched by the Group could help customers improve their cooking efficiency, ensure the flavour of dishes and enhance their operating efficiency, and were a supplement to core products such as chicken sauce and mustard, further improving the product mix.

In terms of sales channel, the sales team seized the opportunity of the recovery of the catering industry to further expand the sales network. As of 31 December 2023, the Group had more than 650 Tier 1 distributors, representing an increase of approximately 250 compared with the corresponding period last year, which made the Group's products available to more customers and promoted the sales revenue growth.

In terms of marketing strategy, the Group developed special marketing activities based on the characteristics of each product and target customers to make every product fully exposed to customers in the market segment and grab market share. The Group organized several chef's presentations to make new and existing chefs aware of product characteristics, changes and application, with an aim to make them users and enhance their brand loyalty.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB253 million (2022: approximately RMB266 million). R&D expenses accounted for 7.7% (2022: 7.0%) of revenue, representing a year-on-year increase of 0.7 percentage point. All (2022: 100%) of the R&D expenses were expensed, with no R&D cost capitalised (2022: Nil).

In terms of F&F and food ingredients, the Group was granted 12 patents, including "A kind of Flavouring and Fragrance for Oral Tobacco and Its Preparation and Application", "A kind of Galangal Flavour and Fragrance and Its Preparation and Application", "A kind of Sandalwood Flavour and Fragrance with High Temperature Resistance and Its Preparation and Application" and "A kind of Vacuum Tank Air Tightness Testing Equipment". These patents cover flavours and fragrances for cigarettes, food, daily chemicals and food ingredients, demonstrating the Group's research and development capabilities in the specific area. The Group's food flavours won the 2023 Mondelez Quality and Food Safety Culture Award, representing the recognition and trust of customers in the Group's products.

In terms of tobacco raw materials, the Group obtained an invention patent of "Quantitative Control System, Control Method and Production System of Thickened Pulp Paper-making Process for RTL " in China, as well as a utility model patent of "HNB Cigarettes, its Preparation Method and HNB Cigarettes System" in Japan. These patents not only represent the competitiveness of the Group in the field of HNB cigarettes, but also lay a solid foundation of intellectual property for the Group to carry out HNB cigarettes business in the future, enabling the Group to protect its own commercial interests. The Group fully utilized its own technology and experience in capsule production, and obtained an invention patent of "A Gastrointestinal Controlled Release Probiotic Strains", which allowed the Group to better provide high-quality capsule products for probiotic manufacturers and expand more business.

In terms of aroma raw materials, Jiangxi Xianghai obtained a patent of "A Method for Recovering Chloroethane and its Solvent from the Production of Alpha-ethyl Furan Carbinol". Zhaoqing Perfumery Co., Ltd. was awarded the "Certificate of Professional, Advanced, Specialized and New SME of Guangdong Province" as well as the "Certificate of Top 50 Technology Innovation Enterprises in Zhaoqing".

In terms of condiments, the Group explored and innovated in the field of core products and compound condiments, and successively applied for three invention patents, including " A Quality Control Method for Preserving High-sugar Juice Beverage Pulp", "A Method for Preserving the Flavour of Vegetable Juice-Soy Sauce Compound Condiment at Ambient Temperature Storage and Transportation" and "A Compound Method for Preserving the Tallow Flavor during Sterilization". The Group obtained a patent of "A kind of Preparation Method of Thermally Processed Concentrated Citrus Fruit Juice with Inhibition of Non-enzymatic Browning". The patent can effectively inhibit and slow down the browning of fruit juices during storage, extend the storage time and make fruit juice products easier to preserve, which is of significant commercial value to the Group.

Human Resources and Corporate Culture Construction

As at 31 December 2023, the Group employed a total of 3,995 (as of 31 December 2022: 3,875) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

After the end of the pandemic, China's economy began to experience a fast followed by slow recovery, which arouse different concerns from various employees in all walks of life about economic prospects and personal professional development, as well as the pressure of cost reduction, efficiency improvement and labor cost control faced by corporates. Amidst the increasing uncertainty of the business environment, the Group continued to provide employees with various benefits and psychological relief trainings to help them relieve their stress and further concentrate on their work. At the same time, according to the business development plan, the Group optimized the compensation structure and provided more support and subsidies to employees in key projects, encouraging them to strive for the Company's business development. The Group kept up with the market trend, organized several special trainings for employees, including ESG case analysis, artificial intelligence development, lean production management, etc. These trainings enriched the knowledge structure of employees, improved their comprehensive work ability, enabled employees to perform various tasks more accurately and efficiently, and improved the operating efficiency of the Group.

The Group's employees are located in different countries and regions at home and abroad. In order to enable them to understand the development of the Group from multiple perspectives, the Group launched a bilingual corporate journal in Chinese and English. In the internal publications, the Group keeps employees informed of the progress of various businesses and projects, shares management methods to improve production efficiency, introduces the culture and customs of different regions, in order to enhance their mutual understanding and improvement. Domestically, the Group organizes different cultural and sports activities every month to make employees relax and enhance mutual trust. Internationally, the Group respects local cultural customs, provides an appropriate working environment for employees, celebrates local holidays, and enhances the brand awareness of the Group, so as to attract more local talents to join the Group in the future and promote the development of the Group's overseas business.

Digital Transformation

The Group has seen great development and progress in the digital transformation. The Group applied the SAP ERP system to every business segment, and the purchasing, warehousing, planning, production, quality, sales and accounting data of each segment could be displayed on the platform. Through the automatic analysis of the data on the platform, the management could understand the business development condition in a timely and accurate manner. The application of the fund management system enabled the Group to monitor and check the existing funds of the Group in real time, and to predict the future fund demand on a rolling basis, thus improving the capital efficiency and management ability of the Group. The product life cycle management system was applied to the Group's overseas research and development center, food flavour management and tobacco flavour formula management, effectively improving the Group's compliance in the process of research and development and avoiding legal and regulatory risks.

The Group has implemented the digital transformation for two years, during which the Group provided several trainings for the management and core employees to emphasize the strategic significance and importance of the digital transformation. The digital transformation team would record and answer employees' issues arising from the application of the digital transformation system, and optimize the system based on the feedback of employees, so as to improve the efficiency for implementation of the digital transformation and contribute to the business development of the Group.

OUTLOOK

Affected by factors such as geopolitical tensions, high debt and interest rates, overseas economic growth may further slow down in 2024, and market demand may further decline. In China, the restoration of consumer confidence remains uncertain. Overall, the risks and challenges facing the domestic and foreign macroeconomy have not diminished.

In the new year, the management of the Group will continue to develop the Group's business prudently, utilize its main resources to invest in projects with high safety margins and stable returns, and continue to reduce costs and increase efficiency through the "Lean Production", further improving operational efficiency and business performance. With the vision of "Flavour Your Life", the Group will make its products more nutritious and healthier through continuous technology and product innovation, and become a advocate of Chinese and even global consumers' health protection.

In terms of flavours and fragrance and food ingredients, the Group will seize the opportunity of customer transition regarding international tobacco, food and beverage, demonstrate its own strengths through sufficient communication to acquire more business. In terms of tobacco raw materials, the Group will take the development of overseas markets as the key focus, providing quality RTL, capsules and filters for international customers, striving to be their excellent partner and reliable supplier. In terms of aroma raw materials, the Group will reduce costs and increase efficiency through "Lean Production", enhance the competitiveness of products, develop domestic and overseas markets, and improve business performance. In terms of condiments, the Group will focus on customers, conduct innovation in research and development, products, supply chain and sales, creating value for customers, helping them deal with problems and increasing sales revenue.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 December 2023

Revenue

The Group's revenue amounted to RMB3,307,839,000 for the year ended 31 December 2023, representing a decrease of 13.6% as compared with RMB3,828,984,000 for the corresponding period last year. The decrease in the revenue was due to a decrease in the revenue of the F&F and Food ingredients segment by 22.0% year-on-year to RMB1,464,433,000 as a result of the changes in the downstream market demand and increased market competition; and a decrease in revenue of the aroma raw materials segment by 32.4% year-on-year to RMB624,686,000 as a result of a decline in demand in both the domestic and overseas markets. However, the decrease was partially offset by a 31.6% year-on-year increase in revenue of the condiment segment to RMB754,060,000 due to increased demand in the upstream market as a result of the recovery of the catering industry.

Cost of goods sold

The Group's cost of goods sold amounted to RMB1,838,474,000 for the year ended 31 December 2023, representing a decrease of 5.8% as compared with RMB1,951,421,000 for the corresponding period last year.

Gross profit and gross profit margin

For the year ended 31 December 2023, the Group's gross profit was RMB1,469,365,000, representing a decrease of RMB408,198,000 or approximately 21.7% as compared with RMB1,877,563,000 for the corresponding period last year. The gross profit margin for the year was approximately 44.4%, representing a decrease of 4.6 percentage points as compared to 49.0% for the corresponding period last year. The decrease in gross profit and gross profit margin was mainly attributable to the decline in revenue for the year as well as changes in the product mix of the Group, and a provision for impairment of "property, plant and equipment" of RMB76,353,000 in total during the year, of which a provision for impairment of plant and equipment of RMB47,062,000 after assessment in Jiangxi Xianghai due to the significantly year-on-year decrease in revenue and gross profit, and a provision for impairment of bearer plant of RMB29,291,000 after assessment in Shanghai Yifang due to the revenue and profit failed to meet the expectation for the year.

Other income and other gains – net

For the year ended 31 December 2023, other income and other gains (net) of the Group was RMB146,608,000, representing a decrease of RMB66,204,000 as compared with RMB212,812,000 for the corresponding period last year. The decrease in other income and other gains was mainly attributable to: (1) the loss from changes in fair value of financial assets at FVPL for the year amounting to RMB8,810,000 (2022: gain of RMB106,052,000), representing a year-on-year decrease of RMB114,862,000, mainly due to the loss from changes in fair value of contingent consideration regarding the acquisition of Shanghai Yifang ("Contingent Consideration") for the year amounting to RMB29,200,000 (2022: gain of RMB63,490,000), representing a year-on-year decrease of RMB92,690,000, as well as the loss from changes in fair value of listed equity investments held in the year amounting to RMB21,824,000 (2022: gain of RMB3,957,000), representing a year-on-year decrease of RMB25,781,000; (2) government grants reaching RMB151,051,000 in the year (2022: RMB126,085,000), representing a year-on-year increase of RMB24,966,000; (3) a loss of RMB24,083,000 recorded last year but not in the current year in respect of the changes in the fair value of previously held interest in a jointly controlled entity upon acquisition as a subsidiary.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, business and markets promotion expenses, agency services expenses, salaries and office expenses, etc. The selling and marketing expenses of the Group for the year ended 31 December 2023 was RMB326,809,000, representing a decrease of 5.1% as compared with RMB344,405,000 for the corresponding period last year. Selling and marketing expenses for the year accounted for approximately 9.9% of the total revenue, representing an increase of 0.9 percentage point as compared with approximately 9.0% for last year. The increase in such ratio was mainly attributable to the Group's increase in the business and marketing expenses in response to the fierce market competition, and the decrease in revenue in the current year.

Administrative expenses

For the year ended 31 December 2023, the Group's administrative expenses amounted to RMB830,866,000, representing an increase of RMB4,907,000 or 0.6% as compared with RMB825,959,000 for the corresponding period last year, similar with that in last year. Administrative expenses for the current year accounted for approximately 25.1% of the total revenue, representing an increase of 3.5 percentage points as compared with approximately 21.6% for the year ended 31 December 2022. The increase in percentage was mainly attributable to the fact that revenue declined at a faster rate than administrative expenses.

Operating profit/(loss)

For the year ended 31 December 2023, the Group's operating profit was RMB378,051,000, representing an increase of RMB986,026,000 as compared with the operating loss of RMB607,975,000 for the year ended 31 December 2022. The increase in operating profit was mainly due to a year-on-year decrease of RMB1,451,208,000 in impairment of goodwill for the current year, which was partially offset by the decrease in gross profit.

If the effect of goodwill impairment for the year and last year of RMB56,502,000 and RMB1,507,710,000, respectively, was excluded, the adjusted operating profit for the year would be RMB434,553,000, representing a decrease of RMB465,182,000 or 51.7% compared with RMB899,735,000 (excluding goodwill impairment) for the corresponding period last year, mainly due to the decrease in gross profit as well as other income and other gains (net) for the year. Adjusted operating profit margin for the year would be approximately 13.1%, representing a decrease of 10.4 percentage points from approximately 23.5% (excluding goodwill impairment) for the corresponding period last year, mainly due to the drop in gross profit margin and the increase in administrative expenses as a percentage of revenue for the year.

If goodwill impairment of RMB56,502,000 and RMB1,507,710,000 for the year and last year were excluded respectively, the changes in fair value of Contingent Consideration amounted to a loss of RMB29,200,000 and a gain of RMB63,490,000 for the year and last year were excluded, respectively, and the provision for impairment of property, plant and equipment amounted to RMB76,353,000 and RMB31,774,000 for the year and last year were excluded, respectively. The adjusted operating profit for the year would be approximately RMB540,106,000, representing a decrease of RMB327,913,000 or 37.8% as compared with RMB868,019,000 (excluding goodwill impairment, a gain from changes in fair value of Contingent Consideration and the provision for impairment of property, plant and equipment) for last year.

Income tax expenses

The income tax expenses of the Group for the year ended 31 December 2023 was RMB125,442,000, representing a decrease of RMB55,398,000 as compared with RMB180,840,000 for last year. If the effect of goodwill impairment for the year and last year and provision for impairment on the investment in an associate were both excluded respectively, income tax rate of the year would be approximately 25.3%, representing an increase of approximately 5.8 percentage points as compared with approximately 19.5% for last year, which was mainly attributable to the higher than expected withholding income tax on dividends distribution by subsidiaries in Mainland in the year.

Profit/(loss) for the year

For the year ended 31 December 2023, the Group's profit was RMB290,483,000, representing an increase of RMB1,191,533,000 as compared with the loss of RMB901,050,000 for last year. The year-on-year change was mainly due to a year-on-year decrease in impairment of goodwill of RMB1,451,208,000 for the current year, which was partially offset by the decrease in gross profit.

If the effect of goodwill impairment for the year and last year of RMB56,502,000 and RMB1,507,710,000, respectively, was excluded, the profit for the year would be approximately RMB346,985,000, representing a decrease of 42.8% as compared with RMB606,660,000 (excluding goodwill impairment) for the corresponding period last year.

If goodwill impairment of RMB56,502,000 and RMB1,507,710,000 for the year and last year, respectively, the changes in fair value of Contingent Consideration of a loss of RMB29,200,000 and a gain of RMB63,490,000 for the year and last year, respectively, the provision for impairment of property, plant and equipment of RMB76,353,000 and RMB31,774,000 for the year and last year, respectively, and the provision for impairment on the investment in an associate of RMB22,291,000 and RMB139,000,000 for the year and last year, respectively, were all excluded, the profit for the year would be RMB474,829,000, representing a decrease of 33.5% as compared with RMB713,944,000 (excluding goodwill impairment, a gain on changes in fair value of Contingent Consideration, provision for impairment of property, plant and equipment and provision for impairment on the investment in an associate) for last year.

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

For the year ended 31 December 2023, the profit attributable to the equity holders of the Company was RMB233,633,000, representing an increase of RMB1,288,180,000 as compared with the loss attributable to the equity holders of the Company of RMB1,054,547,000 in the last year. The year-on-year change was mainly attributable to a year-on-year decrease in impairment of goodwill of RMB1,451,208,000 for the current year. However, the impact was partially offset by the decrease in gross profit.

Net current asset value and financial resources

As at 31 December 2023, the net current asset value of the Group was RMB6,975,409,000 (31 December 2022: RMB6,944,129,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 December 2023, the Group's cash and bank balances amounted to RMB2,539,493,000 (31 December 2022: RMB4,747,978,000), over 65% of which were held in RMB. In addition, the fair value of outstanding bank wealth management products held by the Group as at 31 December 2023 amounted to RMB3,847,748,000 (31 December 2022: RMB1,594,315,000), which was presented as financial assets at FVPL.

Bank borrowings and gearing ratio

As at 31 December 2023, the total bank borrowings of the Group amounted to RMB455,250,000 (31 December 2022: RMB677,700,000), all of which were RMB loans, including secured loans due within two years amounting to RMB36,000,000 (31 December 2022: RMB65,000,000 due within one year) and unsecured loans amounting to RMB419,250,000 (31 December 2022: RMB612,700,000) due within one year. During the year, the average annual interest rate for secured loans was 4.2% (year ended 31 December 2022:4.2%), while the average annual interest rate for unsecured loans was 2.9% (year ended 31 December 2022:2.8%). As at 31 December 2023, the Group's debt ratio (total borrowings (including current and non-current borrowings) divided by total equity, excluding non-controlling interests) was 3.6%, representing a decrease of 1.8 percentage points from 5.4% as at 31 December 2022.

Investing activities

The Group's investing activities included the purchase of property, plant and equipment, financial assets investment and merger & acquisition activities related to the strategical development strategies. For the year ended 31 December 2023, the net cash used in investing activities amounted to RMB2,604,686,000, mainly used in the purchase of bank wealth management products. For the year ended 31 December 2022, the net cash generated from investing activities amounted to RMB1,244,039,000.

Financing activities

For the year ended 31 December 2023, the net cash used in the Group's financing activities amounted to RMB674,196,000, mainly comprising of repayment of bank borrowings of RMB855,000,000, payment of cash dividends of RMB252,348,000 to shareholders of the Company, payment of cash dividends of RMB184,030,000 to non-controlling interests, and addition of bank borrowings of RMB632,550,000. For the year ended 31 December 2022, the net cash used in financing activities amounted to RMB997,635,000.

Trade receivables turnover period

Trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning of and at the end of a relevant financial period divided by the total revenue for the corresponding period and multiplied by 360 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with the customers. For the year ended 31 December 2023, the Group's average trade receivables turnover period was 97 days, representing an increase of 8 days as compared with 89 days for the corresponding period last year. The increase was mainly due to the decrease in the Group's average turnover higher than the decrease in average trade receivables during the period.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning of and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 December 2023, the Group's average trade payables turnover period was 51 days, which basically remained the same as 53 days for the corresponding period last year.

Inventory and inventory turnover period

As at 31 December 2023, the Group's inventory balance amounted to RMB994,592,000, representing a decrease of RMB25,431,000 as compared with the balance of RMB1,020,023,000 as at 31 December 2022. For the year ended 31 December 2023, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning of and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 360 days) was 197 days, increased by 20 days as compared with 177 days for the corresponding period last year. The increase was mainly due to the fact that the decrease in the Group's average costs of sales exceeded the decrease in average inventory balance during the period.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in Mainland China and the majority of the revenue is denominated in RMB, with the exception of only a certain amount of imported raw materials and equipment which are denominated in foreign currency such as USD or EUR. The Group's bank deposits are mainly denominated in RMB, USD and HKD. Management concurs with the views of the People's Bank of China on the RMB exchange rate, that is, conditionally maintaining RMB exchange rate generally stable at an adaptive and balanced level.

Pledge of assets

During the year ended 31 December 2023, certain buildings and right-of-use assets of Shanghai Yifang Group with total carrying values of RMB39,245,000 were used as collateral for bank borrowings of RMB36,000,000 (31 December 2022: buildings and right-of-use assets of Shanghai Yifang Group with total carrying values of RMB17,662,000 used as collateral for bank borrowings of RMB65,000,000). Apart from the above-mentioned, the Group had no pledged assets as at 31 December 2023.

Capital Commitments

As at 31 December 2023, the Group had capital commitments in respect of the purchase of property, plant and equipment, right-of-use assets, intangible assets and investments in a jointly controlled entity and financial assets at FVPL, contracted for but not provided in the financial statements amounting to approximately RMB140,455,000 (31 December 2022: RMB215,563,000).

Contingent liabilities

According to the information available to the Board, the Group had no significant contingent liabilities as at 31 December 2023 and 2022.

SIGNIFICANT EVENTS OR TRANSACTIONS

Use of the Proceeds from Share Placement

The Group completed the top-up placing and subscription on 13 December 2021 and 20 December 2021, respectively, and the Company received net proceeds (i.e. after deducting the commission payable to the placing agents, professional fee and other related costs and expenses in relation to the top-up placing and subscription) from the top-up subscription of approximately HK$2.16 billion and the number of issued shares of the Company was increased to 3,229,926,876. The net price for each top-up placing share was HK$17.67.

As at 31 December 2023, the Group utilised all of the proceeds from share placement, details of which are set out in the table below.

Use of proceeds (in HK$million)

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

Investigation Against Directors

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

On 20 January 2023, the Group was advised by Ms. Chu’s family member that Anyuan County Police Bureau (安遠縣公安局) had lifted Ms. Chu’s residential surveillance and that she was on bail pending further investigation. Concurrently, Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住) by Chongqing Yongchuan District Police Bureau (重慶市永川區公安局). On 3 July 2023, the Group was advised that Chongqing Yongchuan District Police Bureau (重慶市永川區公安局) had lifted Ms. Chu’s residential surveillance. Ms. Chu has resumed work accordingly. On 14 July 2023, the Company was informed that Ms. Chu and Mr. Lam are no longer subject to any bail conditions as imposed by Changsha County Police Bureau (長沙縣公安局).

Disclosure of Non-Fulfillment of Profit Guarantee under Rule 14.36B of the Listing Rules

References are made to the Company's announcements dated 8 March 2022, 9 August 2023 and 11 March 2024 respectively. On 8 March 2022, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), a non-wholly owned subsidiary of the Company and the shares of which are listed on the ChiNext Market of Shenzhen Stock Exchange (Stock Code: 300741), Shanghai Keli Enterprise Management and Consulting Company Limited* (上海克瀝企業管理諮詢有限公司) ("Keli Enterprise"), Qian Rong (錢戎) and Wong Kam Wing (黃錦榮) (the beneficial controllers of Keli Enterprise) and other related parties entered into a shares transfer agreement (the "Share Transfer Agreement") to further acquire 27% equity interest in Shanghai Yifang Rural Technology Holdings Co. Ltd. ("Shanghai Yifang") for a total consideration of RMB121.5 million in cash. Upon completion of the transaction, Shanghai Yifang became an indirect non-wholly owned subsidiary of Huabao Flavours and the results of Shanghai Yifang have been consolidated into the financial statements of Huabao Flavours since March 2022. As at the date of this announcement, Huabao Flavours held approximately 67% interest in Shanghai Yifang.

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

Based on the financial information of Shanghai Yifang, the actual net loss of Shanghai Yifang for the year ended 31 December 2023 amounted to approximately RMB68,925,800 (2022: net loss of approximately RMB41,940,000). The performance shortfall for the year ended 31 December 2023 amounted to approximately RMB123,925,800 (2022: approximately RMB82,940,000).

The actual performance of Shanghai Yifang for the years 2022 and 2023 did not meet the guaranteed profits provided by Qian Rong and Wong Kam Wing.

In addition, as mentioned in the announcement of the Company dated 9 August 2023, Qian Rong and Wong Kam Wing have not yet fulfilled their obligations by paying the second instalment of the capital increase amount (RMB7,095,700 in total) under the Share Transfer Agreement, and have not rectified the same within 15 days after they have received the written notice from Huabao Flavours.

The Share Transfer Agreement did not provide any option for Huabao Flavours to sell the equity interests in Shanghai Yifang or any part thereof back to Qian Rong and Wong Kam Wing. However, the consideration will be adjusted after the expiry of the Performance Undertaking Period in accordance with the Share Transfer Agreement if Shanghai Yifang does not achieve the Performance Undertaking. As the failure of Qian Rong and Wong Kam Wing to fulfil their obligation by paying the second instalment of the capital increase amount in the previous period was already a serious breach of the terms agreed under the Share Transfer Agreement, and taking into account the fact that Shanghai Yifang sustained a loss during the Performance Undertaking Period, Huabao Flavours has applied to the Shanghai International Arbitration Center with Qian Rong and Wong Kam Wing as respondents for arbitration ("Arbitration"), requesting Qian Rong and Wong Kam Wing to compensate Huabao Flavours for liquidated damages, loss of expected benefits, and legal fees totaling RMB332.03 million, and to bear the corresponding legal costs of the Arbitration. Huabao Flavours received the "Notice of Acceptance" issued by the Shanghai International Arbitration Center on 9 August 2023.

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

Update on a Director's Biographical Details

References are made to the Company's announcements dated 5 July 2023 and 6 July 2023 respectively in relation to inside information and change in biographical details of Ms. CHOY Man Har ("Ms. Choy"), an executive director and deputy chief financial officer of the Company. On 5 July 2023, the Independent Commission Against Corruption of Hong Kong ("ICAC") conducted a search at the business offices of the Company in Hong Kong. The Company provided certain files and records for the purpose of an ICAC investigation. In addition, the Company has been informed that Ms. Choy was arrested on 5 July 2023 by ICAC in relation to offences under the Prevention of Bribery Ordinance (Cap. 201), Crimes Ordinance (Cap. 200) and the Organized and Serious Crimes Ordinance (Cap. 455) for investigation. On 6 July, Ms. Choy has been released on bail without any charge laid against her. The Company will monitor this matter and take necessary legal advice as appropriate.

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 (the "CG Code") contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and, where appropriate, adopted the recommended best practices as set out in the CG Code throughout the financial year ended 31 December 2023 (the "Financial Year").

The Company has not fully complied with the code provisions C.2.1 and F.2.2 in Part 2 of the CG Code as the performance of the chairman's duties by Ms. Chu has been affected to a certain extent since late January 2022 as Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住). For details, please refer to the section headed "Investigation Against Directors" of this announcement. The responsibilities under code provision C.2.1 in Part 2 of the CG Code during the Financial Year were shared and undertaken substantially by the Co-Chairman (Mr. LAM Ka Yu), Vice Chairman & President, the Vice President & Company Secretary and other directors. In addition, due to the reasons discussed above, Ms. Chu did not attend the annual general meeting of the Company held on 15 May 2023 in accordance with code provision F.2.2 in Part 2 of the CG Code. Notwithstanding the above, the Company has adopted the alternative actions and steps during the Financial Year to redress the deficiencies in the relevant code provisions.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix C3 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the directors of the Company. Based on the information that was available and having received Directors' written confirmations, the Company considered that Directors have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2023.

Proposed Final Dividend and Special Dividend

The Board proposes to declare a final dividend of HK0.8 cent per Share (2022: nil) and a special dividend of HK4.2 cents per Share (2022: HK5.1 cents per Share) both in cash, amounting to approximately RMB23.416 million (2022: nil) and RMB122.935 million (2022: approximately RMB147.1 million) respectively for the Financial Year, which is expected to be paid on 28 June 2024 to Shareholders whose names appear on the register of members of the Company on 12 June 2024. The payment of the final dividend and special dividend is subject to Shareholders' approval at the forthcoming annual general meeting ("AGM") which is scheduled to be held on 14 May 2024.

CLOSE OF REGISTER OF MEMBERS FOR AGM

In order to determine the entitlement of Shareholders to attend and vote at the AGM which is scheduled to be held on 14 May 2024, the register of members of the Company will be closed from 9 May 2024 to 14 May 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 8 May 2024. Shareholders whose names are recorded in the register of members of the Company on 14 May 2024 are entitled to attend and vote at the AGM.

CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF FINAL AND SPECIAL DIVIDENDS

In order to determine Shareholders who qualify for the proposed final and special dividends, the register of members of the Company will be closed from 11 June 2024 to 12 June 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 7 June 2024. Shareholders whose names are recorded in the register of members of the Company on 12 June 2024 are entitled to receive the final and special dividends in cash for the Financial Year.

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and their respective close associates (as defined in the Listing Rules) is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the accounting, financial reporting procedure and internal control of the Group. 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 of the Company has reviewed the Group's audited final results for the year ended 31 December 2023.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of the financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of HKEXnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2023 annual report will be dispatched to Shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
Huabao International Holdings Limited
CHU Lam Yiu
Chairlady

Hong Kong, 26 March 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 Mr. LEE Luk Shiu, Mr. Jonathan Jun YAN and HOU Haitao.