

五谷磨房

Natural Food International Holding Limited
五谷磨房食品國際控股有限公司

(Registered by way of continuation in the Cayman Islands with limited liability)

Stock code: 1837

Annual Report

2023

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. GUI Changqing
Mr. ZHANG Zejun

Non-executive Directors

Ms. TSE Cheung On Anne
Mr. WANG Duo

Independent Non-executive Directors

Mr. ZHANG Senquan
Mr. HU Peng
Mr. OUYANG Liangyi

AUDIT COMMITTEE

Mr. ZHANG Senquan (Chairman)
Mr. HU Peng
Mr. OUYANG Liangyi

REMUNERATION COMMITTEE

Mr. HU Peng (Chairman)
Mr. ZHANG Senquan
Mr. OUYANG Liangyi

NOMINATION COMMITTEE

Mr. OUYANG Liangyi (Chairman)
Ms. GUI Changqing
Mr. HU Peng

COMPANY SECRETARY

Mr. YUEN Sing Wai Lester, HKICPA

HONG KONG LEGAL ADVISOR

Jingtian & Gongcheng LLP
Suites 3203-3207
Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. ZHANG Zejun
Mr. YUEN Sing Wai Lester, HKICPA

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 01837

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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Binhai Community, Yuehei Street
Nanshan District
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1003, 10th Floor Asia Standard Tower,
59-65 Queens Road Central,
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Uglan House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

<http://www.szwgmf.com>

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27th Floor, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Corporate Information

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO BOX 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

PRINCIPAL BANKERS

China Merchants Bank
Ping An Bank
Bank of Communications
Bank of Beijing
China Resources Bank of Zhuhai

Management Discussion and Analysis

BRAND BUILDING AND MARKETING

Embracing “becoming the No. 1 new Chinese dietary nutrition brand” as the long-term vision of the Company, we have formed our product portfolio with dietary nutrition as the core and health as the root, and underlying the traditional Chinese “Homology of medicine and food” ancient dietetic recipes and combined with modern nutriology to persist in producing healthy food that we and our family can enjoy the most. Our main products include dietetic grain powder, Chinese-style dietetic snacks, etc., which inject health and vitality into consumers within a pleasant and energetic day in the form of nutritious breakfast or health snacks.

To better convey the brand value proposition, we insisted on good ingredients, no additives and more professionalism to create a professional and trustworthy brand image. To this end, we actively cooperate with various professional institutions to empower product research and development with technology. In cooperation with the Oil Crops Research Institute of the Chinese Academy of Agricultural Sciences, we jointly cultivated and planted a new strain “Black Nutrition 1” with high sesamin content, which greatly increases the sesamin content of the product and brings benefits to health if this strain is applied to the products. Moreover, we also jointly established the Modern Dietary Nutrition Research and Development Centre with the Chinese Nutrition Society, which provides in-depth analysis of nutrition codes, and carries out various cooperation such as low glycemic index and nutrient-calorie ratio research to ensure product formulations are scientific and precise, nutritious and tasty enough to be favored by our consumers.

Simultaneously, through the “transparent factory”, we invited People’s Daily Online, well-known parenting bloggers and others to visit our production base in Huanggang, Hubei Province, and introduced in an all-round way how we established the supply chain standard of “mother standard” around the eight major modules of selection, cultivation, rubbing, washing, baking, freshening, grinding and inspection, and then disseminate the idea to consumers that our brand is producing health food with high standards.

Furthermore, we cooperated with celebrities, including Charlene Choi, Gillian Chung, and Carman Lee to name a few through their strong influence and reputation in areas such as dietary nutrition and health, “being beautiful and ageless”, to attract wider target consumer groups. In addition to celebrities, we have partnered with a number of KOLs and KOCs to create a comprehensive and three-dimensional image of the brand of dietary nutrition in consumers’ minds through the creation of a product consumption scene and feedback on product experience.

We not only pay attention to the health of consumers but also to the health of the natural environment. As we believe that a good natural environment can breed high-quality ingredients, therefore we joined hands with the Green River, a non-profit organization, to protect the source of the Yangtze River for 11 years through charitable projects by providing volunteers with well-nourished Chinese dietetic cereal health food, funding Green Station, protecting wild animals, and “taking away a bag of garbage”.

Management Discussion and Analysis

BUSINESS REVIEW

Distribution Channels

In 2023, offline trade had improved following the market recovery, however, the market landscape in which consumers were more inclined to buy goods online had undergone structural changes, and as a result, our distribution channels also faced changes in line with the development of the times.

E-commerce

E-commerce channels have developed rapidly and vigorously in recent years, the landscape has gradually changed from being occupied by traditional e-commerce platforms such as Taobao, Tmall and JD.com to the balanced development of traditional e-commerce, and social e-commerce represented by Douyin and Kuaishou. As a result, we have developed differentiated marketing directions and sales strategies for different e-commerce platforms, continued to deepen cooperation with each platform, accelerated the penetration into more online channels and conducted precise marketing for different target consumer groups to meet the diversified needs of consumers. During the financial year, our e-commerce business increased by 6.1% year-on-year, contributing 45.8% of the overall income of the Group (FY2022: 46.4%).

On the traditional e-commerce platforms, we attach great importance to precise delivery and carry out broadcasting through the platform's diversified marketing activities and key marketing nodes. We adhere to standard and regulated operation criteria to ensure that contents are in line with brand image, bringing consumers a good online shopping experience. During the financial year, we have once again become the No.1 brand of drinks and food supplement powder in terms of store sales ranking on Tmall during the Singles' Day carnival.

On the social e-commerce platforms, we quickly promote the marketing and sales of flagship products through a combination of self-live streaming, KOL engagement and brand marketing. During the financial year, we were among the real-time leaderboard of top-sellers of big name milk beverages on the shopping mall during the Singles' Day carnival by Douyin.

New channels

With the increasing living standards of residents and the rapid development of membership-based high-end and boutique supermarkets, we seize the opportunity to cooperate with representative enterprises of membership-based supermarkets and leverage our brand advantages and supply chain advantages to offer them customized products, keep on innovating and achieve rewarding results.

In addition, we continue to develop high-potential distributors to distribute our products to a wider outlet network and benefit more consumer groups.

In recent years, we have stepped up the development of a new channel business. During the financial year, our new channel business increased by 48.1% year-on-year, contributing 14.4% (FY2022: 10.4%) to the overall income of the Group with satisfactory performance.

Management Discussion and Analysis

Concessionary Counters Business

Concessionary counters business is not only one of our important sales channels but also an important window for a brand in facing consumers.

In terms of concessionary counter design, we focus on embodying the atmosphere of Chinese nourishment, focusing on “nourishment” as a super sign, emphatically presenting core products and providing customized products to consumers through a flexible product mix.

Despite the current decline in the overall development of offline retail trade under the strong impact of the development of online e-commerce, however, with the thinking of refined operation of our concessionary counter business, despite the business declined by 1.1% year-on-year, the decline is narrowing down and presented a stable development trend.

Products

We believe that an iconic flagship product can better help consumers understand and remember the brand and form a clearer brand image. As such, we focus on creating a flagship product “Walnut Black Bean Sesame Powder”, which combines the concept of Chinese dietary nutrition and takes into account delicious nutrition and taste. We disseminate to consumers through new channels and e-commerce platforms the high-quality raw materials, scientific proportion and health benefits of this product. The result has been widely favoured by consumers. During the financial period, the product was granted “Tmall Natural Grain Powder TOP 1 Brand” by Tmall for seven consecutive years.

In addition, we precisely grasped the consumer’s demand for Chinese health snacks and launched the series of “Black Nutrition Sesame cake”, which combines the consumption boom of sugar-free and multi-flavors with a rich product portfolio. During the financial year, our “Little Genius Walnut Sesame cake” was awarded the iSEE Top 100 Innovative Brands, the “Black Nutrition Sugar-free Black Sesame cake” was awarded the Superior Taste Award by the International Taste Institute in Brussels, Belgium.

In light of consumers’ increasing demand for health, we have an insight into the opportunity of healthy food as a holiday gift. A variety of gift box products such as “Nutritional Gift Box”, “Nature-nourishing Gift Box” and “Evergreen Gift” were launched at important festival occasions to satisfy consumer needs to send healthy gifts during the festival.

FUTURE OUTLOOK

Health food, as an area of increasing consumer concern, is full of broad development opportunities. With the change of distribution channels and the deepening awareness of health by consumers, through establishing a strong brand imprint, we can achieve consumer recognition, and have a broad range of distribution channels that will bring more potential opportunities for our future development.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group sells its products through an extensive network of offline concessionary counters, new channel networks as well as online channels, including major e-commerce platforms and WeChat member stores. The following table sets out details of the Group's revenue by sales channel, each expressed in the absolute amount and as a percentage to its total revenue, for the years indicated:

	For the year ended 31 December			
	2023 RMB'000	%	2022 RMB'000	%
Offline channels	1,000,172	54.2	922,243	53.6
Offline concessionary counter	734,298	39.8	742,755	43.2
New channel business	265,874	14.4	179,488	10.4
Online channels	845,103	45.8	796,831	46.4
E-commerce platforms (including WeChat member stores)*	845,103	45.8	796,831	46.4
Total	1,845,275	100.0	1,719,074	100.0

* Due to analysis need, the revenue arising from WeChat member stores during the reporting period was included in the revenue of the e-commerce platform (2022: Offline concessionary counter). The total revenue for the year ended 31 December 2022 remains unchanged, and the classified revenue has been updated to comply with the current classification method.

For the year ended 31 December 2023, the absolute amount of revenue generated from sales through the Group's offline and online channels both increased as compared to the year ended 31 December 2022, among which, the offline channel business recorded a greater growth, which was mainly due to the strong revenue growth of the new channel business as a result of the effective implementation of the Group's new channel business development strategy.

Revenue generated from sales through online channels increased, which was mainly due to (i) the successful promotion of the black sesame expert brand "Black Nutrition (黑之養)", the star product named "Walnut Black Bean Sesame Powder (核桃黑豆芝麻粉)", walnuts expert brand "Little Genius (小天才)" and Nutritional Gift Box (食養禮盒); and (ii) the E-commerce team has well operated the traditional E-commerce channels and other social E-commerce platforms including Douyin store and WeChat member stores, which contributed to an increase in revenue generated from online channels.

Management Discussion and Analysis

As a percentage to the total revenue, revenues generated from sales through the offline channels slightly increased from 53.6% in 2022 to 54.2% in 2023, while revenue generated from sales through the online channels slightly decreased from 46.4% in 2022 to 45.8% in 2023.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by approximately 6.9% from RMB620.7 million for the year ended 31 December 2022 to RMB663.8 million for the year ended 31 December 2023, which was mainly attributable to (i) an increase in sales volume and production volume that led to the increase in raw material cost, direct labor cost and manufacturing cost; and (ii) an increase in transportation expenses, related to fulfilling the customer contract. Gross profit for the Group increased from approximately RMB1,098.4 million for the year ended 31 December 2022 to approximately RMB1,181.5 million for the year ended 31 December 2023. The gross profit margin increased from 63.9% for the year ended 31 December 2022 to 64.0% for the year ended 31 December 2023, which was mainly due to the growth in overall revenue and a slight increase in cost of sales.

Other Income and Gains

Other income and gains of the Group increased by RMB3 million from approximately RMB16.5 million for the year ended 31 December 2022 to approximately RMB19.5 million for the year ended 31 December 2023, which was mainly attributable to an increase in bank interest income.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consist of commission expense, labour service expense of salesmen, salary and employee benefit expenses, sales promotion expenses and others. The selling and distribution expenses increased from approximately RMB891.0 million for the year ended 31 December 2022 to approximately RMB897.1 million for the year ended 31 December 2023, which was mainly attributable to (i) the increase in promotional and marketing expenses in line with the sales growth; and (ii) the increase in travelling expenses related to business development.

Administrative Expenses

The Group's administrative expenses primarily comprise salary and employee benefit, other taxes and fees, intermediary service expenses, depreciation and amortisation expense, research and development expenses. The administrative expenses increased from approximately RMB79.0 million for the year ended 31 December 2022 to approximately RMB100.4 million for the year ended 31 December 2023. Such increase was due to (i) the increase in depreciation and amortisation of plant; and (ii) the increase in additional tax related to property tax and value-added tax.

Management Discussion and Analysis

Impairment of Financial Assets

The Group recorded an impairment of financial assets of approximately RMB16.2 million for the year ended 31 December 2023, while the Group recorded an impairment of financial assets of approximately RMB6.0 million for the year ended 31 December 2022, which was mainly attributable to an increase in overdue trade receivables and the impairment treatment due to the ageing of accounts.

Other Expenses

Other expenses of the Group decreased from approximately RMB1.1 million for the year ended 31 December 2022 to approximately RMB1.0 million for the year ended 31 December 2023 primarily due to the decrease in other non-operating expenses.

Finance Costs

For the year ended 31 December 2023, the Group's finance costs decreased from approximately RMB0.6 million for the year ended 31 December 2022 to approximately RMB0.4 million primarily attributable to a decrease in the interest expense on lease liabilities resulting from shorter lease terms.

Profit before Tax

As a result of the foregoing, the Group recorded a profit before tax of approximately RMB185.9 million for the year ended 31 December 2023, while a profit before tax of approximately RMB137.3 million for the year ended 31 December 2022.

Income Tax Expense

The Group's income tax expense was RMB33.6 million for the year ended 31 December 2023, while the income tax expense was RMB20.8 million for the year ended 31 December 2022, which was mainly due to an increase in the Group's profits.

Profit for the Year

The Group recorded a profit of approximately RMB152.4 million for the year ended 31 December 2023, while a profit of approximately RMB116.5 million was recorded for the year ended 31 December 2022, representing an increase of approximately 30.8%.

Management Discussion and Analysis

FINANCIAL RESOURCES REVIEW

Working Capital and Financial Resources

	As at 31 December 2023 (RMB million)	As at 31 December 2022 (RMB million)
Trade and bills receivables	217.8	191.6
Trade payables	97.3	84.9
Inventories	93.5	81.9
Trade receivables turnover days ⁽¹⁾	40	39
Trade payables turnover days ⁽²⁾	50	43
Inventory turnover days ⁽³⁾	48	48

Notes:

- (1) Trade receivables turnover days = 365 days x (average balance of trade and bills receivables at the beginning and at the end of the relevant period)/revenue in the reporting period.
- (2) Trade payables turnover days = 365 days x (average balance of the trade payables at the beginning and at the end of the relevant period)/cost of sales in the reporting period.
- (3) Inventory turnover days = 365 days x (average balance of inventory at the beginning and at the end of the relevant period)/cost of sales in the reporting period.

The increase of trade and bills receivables was primarily attributable to the increase in revenue. The trade receivables turnover days was remained stable at around 40 days for the year ended 31 December 2023.

The increase of trade payables was primarily attributable to an increase in the purchase of raw materials and packaging materials used for production. The trade payables turnover days was remained stable at around 50 days for the year ended 31 December 2023.

The inventories book value was remained stable at around RMB93.5 million as at 31 December 2023 (31 December 2022: RMB81.9 million). The slight increase in inventory was mainly due to the sales growth.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2023, the Group's cash and bank deposits amounted to RMB942.0 million, representing an increase of approximately 20.7% from RMB781.3 million as at 31 December 2022.

As of 31 December 2023, the Group's primary uses of cash were payment for suppliers, daily operating expenses, purchase of items of property, plant and equipment, purchase of time deposit and financial assets (i.e. wealth management product) at fair value through profit or loss. The Group financed its liquidity requirements through cash flows generated from its operating activities.

As at 31 December 2023, the Group had no interest-bearing borrowings (31 December 2022: nil).

Net cash flows from operating activities were RMB185.9 million in 2023, as compared with net cash flows from operating activities of RMB168.5 million in 2022. Net cash used in investing activities were RMB121.1 million in 2023, as compared with net cash flows used in investing activities of RMB18.6 million in 2022. Net cash flows used in financing activities were RMB7.1 million in 2023, as compared with net cash used in financing activities of RMB25.1 million in 2022.

As at 31 December 2023, the Group had net current asset of RMB1,033.5 million, as compared with net current asset of RMB839.2 million as at 31 December 2022.

Capital Commitments

As at 31 December 2023, the Group had contracted but not provided for capital commitments of approximately RMB5.0 million, which were primarily related to the purchase of property, plant and equipment to be used for the construction of new manufacturing facility in Nansha County Guangzhou, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB6.2 million as at 31 December 2022.

Currency Exposure and Management

The Group operates its business in China and conducts domestic business in RMB. Substantially all of the Group's assets are denominated in RMB, and the Group mainly incurs cost in HK\$ and RMB. The Group is exposed to foreign exchange risk with respect mainly to HK\$ which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of the exchange rate between HK\$ and RMB and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2023, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2023, the Group had no pledge of assets.

Interest-bearing Gearing Ratio

As at 31 December 2023, the Group's interest-bearing gearing ratio (calculated by dividing total lease liabilities by total assets as of the end of each year) was approximately 0.3% (31 December 2022: 0.7%).

Employees and Remuneration Policy

As at 31 December 2023, the Group had 682 employees, as compared with 697 employees as at 31 December 2022. For the year ended 31 December 2023, costs of employees, excluding Directors' emoluments, amounted to a total of RMB140.2 million, representing a decrease of approximately 8% from RMB156.3 million in 2022. The Group will regularly review its remuneration policy and the benefits granted to its employees with reference to market practice and the performance of individual employees.

Determination of directors' remuneration and the remuneration of the executives of the Company: The remuneration committee of the Company makes recommendations to the Board with reference to the prevailing market remuneration levels, based on the qualifications and experience of each director, responsibilities undertaken and contribution to the Group. The Board is authorized by the shareholders of the Company at the annual general meeting to determine the directors' remuneration and the remuneration of the executives, having regard to the Group's operating results, individual performance and comparable market statistics.

Emolument policies of the Group's employees are formulated by management with the authorization by the Board with reference to the qualification and experience of each employee, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration for executives of similar position.

Emolument policies include cash and equity incentives. The Group has also adopted a share option scheme and a share award scheme for the purpose of providing incentives to directors, eligible employees and third party service providers. Further details in relation to these schemes will be set out in the "Report of Board of Directors" section of the annual report of the Company for the year ended 31 December 2023.

Directors and Senior Management

DIRECTORS

Executive Directors

Ms. GUI Changqing (桂常青), aged 51, is the Chairman of the Board and an executive Director of the Company. Ms. Gui was appointed as a Director on 30 November 2009. She also serves as a director and/or the general manager of each of the wholly-owned subsidiaries of the Group, Natural Food HK, Natural Food Online Limited (天然食品線上有限公司), Shenzhen Fuya and Guangzhou Natural Food. She is responsible for formulating and overseeing the overall development strategies and business plans of the Group and has continued to provide guidance on the range and variety of products offered by the Group since its establishment. Ms. Gui is a director of Natural Capital, a substantial shareholder of the Company within the meaning of Part XV of SFO. She graduated from Hubei Institute of Industry (湖北工學院, now known as Hubei University of Technology (湖北工業大學)) with a bachelor's degree in industrial design in June 1995. She further completed her studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015. She is the wife of Mr. ZHANG Zejun, the Founder, the Chief Executive Officer and an executive Director of the Company.

Mr. ZHANG Zejun (張澤軍), aged 50, is the Founder, a Controlling Shareholder, the Chief Executive Officer of the Group and an executive Director of the Company. He was appointed as a Director on 29 January 2010. Mr. Zhang is also the general manager of each of the major wholly-owned operating subsidiaries of the Group, namely Shenzhen Changqing Food Tech Co., Ltd. (深圳常青食品科技有限公司) and Shenzhen Natural Food Co., Ltd. (深圳天然食品貿易有限公司), and a supervisor of Shenzhen Xiangya, another wholly-owned subsidiary of the Group. He is primarily responsible for implementing and overseeing the overall business development, management and operations of the Group. Mr. Zhang has over 10 years of experiences in the natural health food industry. He founded the business in 2007 and has been the key driver of the business strategies and achievements to date. Mr. Zhang is a director of Natural Capital, a substantial shareholder of the Company within the meaning of Part XV of SFO. He completed his studies in master of business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015. He is the husband of Ms. GUI Changqing, the Chairman and an executive Director of our Company.

Non-executive Directors

Ms. TSE Cheung On Anne (謝長安), aged 47, was appointed as the non-executive Director on 30 September 2019. She currently acts as CEO in the Greater China Region of PepsiCo., Inc. (the "PepsiCo"), a company listed on the NASDAQ (stock code: PEP) since November 2021. She joined PepsiCo in October 2010 and successively served as senior director of strategy in the Greater China Region, general manager of new business in the Greater China Region, VP of e-Commerce in the Greater China and Asia, Middle East and North Africa, general manager of foods in the Greater China Region. She was an outside director of Calbee, Inc., a company listed on the Tokyo Stock Exchange (stock code: 2229), from June 2019 to July 2020. Prior to joining PepsiCo, she served as CEO of Mannings China from March 2008 to March 2010, and various positions including associate principal at McKinsey & Company, a strategic consulting firm, from 1998 to 2008. Ms. Tse obtained her bachelor of business administration degree in finance from the Chinese University of Hong Kong in June 1998, and her master of business administration degree in finance and marketing from Kellogg School of Management at Northwestern University in the United States in June 2003.

Directors and Senior Management

Mr. WANG Duo (王鐸), aged 45, was appointed as the non-executive Director on 30 September 2019. He is the founding partner of Mangrove Capital, a fund headquartered in the PRC which focuses on the growth stage investment in leading companies in cloud computing, big data, enterprise services, financial technology, and internet information. Prior to founding Mangrove Capital in 2016, he was a partner of SAIF Partners, a technology, media and telecommunications venture capital fund, from 2006 to 2016, and a senior investment manager at ZTE Corporation, a telecom equipment and solutions provider, from 2004 to 2006. He has been a chartered financial analyst since 2005 and he is one of the founding members of the CFA Society Beijing, a member of the CFA Institute global network of societies. He was also named as a Top 40 under 40 investor in 2014 by Cyzone, a venture capital media in the PRC. He was a non-executive director of Ozner Water International Holding Limited, a company listed on the Stock Exchange (stock code: 2014), from September 2017 to May 2020. He obtained a bachelor's degree in commerce and information systems from the University of Melbourne in Australia in 2001.

Independent non-executive Directors

Mr. ZHANG Senquan (張森泉), formerly known as Zhang Min (張敏), aged 47, was appointed as the independent non-executive Director on 19 November 2018 and is responsible for supervising and providing independent advice and judgment to the Board. He currently serves as the chief executive officer of Zhong Rui Capital (Hong Kong) Limited, a consultancy company and the audit principal of Nortex (HK) CPA Limited.

He is currently an independent non-executive director of Jiande International Holdings Limited (formerly known as First Mobile Group Holdings Limited) (stock code: 865) and Strawbear Entertainment Group (stock code: 2125) and a company secretary of China General Education Group Limited (stock code: 2175) and Guanze Medical Information Industry (Holding) Co., Ltd. (stock code: 2427), whose shares are listed on the Stock Exchange.

He had also served as an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司) (a company listed on Sci-Tech innovation board of Shanghai Stock Exchange with a stock code of 688488) from May 2019 to March 2022 and an independent director of Topchoice Medical Investment Co. Inc. (通策醫療投資股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code of 600763), from December 2014 to March 2017. He also once served in other companies listed on the Stock Exchange, including: (i) Sang Hing Holdings (International) Ltd. (stock code: 1472) as an independent non-executive director from January 2020 to April 2023; (ii) Beijing Digital Telecom Co., Ltd. (stock code: 6188) as an independent non-executive director from June 2018 to June 2021; (iii) Bonny International Holding Limited (stock code: 1906) as an independent non-executive director from March 2019 to June 2020; (iv) Southwest Securities International Securities Limited (stock code: 812) as the managing director from February 2016 to March 2020; (v) Casablanca Group Limited (stock code: 2223) as an independent non-executive director from April 2015 to April 2018; (vi) Huazhong In-Vehicle Holdings Company Limited (stock code: 6830) as the chief financial officer and joint company secretary from May 2014 to July 2015; and Goodbaby International Holdings Limited (stock code: 1086) as the head of the strategic development department from March 2013 to April 2014.

He has over ten years of experience in accounting and auditing, and worked at Ernst & Young Hua Ming, KPMG Huazhen and Deloitte Touche Tohmatsu CPA Ltd., serving several positions from audit staff to audit partner from October 1999 to October 2012. He has been a member of Hong Kong Institute of Certified Public Accountants since September 2011, China Institute of Certified Public Accountants since December 2001 and American Institute of Certified Public Accountants since September 2015. He obtained his bachelor's degree in economics from Fudan University in Shanghai, the PRC in July 1999.

Directors and Senior Management

Mr. HU Peng (胡芑), aged 48, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. He served as the head of equity capital markets, a managing Director and a management committee member of Huatai Financial Holdings (Hong Kong) Ltd., a wholly-owned subsidiary of Huatai Securities Co., Ltd. from October 2015 to June 2018, the shares of which are listed on the Stock Exchange (stock code: 6886) (“Huatai”). Prior to joining Huatai in October 2015, he worked in the investment banking division of UBS AG from July 2010 to September 2015 and in Citigroup Global Market Asia Limited from February 2007 to July 2010. Before his career in Citigroup, he was primarily engaged in theoretical and empirical research in the areas of credit risk, close-end fund, Chinese capital markets and restructuring of state-owned enterprise, with extensive experience in both strategic analysis and marketing consulting. He was approved as a responsible officer under the SFO and was licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO during the period working at Huatai, Investment Banking Division of UBS AG and Citigroup Global Market Asia Limited. He obtained each his Master of Science degree in Operations Research and Management Science, Master in Research in Business Studies and PhD degree from the University of Edinburgh in the United Kingdom in December 1998, July 2000 and June 2008, respectively.

Mr. OUYANG Liangyi (歐陽良宜), aged 46, was appointed as the independent non-executive Director on 19 November 2018, and is responsible for supervising and providing independent advice and judgment to the Board. He currently serves as an Associate Professor of Finance at Peking University HSBC Business School since August 2013 and has become the Associate Dean in March 2013 and subsequently the Deputy Dean in November 2017. He was a lecturer and an Associate Professor of the School of Economics at Peking University from September 2004 to August 2009 and from then till July 2013, respectively, with a focus on private equity and derivatives. He obtained his bachelor’s degree in economics from Peking University in July 1999 and PhD in Finance from The University of Hong Kong in December 2005. He has been a Chartered Financial Analyst since 2006.

SENIOR MANAGEMENT

Mr. XIONG Xinsheng (熊鑫升), aged 61, is a General Manager of Finance of the Group. He joined the Group in August 2015 and is responsible for financial planning, accounting and audit, financial and treasury management and internal controls. Prior to joining the Group, he served as a civil servant in the taxation bureau of Xianfeng and Enshi, Hubei Province, PRC from September 1989 to August 2015. He completed his studies in business management from Hubei Radio & TV University (湖北廣播電視大學) in July 1989. He also completed his remote undergraduate education in laws at the Party School of the Central Committee of CPC (中共中央黨校) in December 2001. He completed his master’s studies in business administration at the Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院) in December 2015.

Directors and Senior Management

COMPANY SECRETARY

Mr. YUEN Sing Wai Lester (袁陸璋), aged 36, was appointed as the company secretary of the Company on 30 October 2023. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and hence possesses the requisite qualifications under rules 3.28 and 8.17 of the Listing Rules to discharge the functions of the company secretary of the Company. Mr. Yuen has more than twelve years of working experience in the fields of legal, accounting and compliance (the Sarbanes-Oxley Act, company secretarial and listing matters). He has gained his solid professionalism from senior and/or managerial positions in audit and assurance and advisory arms of two of the Big Four accounting firms and regional compliance office in an European multinational healthcare company dually listed on the New York Stock Exchange and the Frankfurt Stock Exchange. Mr. Yuen holds degrees in Bachelor of Laws and Bachelor of Commerce in Accounting with Distinction from the University of New South Wales.

Corporate Governance Report

The Company is committed to fulfilling its responsibilities to its shareholders (the “**Shareholders**”) and protecting and enhancing Shareholders’ value through good corporate governance.

The Directors deeply recognise the importance of incorporating elements of good corporate governance in the management structures, internal control and risk management procedures of the Group so as to achieve effective accountability.

CORPORATE GOVERNANCE PRACTICES

The Board continues to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) set out in Appendix C1 to the Listing Rules so as to maintain a high standard of corporate governance of the Company.

The Company has applied the principles and code provisions of the CG Code as set out in Part 2 of Appendix C1 to the Listing Rules as its own code of corporate governance.

The Board is of the view that during the year ended 31 December 2023, the Company has complied with applicable code provisions as set out in the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix C3 to the Listing Rules as its own code of conduct governing the securities transactions by the Directors. Following specific enquiries made by the Company on each of the Directors, all Directors have confirmed that they had complied with the Model Code during the Reporting Period.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company during the Reporting Period.

Corporate Governance Report

BOARD OF DIRECTORS

Responsibilities

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support is in place for the Group to achieve its objectives. The functions performed by the Board include but are not limited to convening general meetings, implementing the resolutions passed at the general meetings, determining the business and investment plans of the Group, formulating the annual financial budget and financial statements of the Group, and formulating the proposals for dividend distributions as well as exercising other powers, functions and duties as conferred by the Company's articles of association (the "**Articles of Association**"). The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. The responsibilities of these Board committees include monitoring the Group's operational and financial performance, and ensuring that appropriate internal control and risk management are in place. The Board may from time to time delegate certain functions to management of the Group if and when considered appropriate. The management is mainly responsible for the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time. The Directors have full access to information of the Group and the management has an obligation to supply the Directors with adequate information in a timely manner to enable the Directors to perform their responsibilities. The Directors are entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

Composition

The Board currently comprises seven members, consisting of two Executive Directors, two Non-executive Directors and three Independent non-executive Directors (the "**INEDs**"), as follows:

Executive Directors

Ms. GUI Changqing (*Chairman*)

Mr. ZHANG Zejun (*Chief Executive Officer*)

Non-executive Directors

Ms. TSE Cheung On Anne

Mr. WANG Duo

Independent non-executive Directors

Mr. ZHANG Senquan

Mr. HU Peng

Mr. OUYANG Liangyi

Corporate Governance Report

The biographical details of the Directors are set out in the section headed “Directors and Senior Management” on pages 13 to 16 of this annual report.

None of the members of the Board is related to one another, except that Ms. GUI Changqing, the Chairman and Executive Director of the Company, is the spouse of Mr. ZHANG Zejun, the Chief Executive Officer and Executive Director of the Company.

Proper insurance coverage in respect of legal actions against the Directors’ liability has been arranged by the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have brought in a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in the Board meetings and serving on various Board committees, all INEDs have been making various contributions to the Company.

Throughout the Reporting Period, the Company had three INEDs, which was in compliance with the requirement of the Listing Rules that the number of INEDs must represent at least one-third of the Board members, and that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmations of independence in writing from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers that all the INEDs are independent and have met the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Paragraph C.2.7 of the CG Code requires that the Chairman should at least hold one meetings annually with the INEDs without the presence of the other Directors. For the year ended 31 December 2023, the Chairman held 1 meeting with the INEDs on 29 August 2023 without the presence of any other Director. Going forward, the Chairman will continue to ensure compliance with this code provision.

DIRECTORS’ CONTINUING PROFESSIONAL DEVELOPMENT

The Directors, on an ongoing basis, keep themselves abreast of updates on the relevant laws, rules and regulations. The Company encourages the Directors to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Hong Kong Companies Ordinance and corporate governance practices so that they can continuously acquire and refresh their relevant knowledge and skills.

During the year ended 31 December 2023, the Company organised training on duties and responsibilities of directors and seminar on updated laws and regulations for the Directors. Pursuant to code provision C.1.1 of the CG Code, the Company has also provided reading materials to the Directors to develop and refresh their professional knowledge.

Corporate Governance Report

Name of Directors	Participation in directors' duties and responsibilities training/industry or professional seminars	Review of the materials on the latest developments in directors' responsibilities, legal and regulatory developments, etc.
Executive Directors		
Ms. GUI Changqing	✓	✓
Mr. ZHANG Zejun	✓	✓
Non-executive Directors		
Ms. TSE Cheung On Anne	✓	✓
Mr. WANG Duo	✓	✓
Independent Non-executive Directors		
Mr. ZHANG Senquan	✓	✓
Mr. HU Peng	✓	✓
Mr. OUYANG Liangyi	✓	✓

MEETINGS OF THE BOARD AND DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2023, the Board held 7 meetings including one circulating written resolutions, at which the Board discussed and approved the proposals of Company's overall strategy, considered and approved the proposals of Company's 2022 annual report, 2022 annual results announcement, 2023 interim report, 2023 interim results announcement, and discussed the quarterly results of operations, the adoption of the restricted share unit scheme, the grant of the restricted share unit scheme and approval of change of company secretary.

The table below sets out the details of Board meetings and general meeting attendance of each Director during the year ended 31 December 2023:

Name of Directors	Attendance/Number of board meetings	Attendance/Number of general meeting
Executive Directors		
Ms. GUI Changqing (<i>Chairman</i>)	7/7	0/1
Mr. ZHANG Zejun	7/7	1/1
Non-executive Directors		
Ms. TSE Cheung On Anne	7/7	0/1
Mr. WANG Duo	7/7	0/1
Independent non-executive Directors		
Mr. ZHANG Senquan	7/7	1/1
Mr. HU Peng	7/7	1/1
Mr. OUYANG Liangyi	7/7	0/1

Corporate Governance Report

Regular meeting of the Board is scheduled four times a year at approximately quarterly intervals with notice given to the Directors at least 14 days in advance. For all other Board meetings, notice is given in a reasonable time in advance. The Directors are allowed to include any matter in the agenda that is required for discussion and resolution at the meeting. To enable the Directors to be properly briefed on issues arising at each of the Board meetings and to make informed decisions, an agenda and the accompanying Board papers will be sent to all Directors at least three days before the intended date of the Board meeting, or such other period as agreed. The company secretary of the Company (the “**Company Secretary**”) is responsible for keeping all Board meetings’ minutes. Draft and final versions of the minutes are circulated to the Directors for comments and record respectively within a reasonable time after each meeting and the final version is open for the Directors’ inspection.

Save for the family relationships disclosed in the section headed “Directors and Senior Management” of this annual report, the Directors do not have any material financial, business or other relationships among members of the Board. Should a Director have a potential conflict of interest in a matter being considered in the Board Meeting, he or she will abstain from voting. The INEDs and other Directors with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

BOARD DIVERSITY POLICY

The Board has adopted a policy of the Board’s diversity and discussed all measurable objectives set for implementing the same. The implementation and effectiveness of board diversity policy have been reviewed by the Board during the Reporting Period and will be reviewed annually.

The Company recognises and embraces the benefits of a diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge. The Board of the Company shall appoint at least one female director. Currently, there are two female directors at the Board of the Company. Among them, MS. GUI Changqing was appointed as a director of the Company prior to the listing of the Company, Ms. TSE Cheung On Anne was appointed as a director of the Company in September 2019. The Company will also try its best to achieve gender diversity when nominating directors and recruiting employees at all levels (including middle and senior levels), so as to provide suitable succeeding directors for the Board when appropriate, so as to ensure the gender diversity of the board of directors.

The Company understands and recognizes the benefits of diversified staff structure and regards it as one of the important elements in sustaining a long-term competitive advantage of the Company. A multicultural company should be comprised of employees with different gender, age, religion, skills, educational background, industry experience and other qualities so as to achieve the most appropriate structure and balance. As at 31 December 2023, the total number of employees of the Group was 682 (2022:697) with 207 male staff and 475 female staff. The male to female ratio in the workforce was about 1:2 and had been stable for last five years. The Company deemed this gender ratio as adequate and appropriate for a company with major business in manufacture and sales of natural health food.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are held by Ms. GUI Changqing and Mr. ZHANG Zejun, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing. Therefore, the Company has complied with paragraph C.2.1 of the CG Code, which stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. A list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report. The Board committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three members, namely Mr. ZHANG Senquan, Mr. HU Peng and Mr. OUYANG Liangyi, all of which are our independent non-executive Directors. Mr. ZHANG Senquan has been appointed as the Chairman of the Audit Committee.

The principal roles and functions of the Audit Committee include but are not limited to:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, and dealing with any questions of their resignation or dismissal;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discussing with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- developing and implementing policy on engaging external auditors to supply non-audit services and reporting to the Board and identifying and making recommendations on any matters where action or improvement is needed;
- monitoring integrity of the Company's financial statements and annual report and accounts, and half-year report, and reviewing significant financial reporting judgements contained in them;
- reviewing the Company's financial controls, risk management and internal control systems;

Corporate Governance Report

- discussing the risk management and internal control systems with management to ensure that management has performed its duty to build and maintain effective systems;
- considering major investigation findings on risk management and internal control matters and management’s response to these findings as delegated by the Board or on its own initiative;
- ensuring coordination between the internal and external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- reviewing the Group’s financial and accounting policies and practices;
- reviewing the external auditors’ management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management’s response;
- ensuring that the Board provide a timely response to the issues raised in the external auditors’ management letter; and
- considering other matters as referred to the Committee by the Board.

The Audit Committee has established and overseen a whistleblowing policy. In line with that commitment, the Company expects and encourages its employees, customers, suppliers and other stakeholders who have concerns about any suspected misconduct or malpractice within the Company to come forward and voice those concerns. All whistleblowing reports are investigated to the fullest extent possible and reported to the Audit Committee.

During the year ended 31 December 2023, the Audit Committee held 2 meetings, at which the Audit Committee considered and approved the proposals of Company’s 2022 annual report, 2022 annual results announcement, 2023 interim report, 2023 interim results announcement, annual audit plan for the year of 2023. The Audit Committee also assessed the risk management and internal control measures and the effectiveness of the internal audit function of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2023:

Name of Directors	Attendance/Number of Meetings
Mr. ZHANG Senquan (<i>Chairman</i>)	2/2
Mr. HU Peng	2/2
Mr. OUYANG Liangyi	2/2

Corporate Governance Report

Remuneration Committee

The Company has established a remuneration committee (the “**Remuneration Committee**”) with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members, namely Mr. HU Peng, Mr. ZHANG Senquan and Mr. OUYANG Liangyi, our independent non-executive Directors. Mr. HU Peng has been appointed as the Chairman of the Remuneration Committee.

The principal roles and functions of the Remuneration Committee include but are not limited to:

- making recommendations to the Board on the Company’s remuneration policy and structure for all Directors’ and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management’s remuneration proposals with reference to the Board’s corporate goals and objectives;
- making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of the Non-executive Directors;
- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms or is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms or are otherwise reasonable and appropriate;
- ensuring that no Director or any of his associates is involved in deciding his own remuneration;
- reviewing and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and
- considering all other matters as referred to the Committee by the Board.

During the year ended 31 December 2023, the Remuneration Committee held 1 meeting, at which the Remuneration Committee reviewed and approved the proposals of remuneration of the Directors and senior management, the policy and structure of the remuneration for the Directors and senior management, and the grant arrangement under the Restricted Share Award Scheme, etc.

Corporate Governance Report

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2023:

Name of Directors	Attendance/Number of Meetings
Mr. HU Peng (<i>Chairman</i>)	1/1
Mr. ZHANG Senquan	1/1
Mr. OUYANG Liangyi	1/1

Equity based remuneration with performance related elements was not granted to independent non-executive directors.

Nomination Committee

The Company has established a nomination committee (the “**Nomination Committee**”) with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being Mr. OUYANG Liangyi and Mr. HU Peng and one executive Director, being Ms. GUI Changqing. Mr. OUYANG Liangyi has been appointed as the Chairman of the Nomination Committee.

The principal roles and functions of the Nomination Committee include but are not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least once annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
- identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of Independent Non-executive Directors; and
- making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

NOMINATION POLICY

This nomination policy adopted by the Company aims to set out the approach to guide the nomination committee of the Company in relation to the election, appointment and re-appointment of the Directors. It aims to ensure that the Board has the skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company’s business.

Corporate Governance Report

The provisions set out in the following paragraphs are regarded as the key nomination criteria and principles of the Company for the nomination of Directors of the Board, and these provisions constitute the “**Nomination Policy**” of the Company.

- a. to review the structure, size and composition (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service) of the Board at least once annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
- b. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;
- c. to make recommendations to the Board on the appointment or re-appointment of Directors of the Board and succession planning for Directors of the Board, in particular the Chairman of the Board and the Chief Executive Officer, taking into account the Company’s corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

NOMINATION PROCESS

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- (a) The Nomination Committee will, giving the consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;
- (b) The Nomination committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from shareholders of the Company with due consideration given to the criteria;
- (c) The Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;
- (d) Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/ or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

Corporate Governance Report

- (e) The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- (f) The Board will have the final authority on determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

During the year ended 31 December 2023, the Nomination Committee held 1 meeting, at which the Nomination Committee reviewed the proposals of the Board structure, the diversity policy of the Board members, the independence of the independent non-executive Directors, etc.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2023:

Name of Directors	Attendance/Number of Meetings
Mr. OUYANG Liangyi (<i>Chairman</i>)	1/1
Ms. GUI Changqing	1/1
Mr. HU Peng	1/1

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out in the Corporate Governance Functions of the Board adopted by the Company including:

- to develop and review the Company's policies, procedures and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review the effectiveness of the risk management and internal control system on an ongoing basis and to remedy material internal control weaknesses;
- to review and monitor the Company's policies, procedures and practices on compliance with legal and regulatory requirements;

Corporate Governance Report

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- to review the adequacy of resources, staff competency, training programs and budget of the Company's accounting, internal audit and financial reporting functions; and
- to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

The Board's annual review of the Company's corporate governance practices for the year ended 31 December 2023 has covered the aforesaid matters.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors, the non-executive Directors and the independent non-executive Directors has signed an appointment letter (or a service contract in case of executive Director) with the Company and is appointed for a specific term of three years with effect from the respective date stated therein. There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and shall be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting (the "AGM") and shall then be eligible for re-election.

All the Directors, including INEDs, are subject to retirement by rotation and will be eligible for re-election in accordance with the Articles of Association. At each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at the AGM at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and does not offer himself for re-election. Any further Directors so to retire shall be those who have been the longest in office since their last re-election or appointment and so that as between the persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In accordance with article 16.19 of the Articles of Association, Ms. TSE Cheung On Anne and Mr. WANG Duo, being the non-executive Directors, Mr. HU Peng and Mr. OUYNAG Liangyi, being the independent non-executive Directors, will retire from office by rotation and will, being eligible, offer themselves for re-election at the forthcoming AGM.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2023 are set out in note 8 to the financial statements.

Pursuant to paragraph E.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed “Directors and Senior Management” in this annual report for the year ended 31 December 2023 by band is set out below:

Remuneration band (in RMB)	Number of individual
Nil to 1,000,000	1
1,000,001 to 1,500,000	1
1,500,001 to 2,000,000	–
2,000,001 to 2,500,000	–
2,500,001 to 3,000,000	–
3,000,001 to 3,500,000	–
3,500,001 to 5,000,000	–

INDEPENDENT AUDITORS’ REMUNERATION

For the year ended 31 December 2023, Ernst & Young was engaged as the Group’s independent auditor. Apart from the provision of annual audit services, Ernst & Young provided the non-audit services in connection with the interim review.

The remuneration paid/payable to the independent auditors in respect of the year ended 31 December 2023 is set out below:

Service Category	Fees Paid/Payable (RMB)
Audit Services for 2023 annual audit	1,530,000
Non-audit Services (interim review service)	530,000
Total	2,060,000

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out as informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with quarterly updates on the Company's performance, positions and prospects. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

In addition, Ernst & Young has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2023.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the issuer's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

The key features of the Group's risk management and internal control systems include the following:

- an organized structure with clearly defined and distinct scope of authority and responsibilities;
- a comprehensive financial accounting system to provide for various performance measurement indicators and to ensure compliance with relevant rules;
- annual plans prepared by senior management of the Company on financial reporting, operations and compliance with reference to significant potential risks;
- strict prohibition of unauthorized expenditures;
- guidelines on the dissemination of confidential and sensitive information;
- specific approval from Executive Director/responsible senior executive of the Company prior to commitment in all material matters;

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- appropriate policy to ensure the effective use of resources, the qualifications and experiences possessed by the staff members who are responsible for the Group's accounting and financial reporting functions, and sufficient training provided to the staff members;
- management's review and evaluation on the internal control procedures and monitoring of risk factors on a regular basis; and
- reporting to the Audit Committee about the findings on identified risks and measures to address such risks.

Various procedures have been put in place to safeguard the Group's assets against unauthorised use or disposal, to ensure proper accounting records are kept so that reliable financial information can be provided when required, and to ensure compliance with all applicable laws and regulations. Meanwhile, the Board have engaged an external internal control consultant to perform corporate risk assessment and the procedures of internal control, follow up on review issues and make recommendations to the Board. These procedures have been based on industry norms and are designed to provide reasonable assurance and protection against errors, losses and fraud.

During the year ended 31 December 2023, the Board, through the Audit Committee, communicates with the external internal control consultant and has conducted a review of the effectiveness of the internal control system of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers that the Group's risk management and internal control are adequate and effective. The Board expects that a review of the risk management and internal control systems will be performed annually.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced promptly. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, the Company Secretary and the Financial Controller of the Company are authorised to communicate with parties outside the Group.

Corporate Governance Report

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring that reliable and relevant flow of information is maintained amongst members of the Board and that all procedures have been adhered to in accordance with applicable laws, rules and regulations. All Directors have access to the advice and services of the Company Secretary on corporate governance and board practices and other related matters.

During the year ended 31 December 2023, the Company Secretary of the Company was changed from Mr. CHAN Yik Pun to Mr. YUEN Sing Wai Lester on 30 October 2023. The company secretary's biography is set out in the section headed "Directors and Senior Management" on page 16 of this annual report. In compliance with Rule 3.29 of the Listing Rules, Mr. YUEN Sing Wai Lester, in his capacity as the Company Secretary, has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2023.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Procedures for Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing Shareholders to make proposals or move resolutions at the AGMs under the memorandum of association of the Company and the Articles of Association (the "M&A") or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting (the "EGM") in accordance with the "Procedures for Shareholders to convene an EGM" set out below.

Procedures for Shareholders to Convene an EGM

According to Article 12 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to require an EGM to be called by the Board or the Company Secretary for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned (the "Requisitionist(s)") at the principal place of business of the Company in Hong Kong (presently at Unit 1003, 10th Floor Asia Standard Tower, 59-65 Queen's Road Central, Hong Kong) for the attention of the Company Secretary. The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM and the proposed agenda.

Corporate Governance Report

Following receipt of the Requisition, the identity and shareholding of the Eligible Shareholder(s) will be verified with the Company's branch share registrar in Hong Kong. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM and/or include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of the outcome and accordingly, the Board will not call for an EGM nor include the proposal(s) made or the resolution(s) proposed by the Requisitionist(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board fails to proceed to convene such meeting, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to Send Enquires to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them by post to the principal place of business of the Company in Hong Kong (presently at Unit 1003, 10th Floor Asia Standard Tower, 59-65 Queens Road Central, Hong Kong) or by email to ir@szwgmf.com, for the attention of the Company Secretary.

Upon receipt of the enquiries, the Company Secretary will forward the communications relating to:

1. the matters within the Board's purview to the Executive Directors;
2. the matters within a Board committee's area of responsibility to the Chairman of the appropriate committee; and
3. ordinary business matters, such as suggestions, enquiries and client complaints to the appropriate management of the Company.

DIVIDEND POLICY

The Company has adopted a general annual dividend policy. Subject to applicable laws and regulations, the Company may declare and distribute to our Shareholders dividends on an annual basis of approximately 20% to 40% of the total net profit attributable to the Group for any particular year. The declaration of dividends is subject to the discretion of the Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon the Group's earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions the Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. The Company may distribute dividends by way of cash or by other means that we consider appropriate.

Corporate Governance Report

The Board has the discretion to declare dividends to the Shareholders, subject to the Articles of Association and all applicable laws and regulations and taking into consideration factors set out below:

- (1) financial results;
- (2) cash flow situation;
- (3) business conditions and strategies;
- (4) future operations and earnings;
- (5) capital requirements and expenditure plans;
- (6) interests of shareholders;
- (7) taxation consideration;
- (8) any contractual, statutory and regulatory restrictions on payment of dividends; and
- (9) any other factors that the Board may consider relevant.

The Company will evaluate its dividend policy and distributions made from time to time.

INVESTOR RELATIONS AND COMMUNICATION WITH THE SHAREHOLDERS

The Company has adopted a Shareholders' communication policy with the objective of ensuring that the Shareholders will have equal and timely access to information about the Company in order to enable the Shareholders to exercise their rights in an informed manner and allow them to engage actively with the Company. The implementation and effectiveness of the Shareholders' communication policy had been reviewed by the Board during the Reporting Period and will be reviewed annually. Based on these reviews, the Company is of the opinion that the Shareholders' communication policy has enabled the Company to maintain effective communication with its shareholders.

Information will be communicated to the Shareholders through the Company's financial reports, AGMs and other EGMs that may be convened as well as all the published disclosures submitted to the Stock Exchange. To promote effective communication, the Company maintains a website at www.szwgmf.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Company also actively engages in dialogue with shareholders through general meeting. At general meeting, the Chairman of the Board or an Executive Director, as the chairman of the general meeting, presides over the meeting and arranges for members of the Board of Directors and senior management to attend the general meeting to answer shareholders' questions and solicit and listen to shareholders' views.

Corporate Governance Report

The Company values feedback from Shareholders, investors and the public. Enquiries and proposals are welcome and can be put to the Company by emailing ir@szwgmf.com.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2023, the Company has adopted an amended and restated M&A to keep in line with the amendments made to the applicable laws of the Cayman Islands and the Listing Rules, in particular Appendix A1 to the Listing Rules regarding the core shareholder protection standards. The amended and restated M&A was adopted by our Shareholders by special resolution at the AGM held on 12 June 2023, which are available on the website of the Company and that of the Stock Exchange.

CULTURE AND VALUES

The Group's vision is to create sustainable value. The vision guides the Group to pursue its mission to integrate economic growth, environmental protection and social responsibility in its business strategies to design, manufacture and supply innovative and high quality products for the people wellbeing and benefits of society aiming to drive sustainable value for its stakeholders and communities.

A healthy corporate culture across the Group is important for the Company to achieve its vision and mission towards sustainable growth. It is the Board's role to foster a corporate integrity and innovation culture to guide the behaviors of its employees, and ensure that the Company's vision, values and business strategies are aligned to it.

WHISTLEBLOWING POLICY

The Group maintains a whistleblowing policy to facilitate the raising of matters of serious concern by employees and those who deal with the Company (e.g. customers and suppliers), in confidence and anonymity, without the fear of retribution. Procedures are established for employees to report complaints and suspected internal malpractices directly to the Group senior management, who will review the complaints and determine the appropriate mode of investigation and subsequent corrective action.

The nature, status and the results of the complaints received under the whistleblowing policy are reported to the Audit Committee on a biannual basis. No incident of fraud or misconduct was considered to have material effect on the Group's financial statements or overall operation for the year ended 31 December 2023. The whistleblowing policy is reviewed and updated periodically to align with industry best practice.

Corporate Governance Report

ANTI-CORRUPTION POLICY

The Group is committed to achieve the highest standards of business conduct and has zero tolerance for corruption and related malpractice. The Anti-corruption policy outlines the Group's expectations and requirements of business ethics, as well as the investigation and reporting mechanism of suspected corruption practices.

The Anti-corruption policy sets out the specific behavioral guidelines that Group's personnel and business partners must follow to combat corruption. It demonstrates Group's commitment to the practice of ethical business conduct and the compliance of the anti-corruption laws and regulations that apply to its local and foreign operations. Every employee, officer and members of the Board must act with utmost integrity, defined not only by the applicable laws and regulations, but also by the determination to do the right thing in all circumstances.

The Anti-corruption policy is reviewed and updated periodically to align with the applicable laws and regulations as well as the industry best practice.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In order to ensure independent views and input are available to the Board, the Board has developed the following mechanisms, including but not limited to:

- (i) at least one-third of Board members are Independent Non-executive Directors;
- (ii) every Independent Non-executive Director is appointed for a specific term and subject to retirement by rotation at least once every three years;
- (iii) Independent Non-executive Directors possess professional knowledge and broad experience;
- (iv) no Independent Non-executive Director has served the Company for more than nine years;
- (v) no Independent Non-executive Director holds more than six listed company directorships to make sure that each of Independent Non-executive Directors has sufficient time to make contributions to the Board;
- (vi) every Independent Non-executive Director has made an annual confirmation of his independence to the Company; and
- (vii) the Board, each of its Committees or every Director is able to seek professional advice in appropriate circumstances at the Company's expenses.

The implementation and effectiveness of relevant mechanisms have been reviewed by the Board annually.

Report of the Board of Directors

The Board is pleased to present their report and the audited financial statements for the year ended 31 December 2023 of the Group.

PRINCIPAL PLACE OF BUSINESS

The registered office of the Company is situated in the Cayman Islands and its operation headquarter is located at Shenzhen Guangdong Province, the PRC.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The Group's operations are substantially conducted in the PRC through its direct or indirect subsidiaries. The principal activities and other details of subsidiaries of the Company are set out in note 1 to the financial statements.

BUSINESS REVIEW

Discussion and analysis of the business of the Group for the year ended 31 December 2023 are set out in the section headed "Management Discussion and Analysis" on pages 4 to 12 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2023 and the Group's financial position as at 31 December 2023 are set out in the Financial Statements on pages 62 to 65 of this annual report.

FINAL DIVIDEND

The Board recommends the declaration of a final dividend of RMB0.0323 (equivalent to approximately HK\$0.0356) per ordinary share for the year ended 31 December 2023 (2022: Nil) at an exchange rate of approximately RMB1=HK\$1.1016, based on the average benchmark exchange rate between RMB and HKD as released by the People's Bank of China as of the date of the Board meeting. The total final dividends will amount to approximately RMB70 million, which represents approximately 45.70% of the Group's net profit for the year ended 31 December 2023 (2022: Nil). Final Dividend will be payable in HK\$.

The proposed final dividend is expected to be paid on Friday, 21 June 2024 to shareholders whose names appear on the register of members of the Company on Thursday, 13 June 2024, subject to approval by the shareholders at the forthcoming annual general meeting to be held on Friday, 31 May 2024 (the "2024 AGM").

ANNUAL GENERAL MEETING

The 2024 AGM will be held on 31 May 2024. Notice of the 2024 AGM will be published and issued to Shareholders in due course.

Report of the Board of Directors

CLOSURE OF REGISTER OF MEMBERS

For the purposes of ascertaining the members' eligibility to attend and vote at the 2024 AGM, the Company's register of members will be closed during the following period:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 24 May 2024 (Friday)
- Closure of register of members 27 May 2024 (Monday) to 31 May 2024 (Friday)

To be eligible to attend and vote at the 2024 AGM, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2024.

For the purpose of determining the entitlement for the proposed final dividend, the Company's register of members will be closed during the following period:

- Latest time to lodge transfers documents for registration 4:30 p.m. on 6 June 2024 (Thursday)
- Closure of register of members 7 June 2024 (Friday) to 13 June 2024 (Thursday)

The register of members of the Company will be closed from Friday, 7 June 2024 to Thursday, 13 June 2024, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all duly stamped instruments of transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 6 June 2024.

Report of the Board of Directors

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group in the form of a comparative table for the last five financial years is set out on pages 142 to 143 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is subject to environmental protection laws and regulations promulgated by the governments in the jurisdictions in which the Group operates its business. The Group has dedicated a team of personnel to handle the environmental compliance-related matters, and implemented stringent waste treatment procedures in the manufacturing facilities.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was registered by way of continuation in the Cayman Islands with its principal business conducted in the PRC, and its Shares are listed on the Stock Exchange. Therefore, the establishment and operation are subject to relevant laws in the Cayman Islands, the PRC and Hong Kong. For the year ended 31 December 2023 and up to the date of this annual report, the Group has complied with relevant laws and regulation in the Cayman Islands, the PRC and Hong Kong.

PRINCIPAL RISKS AND UNCERTAINTY

The Group is exposed to the operational risk in relation to the business of the Group. With the growth and expansion of our operations, the potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to our success, the Group has implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance. As the risk management is a systematic project, each of the departments is responsible for identifying and evaluating the risks relating to its area of operations. The Audit Committee is responsible for overseeing, assessing and reviewing our risk management policy and supervising the performance of our risk management system.

Report of the Board of Directors

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on 12 December 2018 with net proceeds from the Global Offering of approximately HK\$636.8 million (after deduction of underwriting fees and commissions and estimated expenses payable by the Company in connection with the Global Offering) and the balance of unutilised net proceeds of approximately HK\$95.1 million as at the beginning of the reporting period and approximately HK\$73.3 million as at the date of this annual report.

The net proceeds from the Global Offering have been and will be utilised in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to the end of the reporting period:

	Budget (HK\$ million)	Accumulated amount utilised as at 31 December 2022 (HK\$ million)	Amount utilised during the year of 2023 (HK\$ million)	Remaining balance as at 31 December 2023 (HK\$ million)	Expected timeline for utilised Net Proceeds
To further enhance our integrated distribution platform and optimize our channel mix	222.9	222.9	-	-	N/A
- To expand the online presence through further developing the technology infrastructure	22.3	22.3	-	-	N/A
- To upgrade certain existing concessionary counters into integrated health food stores in supermarkets	22.3	22.3	-	-	N/A
- To further increase the number of the concessionary counters, including the related expense for decoration, equipment procurement and other fees	44.6	44.6	-	-	N/A
- To expand into and introduce our existing and/or new products at various high-frequency "on-the-go" consumption channels	133.7	133.7	-	-	N/A
To construct the new Nansha Manufacturing Facility in Guangzhou, Guangdong Province and the procurement of machinery and equipment for this planned processing facility	382.1	287.0	21.8	73.3	By the end of 2028*
To use for general corporate purposes	31.8	31.8	-	-	N/A
Total	636.8	541.7	21.8	73.3	

* The deferred use of the net proceeds intended for such purpose is due to the fact that the Group's current production capacity and working capital are sufficient and therefore there is no need to utilise the net proceeds from the Global Offering for the time being for the purchase of production equipment, etc.

As at 31 December 2023, the Group holds the unutilised net proceeds as deposit with creditworthy banks with no recent history of default. There has been no change to the intended use of net proceeds as previously disclosed in the Prospectus. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the Prospectus.

Report of the Board of Directors

SHARE CAPITAL

The changes in share capital of the Group during the Reporting Period are set out in note 26 to the financial statements.

RESERVES

Details of the changes in reserves of the Group during the Reporting Period are set out in note 29 to the financial statements.

As at 31 December 2023, the reserves of the Company available for distribution to Shareholders was approximately RMB635.8 million.

MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the Reporting Period, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year, no major customer segment information is presented in accordance with HKFRS 8 Operating Segments.

The Group's five largest suppliers accounted for 20% (2022: 25%) of the Group's total purchases and the largest supplier accounted for 6.2% (2022: 8.1%) of the Group's total purchases.

As far as the Company is aware, none of the Directors nor his/her connected persons and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the Reporting Period are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2023, the Group did not have any bank loans and other borrowings.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any contingent liabilities.

Report of the Board of Directors

DIRECTORS

The Directors in office during the Reporting Period and as at the date of this annual report were as follows:

Executive Directors

Ms. GUI Changqing

Mr. ZHANG Zejun

Non-executive Directors

Ms. TSE Cheung On Anne

Mr. WANG Duo

Independent non-executive Directors

Mr. ZHANG Senquan

Mr. HU Peng

Mr. OUYANG Liangyi

Further details of the Directors and senior management are set forth in the section “Directors and Senior Management” of this annual report.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Group are set out on pages 13 to 16 of this annual report.

CHANGE IN INFORMATION OF DIRECTORS

Having considered the operating results of the Group, the responsibilities and contributions of the individual directors to the Group and with reference to comparable market statistics, the Board approved an increase in the annual emoluments of Ms. GUI Changqing and Mr. ZHANG Zejun from RMB960,000 to RMB3,200,000 and RMB2,800,000, respectively, with effect from 1 April 2024.

Save as disclosed in this annual report, there are no changes in information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules as at the date of this report. The biographical details of the Directors of the Company are set out in the preceding section headed “Directors and Senior Management”.

Report of the Board of Directors

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company and is appointed for a specific term of three years unless terminated by not less than two months' notice in writing served by either the Executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company and is appointed for a specific term of three years with effect from the respective date stated therein.

All Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association.

There was no service contract entered into/appointment letter signed by the Company and any Directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the related party transactions of the Group during the Reporting Period are set out in note 32 to the financial statement. These related party transactions do not constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules for the year ended 31 December 2023. Specifically, as the total transaction value for the year was below HK\$3 million, these transactions are connected transactions which are wholly exempted under Chapter 14A of the Listing Rules.

Save as disclosed above, no other transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

CONTROLLING SHAREHOLDER'S INTEREST

Save as disclosed in this annual report, no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at any time during the Reporting Period.

Report of the Board of Directors

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2023, the interests or short positions of the Directors or chief executives of the Company then in office in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to the Model Code, are as follows:

Long position in ordinary shares of the Company:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of Shareholding
Mr. ZHANG Zejun (Note 2)	Founder of a discretionary trust	930,000,000 (L)	42.49%
Ms. GUI Changqing (Note 2)	Beneficiary of trust	930,000,000 (L)	42.49%

Long position in share options of the Company:

Name of Director	Number of share options beneficially owned
Ms. GUI Changqing	2,000,000
Mr. ZHANG Zejun	2,000,000
Mr. ZHANG Senquan	2,000,000
Mr. HU Peng	2,000,000
Mr. OUYANG Liangyi	2,000,000

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. Zhang (as the settlor) and the discretionary beneficiaries of which include Mr. ZHANG Zejun, Ms. GUI Changqing (the wife of Mr. ZHANG Zejun) and his children. Accordingly, each of Mr. ZHANG Zejun, Ms. GUI Changqing, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital.

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Report of the Board of Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2023, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Capacity	Number of Shares	Approximate percentage of Shareholding
Trident Trust Company (HK) Limited (Note 2)	Trustee of a trust	930,000,000 (L)	42.49%
Paddy Aroma Investment Limited (Note 2)	Interest in a controlled corporation	930,000,000 (L)	42.49%
Natural Capital Holding Limited (Note 2)	Beneficial owner	930,000,000 (L)	42.49%
PepsiCo, Inc.	Beneficial owner	566,506,000 (L)	25.88%
Mr. YANG Zhuoya (Note 3)	Interest in controlled corporation; beneficial owner	183,784,000 (L)	8.39%
Natural Investment Holding Limited (Note 3)	Beneficial owner	27,794,000 (L)	1.27%
Beadvance Investments Limited (Note 3)	Beneficial owner	150,000,000 (L)	6.85%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Trident Trust Company (HK) Limited, the trustee of the Paddy Aroma Trust, holds the entire issued share capital of Paddy Aroma Investment Limited. Paddy Aroma Investment Limited in turn holds the entire issued share capital of Natural Capital, which in turn directly holds 930,000,000 Shares. The Paddy Aroma Trust is a discretionary trust established by Mr. ZHANG Zejun (as the settlor) and the discretionary beneficiaries of which include Mr. ZHANG Zejun, Ms. GUI Changqing (the wife of Mr. ZHANG Zejun) and his children. Accordingly, each of Mr. ZHANG Zejun, Ms. GUI Changqing, Trident Trust Company (HK) Limited, Paddy Aroma Investment Limited are deemed to be interested in the 930,000,000 Shares held by Natural Capital.
- (3) Mr. YANG Zhuoya holds 5,990,000 Shares in the capacity as a beneficial owner. Mr. YANG Zhuoya holds the entire issued share capital of Natural Investment Holding Limited and Beadvance Investments Limited, which in turn directly holds 27,794,000 Shares and 150,000,000 Shares respectively. Accordingly, Mr. YANG Zhuoya is deemed to be interested in the 27,794,000 Shares held by Natural Investment Holding Limited and 150,000,000 Shares held by Beadvance Investments Limited.

Report of the Board of Directors

Save as disclosed above, as at 31 December 2023, so far as the Directors or chief executive of the Company are aware, no other persons (other than a Director or the chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme and Share Award Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the Reporting Period or subsisted at the end 31 December 2023.

SHARE OPTION SCHEME

On 19 November 2018, the Shareholders approved and conditionally adopted the Share Option Scheme to enable the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. The Share Option Scheme became effective on the Listing Date.

The following is a summary of the principal terms of the Share Option Scheme:

(1) Purpose:

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined in paragraph 2 below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(2) Participants:

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a member of our Group or associated companies of the Company, consultant, advisor, customer, supplier, agent, partner or contractor to the Group ("**Eligible Persons**").

(3) Total number of Shares available for issue:

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not in aggregate exceed 222,100,000 Shares, representing 10% of the total number of issued Shares as at the Listing Date, and representing 10% of the total number of issued Shares as at this annual report.

Report of the Board of Directors

(4) Maximum entitlement of each participant:

No options shall be granted to any Eligible Person under the Share Option Scheme and any other schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date.

Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of our Company, his associates) abstaining from voting.

Each grant of options to a Director (including an independent non-executive Director) of any member of our Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to the requirements of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

Report of the Board of Directors

(5) Period during which the options must be exercised to subscribe for Shares:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(6) Minimum period for which an option must be held before it can be exercised:

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.

(7) Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid:

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(8) Basis of determining the exercise price:

Subject to any adjustment made as set out in the section headed "Effect of alternation to share capital" in the Prospectus, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option;
- (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) the nominal value of the Shares.

(9) Remaining life of the Share Option Scheme:

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 12 December 2018, subject to earlier termination by the Company in general meeting or by the Board.

Report of the Board of Directors

The Company granted 74,019,823 share options on 12 June 2019 at an exercise price of HK\$1.468 per share and exercisable from the 12 June 2019 to 11 December 2028 (both days inclusive). The closing price of the Shares immediately before the date of grant of such Share Options was HK\$1.45. Among the 74,019,823 Share Options granted, (i) 61,468,366 Share Options were granted to the employees of the Group, and (ii) 12,551,457 Share Options were granted to Directors (including the independent non-executive Director), chief executive and/or substantial shareholder (as defined in the Listing Rules) of the Company and directors of subsidiaries of the Company, details of which are set out as follows as of 31 December 2023:

Name of grantee	Position in the Company	Number of Share Options
Ms. GUI Changqing	Chairman and Executive Director	2,000,000
Mr. ZHANG Zejun	Chief executive officer and Executive Director	2,000,000
Mr. ZHANG Senquan	Independent non-executive Director	2,000,000
Mr. HU Peng	Independent non-executive Director	2,000,000
Mr. OUYANG Liangyi	Independent non-executive Director	2,000,000
Mr. GUI Xuejun	A director of certain subsidiaries of the Company	1,279,021
Mr. LIAO Longxiang	A director of certain subsidiaries of the Company	100,000
Mr. ZHANG Zefei	A director of certain subsidiaries of the Company	100,000

None of the grant of Share Options were subject to Shareholders' approval. The Share Options granted shall vest in the proposed grantees in accordance with the timetable below:

- (i) 13,860,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2020 to 11 December 2028	100% of the total number of Share Options granted

- (ii) 22,000,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 December 2019 to 11 December 2028	50% of the total number of Share Options granted
12 December 2020 to 11 December 2028	50% of the total number of Share Options granted

- (iii) 23,159,823 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2019 to 11 December 2028	40% of the total number of Share Options granted
12 June 2020 to 11 December 2028	30% of the total number of Share Options granted
12 June 2021 to 11 December 2028	30% of the total number of Share Options granted

Report of the Board of Directors

(iv) 15,000,000 Share Options shall be subject to a vesting period as follows:

Vesting date	Percentage of Share Options to vest
12 June 2020 to 11 December 2028	20% of the total number of Share Options granted
12 June 2021 to 11 December 2028	20% of the total number of Share Options granted
12 June 2022 to 11 December 2028	20% of the total number of Share Options granted
12 June 2023 to 11 December 2028	20% of the total number of Share Options granted
12 June 2024 to 11 December 2028	20% of the total number of Share Options granted

For the year ended 31 December 2023, 1,600,000 share options had been cancelled and no share options had been exercised. As at 31 December 2023, 62,092,503 share options were outstanding.

Details of the options granted under the Share Option Scheme and those remained outstanding as at 31 December 2023 are as follows:

Name and class of grantees	Date of grant	Number of share options				Balance as at 31 December 2023	Exercise price per share (HK\$)	Exercisable period
		Balance as at 1 January 2023	Granted during the year ended 31 December 2023	Exercised during the year ended 31 December 2023	Cancelled/ Lapsed during the year ended 31 December 2023			
Executive Directors								
Ms. GUI Changqing	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. ZHANG Zejun	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Independent non-executive Directors								
Mr. ZHANG Senquan	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. HU Peng	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Mr. OUYANG Liangyi	12 June 2019	2,000,000	-	-	-	2,000,000	1.468	Note a
Directors' associates								
Mr. GUI Xuejun (Ms. GUI Changqing's associate)	12 June 2019	1,279,021	-	-	-	1,279,021	1.468	Note b
Mr. ZHANG Zefei (Mr. ZHANG Zejun's associate)	12 June 2019	100,000	-	-	-	100,000	1.468	Note d
		10,000,000	-	-	-	10,000,000		
Continuous contract employees								
	12 June 2019	4,000,000	-	-	(1,600,000)	2,400,000	1.468	Note a
	12 June 2019	17,242,503	-	-	-	17,242,503	1.468	Note b
	12 June 2019	19,000,000	-	-	-	19,000,000	1.468	Note c
	12 June 2019	12,450,000	-	-	-	12,450,000	1.468	Note d
		52,692,503	-	-	(1,600,000)	51,092,503		
Those who have or may have contributed to the Group								
	12 June 2019	1,000,000	-	-	-	1,000,000	1.468	Note a
		1,000,000	-	-	-	1,000,000		
		63,692,503	-	-	(1,600,000)	62,092,503		

Report of the Board of Directors

- (a) 20% of the share options are exercisable commencing from 12 June 2020, 20% of the share options are exercisable commencing from 12 June 2021, 20% of the share options are exercisable commencing from 12 June 2022, 20% of the share options are exercisable commencing from 12 June 2023, 20% of the share options are exercisable commencing from 12 June 2024 respectively to 11 December 2028.
- (b) 40% of the share options are exercisable commencing from 12 June 2019, 30% of the share options are exercisable commencing from 12 June 2020, 30% of the share options are exercisable commencing from 12 June 2021 respectively to 11 December 2028.
- (c) 50% of the share options are exercisable commencing from 12 December 2019, 50% of the share options are exercisable commencing from 12 December 2020 respectively to 11 December 2028.
- (d) 100% of the share options are exercisable commencing from 12 June 2020 to 11 December 2028.

The total number of share options available for grant under the scheme mandate of the Share Option Scheme as at 1 January 2023 and 31 December 2023 were 148,080,177 and 149,680,177, respectively.

SHARE AWARD SCHEME

The Board has resolved to adopt the Share Award Scheme on 28 March 2022.

1. Objective

The objectives of the Share Award Scheme are: (i) to recognize the contributions of certain employees of the Group provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

2. Administration

The Share Award Scheme is subject to the administration of the Board in accordance with the rule of the Share Award Scheme (the “**Scheme Rules**”).

3. Scheme Limit

The Board shall not make any further award of restricted share units (“**RSU(s)**”) which will result in the aggregate number of the Awarded Shares (as defined below) underlying the RSUs awarded by the Board under the Share Award Scheme exceeding ten per cent. of the issued share capital of the Company from time to time throughout the trust period, which is term of ten years commencing on 28 March 2022. Awards lapsed in accordance with the terms of the Share Award Scheme shall not be counted for the purpose of calculating the ten per cent. limit. The maximum number of Awarded Shares underlying the Share Award Scheme which may be awarded to a selected participant under the Share Award Scheme shall not exceed one per cent. of the issued share capital of the Company in any 12-month period.

4. Voting Rights

The trustee (who is an independent third party) appointed by the Board to manage the Share Award Scheme (“**Trustee**”), the Board and the authorised representatives appointed by the Board by passing ordinary resolutions delegated with authority to give instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust (if any) shall not exercise any voting rights attached to any Shares held on the trust constituted by the trust deed (the “**Trust**”).

Report of the Board of Directors

5. Restrictions

The Awarded Shares awarded to the employee(s) selected by the Board pursuant to the Scheme Rules to participate in the Share Award Scheme (the “**Selected Employee(s)**”) under the Share Award Scheme shall be personal to such employee and shall not be transferable. Each of the Selected Employees shall not sell, transfer, pledge or create any encumbrance by any means in respect of the unvested Awarded shares. The Selected Employee(s) are not entitled to any rights attached to the unvested such number of Shares awarded by the Board pursuant to the Scheme Rules (the “**Awarded Shares**”), including but not limited to any voting right and entitlement to dividends that have accrued prior to the vesting of such Awarded Shares. If any Director or authorised representatives appointed by the Board by passing ordinary resolutions delegated with authority to give instructions or notices to the Trustee on all matters in connection with the Share Award Scheme and other matters in the routine administration of the Trust possesses unpublished inside information in relation to the Company, or where dealings by Directors are prohibited under any code or requirement of the Listing Rules or any applicable laws from time to time, no payment shall be made to the Trustee and no instructions to acquire Shares shall be given to the Trustee under the Share Award Scheme. Further, the Board shall not award any Awarded Shares during the periods in which dealing in Shares is prohibited pursuant to the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

6. Operation

Pursuant to the Share Award Scheme, the Board may from time to time instruct the Trustee to purchase the existing Shares in the open market, and determine, among other things, the timing of awards, list of selected employees, number of Awarded Shares, the grant consideration, vesting dates and conditions of vesting mainly based on the overall results and performance of the Group and contributions made by the employees. Unless otherwise determined by the Board at its discretion, the Trustee shall hold Awarded Shares until such Shares are vested in the selected employees in accordance with the Scheme Rules.

7. Vesting and Lapse

Unless otherwise determined by the Board at its discretion, the relevant Awarded Shares held by the Trustee on behalf of the selected employees on Trust shall not vest in the relevant selected employee in the following circumstances: (i) the selected employee ceases to be a selected employee for whatever reason; or (ii) other circumstances as provided in the Scheme Rules. Upon occurrence of any of the above circumstances, any Awarded Shares awarded but have not been vested in the selected employee will be returned to the Trust in accordance with the Scheme Rules. In respect of a selected employee who retires at his normal retirement date at any time prior to a Vesting Date, all the Awarded Shares of such selected employee shall be deemed to be vested on the day immediately prior to his retirement at his normal retirement date.

During the year ended 31 December 2023, 500,000 of the Awarded Shares has been lapsed, and 17,240,000 of the Awarded Shares has been vested under the Share Awarded Scheme. 7,200,000 Awarded Shares have been granted to certain employees of the Group on 25 May 2023.

Since the date of adoption and up to the date of this report, the Board has awarded a total of 24,440,000 Shares under the Scheme, representing approximately 1.1% of the Shares in issue at the date of this report. The total number of Shares available for further awards under the Scheme is 15,408,000, representing approximately 0.7% of the Shares in issue as at the date of this report.

Report of the Board of Directors

Details of the Share Awards granted under the Share Award Scheme

In 12 April 2022, the Company has appointed Futu Trustee Limited (the “Trustee”) as a trustee for the purpose of the Share Award Scheme pursuant to the Share Award Scheme Rules. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Trustee and its ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company. The Trustees shall administer the Share Award Scheme in accordance with the Share Award Scheme Rules and the respective Trust Deed signed between the Company and Trustee.

Details of the Share Awards granted pursuant to the Share Award Scheme to the grantees are set out below:

Number of Share Awards

Date of Category of Participant Award	Number of Share Awards	Purchase price	Vesting Period	Unvested at 1 January 2023	Granted during the year	Vested during the year	Lapsed during the year	Cancelled during the year	Unvested at 31 December 2023
Share Awards settled by the Shares repurchased by the Trustee on the open market									
The five highest paid individual of 2022	18,100,000	Nil	12-May-2023	18,100,000	-	16,600,000	500,000	1,000,000	-
Other employees of 2022	700,000	Nil	12-May-2023	700,000	-	640,000	-	60,000	-
The five highest paid individual of 2023	5,400,000	Nil	24-May-2024	-	5,400,000	-	-	-	5,400,000
Other employees of 2023	1,800,000	Nil	24-May-2024	-	1,800,000	-	-	-	1,800,000
Total	26,000,000			18,800,000	7,200,000	17,240,000	500,000	1,060,000	7,200,000

Notes:

- Please refer to note 28 to the financial statements for more details (including the vesting conditions, if any) of the above Share Awards, and please refer to note 2.4 to the financial statements for details of the accounting policy of share-based payments.
- On 11 May 2022, the Company granted 18,800,000 shares to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2022. The fair value of the granted shares is estimated using the Finnerty model (HK\$0.38) on the day of the grant, amounting to HK\$7,100,000 (equivalent to approximately RMB6,086,000). The weighted average closing price of the such shares on 11 May 2023, being the trading date immediately before the vesting date, was HK\$0.485.
- On 25 May 2023, the Company granted 7,200,000 shares to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2023. The fair value of the granted shares is estimated using the Finnerty model (HK\$0.38) on the day of the grant, amounting to HK\$2,736,000 (equivalent to approximately RMB2,462,000). The closing price of the such shares on 24 May 2023, being the trading date immediately before the grant date, was HK\$0.465.

Save as disclosed above, there has been no Share Awards granted under the Share Award Scheme during the year ended 31 December 2023.

The total number of Share Awards available for grant under the Share Award Scheme as at 1 January 2023 and 31 December 2023 were 21,048,000 and 15,408,000, respectively.

The total number of Shares that may be issued in respect of options and awards granted under all schemes of the Company during the year divided by the weighted average number of the Shares in issue during the year is 3.3%.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the Share Option Scheme as discussed under the section headed “Share Option Scheme” in this annual report, at no time during the Reporting Period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company or other body corporates granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement.

CONNECTED TRANSACTIONS

Details of the continuing connected transaction of the Group during the Reporting Period have been disclosed in the Prospectus, which is fully exempted from the reporting, announcement, Shareholders’ approval and annual review requirements under the Listing Rules.

Report of the Board of Directors

PROPERTY INTERESTS

Description	Use	Approximate area	Stage of completion	Percentage of interest attributable to the Company
No. 46, Fantai Street, Nansha District, Guangzhou, People's Republic of China	Factory	Site area – approximately 58,000 sq. m. Gross floor area – approximately 60,000 sq. m.	Completed	100

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 December 2023 are set out in note 8 and note 9 to the consolidated financial statements of the Group in this annual report.

None of the Directors waived his/her emoluments nor has agreed to waive his/her emoluments for the year ended 31 December 2023.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the Reporting Period, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries.

CHARITABLE DONATIONS

During the Reporting Period, the charitable contributions and other donations amounted to RMB474,772.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability. The Company is committed to the view that the Board should include a balanced composition of Executive Directors and Independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Company has applied the principles and code provisions of the CG Code as set out in Part 2 of Appendix C1 to the Listing Rules as its own code of corporate governance.

The Board is of the view that during the year ended 31 December 2023, the Company has complied with applicable code provisions as set out in the CG Code.

Report of the Board of Directors

CONFIRMATION OF INDEPENDENT STATUS

The Company has received, from each of the Independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent non-executive Directors independent.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2023, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DEED OF NON-COMPETITION

Pursuant to the Deed of Non-competition, each of Mr. ZHANG Zejun and Natural Capital has undertaken to the Company that it/he will not engage in, and shall procure his/its close associates (other than members of the Group) not to engage in, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group. Details of the Deed of Non-competition have been disclosed in the section headed "Relationship with our Controlling Shareholders — Competing Interests — Deed of Non-competition" of the Prospectus.

The Company has received from Mr. ZHANG Zejun and Natural Capital an annual confirmation that he/it has fully complied with his/its obligations under the Deed of Non-competition. The independent non-executive Directors have reviewed and were satisfied that each of Mr. ZHANG Zejun and Natural Capital had complied with and enforced the provisions of the Deed of Non-competition during the Reporting Period.

SUFFICIENT PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained a sufficient public float required under the Listing Rules as at the date of this annual report.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are keys to corporate sustainability and are keen on developing long-term relationships with stakeholders.

The Company places significant emphasis on human capital and strives to foster an environment in which the employee can develop their full potential and to assist their personal and professional growth. The Company provides a fair and safe workplace, promoting diversity to our staff, providing competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts on-going efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers. During the Reporting Period, there was no material and significant legal dispute between the Group and its suppliers and/or customers.

Report of the Board of Directors

PROFESSIONAL TAX ADVICE RECOMMENDED

For any tax implications of purchasing, holding, disposing of, dealing in the shares of the Company, shareholders should consult an expert.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

The Company has taken appropriate insurance coverage in respect of Directors' and officers' liability since 30 January 2023 until the end of 2023. These insurances were in force during the foregoing period and remain in force as at the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Other than the amendment of terms of reference of the Remuneration Committee as disclosed above under the section headed Board Committees, there was no other significant event relevant to the business or financial performance of the Group that has come to the attention of the Directors since 31 December 2023.

REVIEW OF THE ANNUAL RESULTS

The Audit Committee had reviewed this annual report (including the Financial Statements) and the annual results announcement of the Company for the year ended 31 December 2023 and had submitted the same to the Board for approval. Members of the Audit Committee were of the opinion that the financial statements, the results announcement and this annual report had been prepared in compliance with the applicable accounting standards and the Listing Rules and that adequate disclosure had been made.

AUDITORS

The financial statements of the Company for the year ended 31 December 2023 have been audited by Ernst & Young which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. There is no change in the Company's auditors in any of the preceding three years.

A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Board of Directors
GUI Changqing
Chairman

25 March 2024

Independent auditor's report



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To the shareholders of Natural Food International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Natural Food International Holding Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 62 to 141, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent auditor's report

Key audit matter

How our audit addressed the key audit matter

Revenue recognition

The Group is principally engaged in the processing and selling of natural health food.

There is a risk inherent in the revenue recorded based on the fact that the Group earns revenue primarily through a chain of retail outlet channels, third-party online retail platform networks and distribution business.

For the year ended 31 December 2023, the Group's consolidated revenue amounted to RMB1,845,275,000. Revenue was significant in our audit of the consolidated financial statements for the current year.

Please refer to note 2.4 to the consolidated financial statements for Material accounting policies relating to revenue recognition, and note 5 to the consolidated financial statements for the related disclosures of revenue for the Group.

The audit procedures included following:

- (i) We reviewed and assessed the Group's revenue recognition policy across various sales channels and significant terms and conditions in contracts.
- (ii) We obtained an understanding of the transaction process of revenue recognition and evaluated the design, implementation and operating effectiveness of key internal controls which govern the revenue recognition.
- (iii) We performed analytical procedures on the Group's revenue by different channels and by months to identify and investigate transactions of higher risks of misstatements. We also performed revenue cut-off procedures as well as tests of details as part of our substantive audit procedures.
- (iv) We obtained confirmations of trade receivables, on a sample basis, from major retail outlet channels of the Group. For uncollected confirmations, we performed alternative procedures by comparing details with contracts, invoices and other related documentation.
- (v) We checked the adequacy of the Group's relevant disclosures in the consolidated financial statements.

Independent auditor's report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent auditor's report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young

Certified Public Accountants

Hong Kong

25 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	1,845,275	1,719,074
Cost of sales		(663,791)	(620,690)
Gross profit		1,181,484	1,098,384
Other income and gains	5	19,494	16,525
Selling and distribution expenses		(897,111)	(890,953)
Administrative expenses		(100,405)	(79,031)
Impairment of financial assets	6	(16,164)	(5,958)
Other expenses		(950)	(1,067)
Finance costs	7	(414)	(647)
PROFIT BEFORE TAX	6	185,934	137,253
Income tax expense	10	(33,559)	(20,791)
PROFIT FOR THE YEAR		152,375	116,462
Attributable to:			
Owners of the parent	12	152,375	116,462
Earnings per share			
Basic	12	0.071	0.054
Diluted	12	0.070	0.053

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(7,679)	(45,044)
Other comprehensive income that will not to be reclassified to profit or loss in subsequent periods:		
Translation from functional currency to presentation currency	9,147	55,610
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	153,843	127,028
Attributable to:		
Owners of the parent	153,843	127,028

Consolidated Statement of Financial Position

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	296,305	305,998
Right-of-use assets	15(a)	38,555	44,867
Intangible assets	14	275	391
Deferred tax assets	16	36,937	62,283
Other non-current assets	17	3,434	–
Total non-current assets		375,506	413,539
CURRENT ASSETS			
Inventories	18	93,475	81,865
Trade and bills receivables	19	217,818	191,583
Prepayments, other receivables and other assets	20	48,564	38,876
Amounts due from related parties	32	2,149	11,098
Cash and bank balance	21	941,971	781,337
Restricted bank deposits	21	1,873	556
Total current assets		1,305,850	1,105,315
CURRENT LIABILITIES			
Trade payables	22	97,346	84,888
Contract liabilities	23	14,583	12,155
Other payables and accruals	24	108,332	114,145
Lease liabilities	15(b)	3,980	6,532
Tax payable		48,129	48,371
Total current liabilities		272,370	266,091
NET CURRENT ASSETS		1,033,480	839,224
TOTAL ASSETS LESS CURRENT LIABILITIES		1,408,986	1,252,763

Consolidated Statement of Financial Position

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	25	–	48
Deferred tax liabilities	16	11,484	9,924
Lease liabilities	15(b)	1,735	4,736
Total non-current liabilities		13,219	14,708
Net assets		1,395,767	1,238,055
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	147	147
Reserves	29	1,395,620	1,237,908
Total equity		1,395,767	1,238,055

Director

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Share capital	Shares held for the share award scheme	Share premium	Share option reserve	Share award reserve	Merger reserve	Exchange fluctuation reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 28)	(Note 29(a))	(Note 27)	(Note 28)	(Note 29(b))	(Note 29(c))	(Note 29(d))		
At 1 January 2023	147	(17,804)*	1,102,722*	28,990*	3,682*	(87,350)*	(19,245)*	33,638*	193,275*	1,238,055
Profit for the year	-	-	-	-	-	-	-	-	152,375	152,375
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,468	-	-	1,468
Total comprehensive income for the year	-	-	-	-	-	-	1,468	-	152,375	153,843
Equity-settled share option arrangements	-	-	-	436	-	-	-	-	-	436
Equity-settled share award expense	-	-	-	-	3,433	-	-	-	-	3,433
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	-	(718)	-	-	-	-	718	-
Vested awarded shares transferred to employees	-	6,826	(1,340)	-	(5,486)	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	1,006	(1,006)	-
At 31 December 2023	147	(10,978)*	1,101,382*	28,708*	1,629*	(87,350)*	(17,777)*	34,644*	345,362*	1,395,767

* These reserve accounts comprise the consolidated reserves of RMB1,395,620,000 in the consolidated statement of financial position.

	Share capital	Shares held for the share award scheme	Share premium	Share option reserve	Share award reserve	Merger reserve	Exchange fluctuation reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 28)	(Note 29(a))	(Note 27)	(Note 28)	(Note 29(b))	(Note 29(c))	(Note 29(d))		
At 1 January 2022	147	-	1,102,722*	28,080*	-	(87,350)*	(29,811)*	33,091*	77,360*	1,124,239
Profit for the year	-	-	-	-	-	-	-	-	116,462	116,462
Exchange differences on translation of foreign operations	-	-	-	-	-	-	10,566	-	-	10,566
Total comprehensive income for the year	-	-	-	-	-	-	10,566	-	116,462	127,028
Shares purchased for the share award scheme	-	(17,804)	-	-	-	-	-	-	-	(17,804)
Equity-settled share option arrangements	-	-	-	910	-	-	-	-	-	910
Equity-settled share award expense	-	-	-	-	3,682	-	-	-	-	3,682
Transfer from retained profits	-	-	-	-	-	-	-	547	(547)	-
At 31 December 2022	147	(17,804)*	1,102,722*	28,990*	3,682*	(87,350)*	(19,245)*	33,638*	193,275*	1,238,055

* These reserve accounts comprise the consolidated reserves of RMB1,237,908,000 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		185,934	137,253
Adjustments for:			
Bank interest income	5	(11,890)	(6,532)
Income from financial assets measured at fair value through profit or loss	5	(4,812)	(4,115)
Finance costs	7	414	647
Depreciation of property, plant and equipment	6	31,354	24,739
Depreciation of right-of-use assets	6	7,434	7,469
Amortisation of intangible assets	6	116	212
Impairment losses of trade receivables and amounts due from related parties, net	6	16,164	5,958
Loss on disposal of items of property, plant and equipment	6	58	7
Equity-settled share option expenses	27	436	910
Equity-settled share award expenses	28	3,433	3,682
		228,641	170,230
Increase in inventories		(11,610)	(516)
Increase in trade and bills receivables		(32,301)	(20,950)
(Increase)/decrease in prepayments, other receivables and other assets		(9,688)	10,634
(Increase)/decrease in amounts due from related parties		(1,149)	43
(Increase)/decrease in restricted bank deposits		(1,317)	332
Increase in trade payables		12,458	25,157
Decrease in other payables and accruals		(6,530)	(8,074)
Decrease in amounts due to related parties		–	(261)
Increase/(decrease) in contract liabilities		2,428	(3,720)
Decrease in deferred income		(48)	(109)
Cash generated from operations		180,884	172,766
Interest received		11,890	6,532
Income tax paid		(6,897)	(10,774)
Net cash flows from operating activities		185,877	168,524

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets measured at fair value through profit or loss		(1,306,000)	(472,000)
Proceeds from redemption of financial assets measured at fair value through profit or loss		1,310,812	476,116
Increase in Time Deposit		(101,500)	–
Purchase of items of property, plant and equipment		(29,577)	(22,567)
Purchase of items of intangible assets		–	(228)
Proceeds from disposal of items of property, plant and equipment		5,137	68
Net cash flows used in investing activities		(121,128)	(18,611)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(414)	(647)
Principal portion of lease payments		(6,675)	(6,612)
Share repurchase		–	(17,804)
Net cash flows used in financing activities		(7,089)	(25,063)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		781,337	646,015
Effect of foreign exchange rate changes, net		1,474	10,472
CASH AND CASH EQUIVALENTS AT END OF YEAR		840,471	781,337
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	21	840,471	781,337

Notes to Financial Statements

31 December 2023

1. CORPORATE INFORMATION

The Company was formerly known as Roomy Development Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands (the “BVI”) on 30 November 2009. It was registered by way of continuation in the Cayman Islands as an exempted company with limited liability under the laws of the Cayman Islands and changed its name to “Natural Food International Holding Limited” on 11 May 2018. The address of the registered office of the Company is PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 December 2018 (the “Listing”).

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in processing and selling natural health food in the People’s Republic of China (the “Chinese Mainland”).

Information about subsidiaries

Name	Place and date of incorporation/ establishment and place of business	Type of legal entity	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Natural Food International Group Limited	Hong Kong, 14 January 2009	Limited liability company	Hong Kong dollar (“HK\$”)10,000	100%	–	Investment holding
Gold Parsons International Limited (“Gold Parsons”)	BVI, 16 December 2009	Limited liability company	United States dollar (“USD”)1,783	100%	–	Investment holding
Natural Food Online Limited	Hong Kong, 28 April 2009	Limited liability company	HK\$10,000	–	100%	Investment holding
Shenzhen Natural Food Co., Ltd.#	Chinese Mainland, 15 December, 2011	Limited liability company	HK\$8,000,000	–	100%	Sale of natural health food
Tongyuan New Agricultural Development (Huanggang) Co., Ltd.#	Chinese Mainland, 19 October 2009	Limited liability company	HK\$40,000,000	–	100%	Investment holding
Hubei Fuya Food Science and Technology Co., Ltd.	Chinese Mainland, 30 March 2011	Limited liability company	RMB20,000,000	–	100%	Manufacture and sale of natural health food
Guangxi Guiping Jingu Agricultural Development Co., Ltd.	Chinese Mainland, 1 August 2013	Limited liability company	RMB4,000,000	–	100%	Manufacture and sale of natural health food

Notes to Financial Statements

31 December 2023

1. CORPORATE INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ establishment and place of business	Type of legal entity	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
				Direct	Indirect	
Natural Food (Guangzhou) Co., Ltd.#	Chinese Mainland, 16 March 2016	Limited liability company	HK\$135,000,000	–	100%	Manufacture and sale of natural health food
Fuya Foods Technology (Shenzhen) Co., Ltd.#	Chinese Mainland, 4 June 2009	Limited liability company	HK\$21,000,000	–	100%	Investment holding and management and administration
Shenzhen Xiangya Food Co., Ltd.	Chinese Mainland, 9 March 2007	Limited liability company	RMB1,000,000	–	100%	Sale of natural health food
Shenzhen Changqing Food Technology Co., Ltd.	Chinese Mainland, 10 November 2010	Limited liability company	RMB5,000,000		100%	Sale of natural health food
Hubei Fuya Food Science and sales Co., Ltd.	Chinese Mainland, 21 January 2022	Limited liability company	RMB5,000,000	–	100%	Sale of natural health food

These subsidiaries were registered as wholly-owned foreign enterprises under Chinese Mainland law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

Notes to Financial Statements

31 December 2023

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements

31 December 2023

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2.4 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

Notes to Financial Statements

31 December 2023

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, the adoption of amendments to HKAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022. The Adoption also did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

- (d) Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

Notes to Financial Statements

31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs that have been issued but are not yet effective, in the financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the “2020 Amendments”) ^{1, 4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the “2022 Amendments”) ^{1, 4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ²

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Notes to Financial Statements

31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant, machinery and equipment	10% to 19%
Motor vehicles	19%
Office equipment and others	19% to 32%
Leasehold improvements	The shorter of estimated useful lives and remaining lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Properties and plant	2 to 5 years
Leasehold land	50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to directors and related parties, a dividend payable, convertible and redeemable preferred shares and an interest-bearing borrowing.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the moving weighted-average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents in financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when a present obligation has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions, based on relative stand-alone selling prices. The amount allocated to the points earned by the customer loyalty program members is recognised as a contract liability until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(a) Sale of products

Revenue from the sale of products (mainly including natural health food) directly to customers is recognised when control of the goods has transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. The sales proceeds are settled by these sales channels normally in one to three months. Except for credit points granted under the customer loyalty program which are accounted for in "Customer loyalty program" above, there are no performance obligations in the contracts with customers.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods to the customer, the Group needs to first identify who controls the specified goods before they are transferred to the customer. The Group is a principal who obtains control of any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a good from the other party that the Group then combines with other goods in providing the specified good to the customer. If control is unclear, the Group records revenues on a gross basis when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or when there are several but not all of these indicators.

Otherwise, the Group records the net amount earned as commissions from products sold provided.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good to the customer and when the customer pays for that good will be one year or less.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to Financial Statements

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2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiary which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB. The Company's functional currency is the Hong Kong dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

Notes to Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of properties due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operating activities if a replacement is not readily available.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Customer loyalty program

The amount of revenue allocated to the points earned by the members of the Group's customer loyalty program is based on the estimated stand-alone selling prices of the products and the respective loyalty points earned through the sales transactions. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Notes to Financial Statements

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The provision for expected credit losses of receivables as at 31 December 2023 amounted to RMB16,164,000, details of which are set out in note 19 and note 32(b) to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions is subject to judgement on the plan of the distribution of dividends. Such estimation is made with reference to the Group's business plan and future cash requirements outside the Chinese Mainland.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the processing and selling of natural health products. Information reported to the Group's management for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no further operating segment information is presented.

Geographical information

The Group operates within one geographical location because 100% of its revenue was generated in Chinese Mainland and all of its non-current assets and capital expenditure were located/incurred in Chinese Mainland. Accordingly, no geographical information is presented.

Information about major customers

Revenue from continuing operations of approximately RMB234,244,000 (2022: RMB170,965,000) was derived from sales by the consumer goods segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

Notes to Financial Statements

31 December 2023

5. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts (net of value-added tax), during the years ended 31 December 2022 and 2023.

An analysis of revenue and other income and gains is as follows:

	2023 RMB'000	2022 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	1,845,275	1,719,074

	2023 RMB'000	2022 RMB'000
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	1,845,275	1,719,074

The following table shows the amount of revenue recognised in the current year that was included in the contract liabilities at the beginning of the year:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in the contract liabilities at the beginning of the year	12,155	10,511

	2023 RMB'000	2022 RMB'000
<i>Other income and gains</i>		
Government grants*	1,525	3,925
Bank interest income	11,890	6,532
Income from financial assets at fair value through profit or loss	4,812	4,115
Commission income from provision of service on platform	904	1,114
Others	363	839
Total Other income and gains	19,494	16,525

* Various government grants have been received from local government authorities in the Chinese Mainland. There are no unfulfilled conditions and other contingencies relating to these grants.

Notes to Financial Statements

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2023 RMB'000	2022 RMB'000
Cost of inventories sold		663,791	620,690
Depreciation of property, plant and equipment	13	31,354	24,739
Depreciation of right-of-use assets	15(c)	7,434	7,469
Amortisation of intangible assets	14	116	212
Lease payments not included in the measurement of lease liabilities	15(c)	1,752	3,303
Research and development costs*:			
Current year expenditure		11,918	11,456
Auditor's remuneration		1,943	1,868
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8) and research and development costs):			
Wages and salaries		132,189	135,815
Equity-settled share option expenses	27	96	291
Equity-settled share award expenses	28	3,433	3,682
Pension scheme contributions		4,493	12,318
Total		140,211	152,106
Impairment losses of financial assets, net:			
Impairment of trade receivables, net	19	6,066	5,958
Impairment of amount due from related parties	32	10,098	–
Total		16,164	5,958
Loss on disposal of items of property, plant and equipment**		58	7

* Research and development costs are included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** Loss on disposal of items of property, plant and equipment is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

As at the end of each financial year, the Group had no forfeited contributions available to reduce its contributions to the retirement schemes in future years.

Notes to Financial Statements

31 December 2023

7. FINANCE COSTS

An analysis of finance costs from operations is as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	414	647

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 RMB'000	2022 RMB'000
Fees	900	900
Other emoluments		
– Salaries, allowances and benefits in kind	2,550	2,610
– Equity-settled share option expense	340	620
– Pension scheme contributions	27	78
Subtotal	2,917	3,308
Total	3,817	4,208

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Notes to Financial Statements

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

The remuneration paid to independent non-executive directors during the year were as follows:

2023	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Mr. Zhang Senquan	300	68	368
Mr. Hu Peng	300	68	368
Mr. Ouyang Liangyi	300	68	368
Total	900	204	1,104

2022	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
Mr. Zhang Senquan	300	124	424
Mr. Hu Peng	300	124	424
Mr. Ouyang Liangyi	300	124	424
Total	900	372	1,272

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

Notes to Financial Statements

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and non-executive directors

2023	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Ms. Gui Changqing	975	68	19	1,062
Mr. Zhang Zejun	975	68	8	1,051
Subtotal	1,950	136	27	2,113
Non-executive directors:				
Mr. Wang Duo	300	-	-	300
Ms. Tse Cheung On Anne	300	-	-	300
Subtotal	600	-	-	600
Total	2,550	136	27	2,713

Notes to Financial Statements

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and non-executive directors (Continued)

2022	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Ms. Gui Changqing	1,005	124	39	1,168
Mr. Zhang Zejun	1,005	124	39	1,168
Subtotal	2,010	248	78	2,336
Non-executive directors:				
Mr. Wang Duo	300	–	–	300
Ms. Tse Cheung On Anne	300	–	–	300
Subtotal	600	–	–	600
Total	2,610	248	78	2,936

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2022: None). Details of the remuneration of the five (2022: five) highest paid employees who are not a director of the Group are as follows:

	2023	2022
	RMB'000	RMB'000
Other emoluments		
– Salaries, allowances and benefits in kind	7,621	6,630
– Equity-settled share award expense	3,147	3,549
– Pension scheme contributions	74	177
Total	10,842	10,356

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2023	2022
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	3
Above HK\$2,000,000	2	1
Total	5	5

During the year, no remuneration was paid by the Group to non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

31 December 2023

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the British Virgin Islands and the Cayman Islands, the Group was not subject to any income tax in the British Virgin Islands and the Cayman Islands during the years ended 31 December 2022 and 2023.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2022 and 2023.

Taxes on profits assessable in the Chinese Mainland have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the Chinese Mainland Corporate Income Tax Law (the “Chinese Mainland Tax Law”) effective on 1 January 2008, the Chinese Mainland corporate income tax rate of the Group’s subsidiaries operating in the Chinese Mainland during the years ended 31 December 2022 and 2023 was 25% on the taxable profits.

During the years ended 31 December 2022 and 2023, income arising from the preliminary agricultural processed products in Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. was not subject to income tax, pursuant to the relevant Chinese Mainland tax laws.

The income tax expenses of the Group for the years ended 31 December 2022 and 2023 are analysed as follows:

	2023	2022
	RMB'000	RMB'000
Current – Chinese Mainland		
Charge for the year	6,653	13,374
Deferred (note 16)	26,906	7,417
Total tax charge for the year	33,559	20,791

Notes to Financial Statements

31 December 2023

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates are as follows:

	2023		2022	
	RMB'000	%	RMB'000	%
Profit before tax	185,934		137,253	
Tax at the applicable statutory rate	48,374	26.0	36,468	26.6
Effect of withholding tax on the distributable profits of the Group's Chinese Mainland subsidiaries	1,560	0.8	2,400	1.7
Adjustments in respect of current tax of previous periods	370	0.2	895	0.7
Income not subject to tax *	(18,772)	(10.1)	(27,253)	(19.9)
Expenses not deductible for tax	521	0.3	476	0.3
Deferred tax expense arising from the write-down of a deferred tax asset	–	–	5,791	4.2
Tax losses not recognised	1,506	0.8	2,014	1.5
Tax charge at the effective rate	33,559	18.0	20,791	15.2

* According to *Notice of the Ministry of Finance and the State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation)* promulgated on 20 November 2008, and *Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax* issued on 11 May 2011, the income derived from the prescribed scope of preliminarily-processed agricultural products can be exempted from corporate income tax. During the years ended 31 December 2022 and 2023, Guangxi Guiping Jingu Agricultural Development Co., Ltd. and Hubei Fuya Food Science and Technology Co., Ltd. had such income derived from preliminarily-processed agricultural products which was not subject to corporate income tax.

Notes to Financial Statements

31 December 2023

11. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Proposed Final – HK3 Cents (2022: Nil) per ordinary share	70,000	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

Earnings	2023 RMB'000	2022 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	152,375	116,462

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12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (Continued)

Shares	2023	2022
Weighted average number of ordinary shares in issue	2,148,666,000	2,188,514,000
Weighted average number of shares held for the share award scheme	11,052,493	(19,096,668)
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	2,159,718,493	2,169,417,332
Effect of dilution – weighted average number of ordinary shares:		
Share award	2,921,458	8,366,227
Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	2,162,639,951	2,177,783,559

The share option had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share for the year ended 31 December 2022 and 2023.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023							
At 1 January 2023:							
Cost	100,889	66,435	2,882	30,192	17,913	214,364	432,675
Accumulated depreciation	(47,482)	(44,361)	(1,404)	(19,458)	(13,972)	-	(126,677)
Net carrying amount	53,407	22,074	1,478	10,734	3,941	214,364	305,998
At 1 January 2023, net of accumulated depreciation and impairment	53,407	22,074	1,478	10,734	3,941	214,364	305,998
Additions	-	6,471	-	5,262	13,354	1,773	26,860
Disposals	-	(1,136)	-	(1,953)	(11)	(2,095)	(5,195)
Depreciation provided during the year (note 6)	(17,041)	(6,071)	(434)	(6,009)	(1,799)	-	(31,354)
Transfers	212,390	-	-	-	-	(212,390)	-
Exchange realignment	-	143	(4)	(143)	-	-	(4)
At 31 December 2023, net of accumulated depreciation	248,756	21,481	1,040	7,891	15,485	1,652	296,305
At 31 December 2023:							
Cost	313,280	71,320	2,893	32,603	31,242	1,652	452,990
Accumulated depreciation	(64,524)	(49,839)	(1,853)	(24,712)	(15,757)	-	(156,685)
Net carrying amount	248,756	21,481	1,040	7,891	15,485	1,652	296,305

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	100,890	60,841	1,382	30,460	16,182	209,561	419,316
Accumulated depreciation	(43,232)	(37,880)	(1,062)	(14,023)	(9,415)	-	(105,612)
Net carrying amount	57,658	22,961	320	16,437	6,767	209,561	313,704
At 1 January 2022, net of accumulated depreciation and impairment							
	57,658	22,961	320	16,437	6,767	209,561	313,704
Additions	-	7,405	1,405	1,706	1,731	4,803	17,050
Disposals	-	(57)	-	(18)	-	-	(75)
Depreciation provided during the year (note 6)	(4,251)	(8,235)	(305)	(7,391)	(4,557)	-	(24,739)
Exchange realignment	-	-	58	-	-	-	58
At 31 December 2022, net of accumulated depreciation							
	53,407	22,074	1,478	10,734	3,941	214,364	305,998
At 31 December 2022:							
Cost	100,889	66,435	2,882	30,192	17,913	214,364	432,675
Accumulated depreciation	(47,482)	(44,361)	(1,404)	(19,458)	(13,972)	-	(126,677)
Net carrying amount	53,407	22,074	1,478	10,734	3,941	214,364	305,998

Notes to Financial Statements

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14. INTANGIBLE ASSETS

Software	2023	2022
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	391	338
Addition	–	265
Amortisation provided during the year (note 6)	(116)	(212)
Carrying amount at 31 December	275	391
At 31 December:		
Cost	5,859	5,859
Accumulated amortisation	(5,584)	(5,468)
Net carrying amount	275	391

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant generally have lease terms of 5 years, while properties generally have lease terms between 2 and 5 years. The other properties generally have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

Notes to Financial Statements

31 December 2023

15. LEASES (Continued)

The Group as a lessee (Continued)

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land	Properties and plant	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2022	34,918	16,288	51,206
Additions	–	1,121	1,121
Depreciation charge	(816)	(6,653)	(7,469)
Exchange realignment	–	9	9
As at 31 December 2022 and 1 January 2023	34,102	10,765	44,867
Additions	–	1,120	1,120
Depreciation charge	(820)	(6,614)	(7,434)
Exchange realignment	–	2	2
As at 31 December 2023	33,282	5,273	38,555

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15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

Lease liabilities	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	11,268	16,750
New leases	1,120	1,121
Accretion of interest recognised during the year	414	647
Payments	(7,089)	(7,259)
Exchange realignment	2	9
Carrying amount at 31 December	5,715	11,268
Analysed into:		
Current portion	3,980	6,532
Non-current portion	1,735	4,736
Carrying amount at 31 December	5,715	11,268

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

(c) The amounts recognised in profit in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	414	647
Depreciation charge of right-of-use assets	7,434	7,469
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	1,752	3,303
Total amount recognised in profit or loss	9,600	11,419

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 30, respectively, to the financial statements.

Notes to Financial Statements

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16. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Depreciation allowance in excess of related depreciation	Lease Liabilities	Provision for impairment of assets	Unrealised gains resulting from intra group transactions	Contract liabilities	Accruals	Advertising expenses	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	1,588	-	1,997	1,094	2,628	7,687	12,777	39,529	67,300
Deferred tax credited/(charged) to profit or loss during the year (note 10)	362	-	1,122	(198)	(1,433)	(632)	-	(4,238)	(5,017)
Gross deferred tax assets at 31 December 2022	1,950	-	3,119	896	1,195	7,055	12,777	35,291	62,283
At 1 January 2023	1,950	-	3,119	896	1,195	7,055	12,777	35,291	62,283
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(5)	1,429	799	(181)	276	(7,055)	(6,092)	(13,200)	(24,029)
Gross deferred tax assets at 31 December 2023	1,945	1,429	3,918	715	1,471	-	6,685	22,091	38,254

Deferred tax liabilities

	Right-of-use Assets RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2023	-	9,924	9,924
Deferred tax charged to profit or loss during the year (note 10)	1,317	1,560	2,877
Gross deferred tax liabilities at 31 December 2023	1,317	11,484	12,801

Notes to Financial Statements

31 December 2023

16. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

	Withholding tax on distributable profits of the Group's Chinese Mainland subsidiaries RMB'000
At 1 January 2022	7,524
Deferred tax charged to profit or loss during the year (note 10)	2,400
Gross deferred tax liabilities at 31 December 2022	9,924

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,429	-
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,317)	-
Net deferred tax liabilities in respect of continuing operations	112	-

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 5% for the Group.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group had tax losses arising in Hong Kong of RMB429,000 as at 31 December 2023 (2022: Chinese Mainland of RMB23,165,000 and Hong Kong of RMB409,000). These tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that enough taxable profits will be available against which the tax losses can be utilised.

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17. OTHER NON-CURRENT ASSETS

	2023 RMB'000	2022 RMB'000
Prepayment for property, plant and equipment	3,434	–

18. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	21,977	23,846
Work in progress	4,767	2,606
Finished goods	56,205	45,564
Consumables	10,526	9,849
Total	93,475	81,865

19. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	215,877	195,685
Bills receivable	4,333	5,183
Impairment	(2,392)	(9,285)
Net Carrying amount	217,818	191,583

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major sales channels. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes to Financial Statements

31 December 2023

19. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2023	2022
	RMB'000	RMB'000
Within 1 month	215,651	185,901
1 to 2 months	1,807	2,956
2 to 3 months	71	1,136
Over 3 months	289	1,590
	217,818	191,583

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2023	2022
	RMB'000	RMB'000
At beginning of year	9,285	4,773
impairment losses, net (note 6)	6,066	5,958
Amount written off as uncollectible	(12,959)	(1,446)
At end of year	2,392	9,285

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to Financial Statements

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19. TRADE AND BILLS RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Neither past due nor impaired	Less than 1 month past due	1 to 2 months past due	2 to 3 months past due	More than 3 months past due	Total
31 December 2023						
Trade receivables (RMB'000)	190,684	21,325	1,840	84	1,944	215,877
Expected credit loss rate	0.10%	0.32%	1.79%	15.48%	85.13%	0.91%
Expected credit losses (RMB'000)	191	67	33	13	1,655	1,959
	Neither past due nor impaired	Less than 1 month past due	1 to 2 months past due	2 to 3 months past due	More than 3 months past due	Total
31 December 2022						
Trade receivables (RMB'000)	174,309	7,105	3,122	1,546	9,603	195,685
Expected credit loss rate	0.10%	1.25%	5.35%	26.52%	83.43%	4.52%
Expected credit losses (RMB'000)	174	89	167	410	8,012	8,852

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments	6,342	6,423
Deposits	5,298	4,507
Value-added tax recoverable	15,899	10,559
Employee advances	13,682	8,853
Other receivables	10,571	11,762
	51,792	42,104
Impairment allowance	(3,228)	(3,228)
Total	48,564	38,876

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20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The Group has applied the general approach to provide for expected credit losses for financial assets included in prepayments, other receivables and other assets if they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, they were measured based on lifetime expected credit losses. The Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate.

21. CASH AND BANK

	2023 RMB'000	2022 RMB'000
Cash and bank balances	758,911	781,337
Restricted bank deposits	1,873	556
Time deposits	183,060	–
Subtotal	943,844	781,893
Less:		
Time deposits with original maturity of over three months:		
– current	(101,500)	–
Restricted bank deposits	(1,873)	(556)
Cash and cash equivalents	840,471	781,337
Denominated in:		
– RMB	834,358	668,826
– HK\$	109,486	113,067
Total	943,844	781,893

The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at fixed rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

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22. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023	2022
	RMB'000	RMB'000
Within 1 month	75,621	62,223
1 to 2 months	19,653	19,612
2 to 3 months	690	1,672
Over 3 months	1,382	1,381
Total	97,346	84,888

The trade payables are non-interest-bearing and are normally settled on terms of 15 to 60 days.

23. CONTRACT LIABILITIES

	2023	2022
	RMB'000	RMB'000
Contract liabilities	14,583	12,155

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. The changes in contract liabilities are mainly attributable to the Group's estimates of the loyalty points that will be redeemed subsequent to the end of the year.

Notes to Financial Statements

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24. OTHER PAYABLES AND ACCRUALS

	2023	2022
	RMB'000	RMB'000
Accruals	33,621	34,234
Payables for purchase of materials and equipment	1,300	583
Deposits	133	326
Salaries and welfare payables	38,016	49,683
Other tax payables	26,051	18,446
Other payables	9,211	10,873
Total	108,332	114,145

Other payables are non-interest-bearing and repayable on demand.

25. DEFERRED INCOME

Government grants	RMB'000
At 1 January 2022	156
Recognised during the year	(108)
At 31 December 2022 and 1 January 2023	48
Recognised during the year	(48)
At 31 December 2023	–

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26. SHARE CAPITAL

Share	2023 RMB'000	2022 RMB'000
Authorized: 5,000,000,000 (2022: 5,000,000,000) ordinary shares of	336	336
Issued and fully paid: 2,188,514,000 (2022: 2,188,514,000) ordinary shares of	147	147

A summary of movements in the Company's share capital is as follows:

	Number of ordinary shares	Share capital RMB'000
At 1 January 2022	2,188,514,000	147
At 31 December 2022 and 1 January 2023	2,188,514,000	147
At 31 December 2023	2,188,514,000	147

Notes:

There were no movements in the Company's share capital during the year (2022: Nil).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

Notes to Financial Statements

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27. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Share Option Scheme include employees (whether full time or part-time) or directors of a member of the Group or associated companies of the Company, consultants, advisors, customers, suppliers, agents, partners or contractors to the Group. The Share Option Scheme became effective from 12 June 2019 and, unless otherwise cancelled or amended, will remain in force for 9.5 years from that date.

The total number of shares of the Company which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue as at the listing date. The 10% limit may be refreshed with the approval by ordinary resolution of the shareholders. The maximum number of shares of the Company which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issued or to be issued upon exercise of share options granted to any one participant in a 12-month period shall not exceed 1% (or 0.1% for any substantive shareholder, independent non-executive director or other associates, see the paragraph below) of the issued shares of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a non-refundable nominal consideration of HK\$1.00 by each grantee. The Share Option Scheme does not specify any minimum holding period but the board of directors has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised. The exercise period of the share options granted is determinable by the board of directors, and commences on a specified date and ends on a date which is not later than 11 December 2028.

The exercise price of a share option to subscribe for shares of the Company is determinable by the board of directors, but may not be less than the highest of (i) the closing price of the Company’s shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

Notes to Financial Statements

31 December 2023

27. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Share Option Scheme of the Company during the year:

		Numbers of share options						
	Date of grant	At 1 January 2023	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2023	Exercise period (both dates inclusive)	Exercise price per share
i	12/06/2019	12,450,000	-	-	-	12,450,000	12/06/2020– 11/12/2028	HK\$1.468
ii	12/06/2019	19,000,000	-	-	-	19,000,000	12/12/2019– 11/12/2028	HK\$1.468
iii	12/06/2019	17,242,503	-	-	-	17,242,503	12/06/2019– 11/12/2028	HK\$1.468
iv	12/06/2019	15,000,000	-	-	(1,600,000)	13,400,000	12/06/2020– 11/12/2028	HK\$1.468
		63,692,503	-	-	(1,600,000)	62,092,503		

The Group recognised a share option expense of RMB436,000 during the year ended 31 December 2023.

Notes to Financial Statements

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27. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Principal valuation parameter	12 June 2019
Share price (HK\$ per share)	1.40
Exercise price (HK\$ per share)	1.468
Risk-free interest rate (%)	1.66
Expected life of options (years)	9.50
Expected volatility (%)	40.63
Expected dividend yield (%)	0.75
Early exercise behaviour	280% of the exercise price for share options granted to directors, 220% of the exercise price for share options granted to employees

The expected life of the share options is the contractual life to maturity of the share options, and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

No share options are exercised during the year.

At 31 December 2023, the Company had 62,092,503 share options outstanding under the Scheme and all of them were unvested. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 62,092,503 additional ordinary shares of the Company and additional share capital of RMB4,154 and share premium of RMB82,604,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 62,092,503 share options outstanding under the Scheme, which represented approximately 2.8% of the Company's shares in issue as at that date.

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28. SHARE AWARD SCHEME

A share award scheme was adopted on 28 March 2022 (the “Share Award Scheme”). The Share Award Scheme is a share incentive scheme and is established to recognise the contributions by certain selected persons and to attract suitable individuals with experience and ability to further development and expansion of the Group.

The awarded shares will be acquired by an independent trustee (the “Trustee”) from the open market by utilizing the Company’s resources provided to the Trustee.

During the year, the Company did not repurchased any of its ordinary shares (2022: 39,848,000 ordinary shares).

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Scheme, the scheme will be valid and effective for a term of 10 years commencing on the date of the trustee deed.

On 25 May 2023, the Company granted 7,200,000 shares to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2023. The fair value of the granted shares is estimated using the Finnerty model (HK\$0.38) on the day of the grant, amounting to HK\$2,736,000 (equivalent to approximately RMB2,462,000)

On 11 May 2022, the Company granted 18,800,000 shares to certain employees, which was subject to satisfaction of certain service period for one year and performance target for the year 2022. The fair value of the granted shares is estimated using the Finnerty model (HK\$0.38) on the day of the grant, amounting to HK\$7,100,000 (equivalent to approximately RMB6,086,000).

The Group recognised a share award expense of RMB3,433,000 for the year ended 31 December 2023 (2022: RMB3,682,000).

As at 31 December 2023, 22,608,000 shares (2022: 39,848,000 shares) of the Company were held by the Trustee, including the award shares granted but unvested and the shares available for further grant.

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29. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 66 of financial statement.

(a) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration paid.

(b) Merger reserve

The merger reserve represents the difference between the aggregate of the paid up share capital of the subsidiaries and the consideration paid by the Group for the business combination under common control.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

(d) Statutory surplus reserve

In accordance with the Company Law of Chinese Mainland, each of the Company's subsidiaries registered in Chinese Mainland is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with Chinese Mainland Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,120,000 and RMB1,120,000, respectively, in respect of lease arrangements for properties (2022: RMB1,121,000).

Notes to Financial Statements

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30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities

2023

	Lease liabilities RMB'000
At 1 January 2023	11,268
New leases	1,120
Accretion of interest expenses	414
Interest paid	(414)
Principal elements of lease payments	(6,675)
Exchange realignment	2
At 31 December 2023	5,715

2022

	Lease liabilities RMB'000
At 1 January 2022	16,750
New leases	1,121
Accretion of interest expenses	647
Interest paid	(647)
Principal elements of lease payments	(6,612)
Exchange realignment	9
At 31 December 2022	11,268

(c) The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	1,752	3,303
Within financing activities	7,088	7,259
Total	8,840	10,562

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31. COMMITMENTS

(a) The Group had the following contractual commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Capital commitments	5,048	6,206

As at 31 December 2022 and 2023, the amounts of the capital commitments were related to the purchase of property, plant and equipment.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

(1) **Sales of goods to related parties:**

	note	2023 RMB'000	2022 RMB'000
Related Parties:			
Pepsico Foods (China) Co., Ltd.	(i)	2,234	591
Shenzhen Jingya Natural Food Science and Technology Co., Ltd. ("Shenzhen Jingya")		-	75
Total		2,234	666

note:

(i) The sales prices offered to Pepsico Foods (China) Co, Ltd. were made according to the published prices.

Notes to Financial Statements

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32. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

(1) Amounts due from related parties:

	note	2023 RMB'000	2022 RMB'000
Pepsico Foods (China) Co., Ltd.		2,133	–
Yang Zhuoya	(i)	16	–
Shenzhen Jingya		10,098	11,098
Impairment loss		(10,098)	–
Total		2,149	11,098

note:

- (i) Mr. Yang Zhuoya is a substantial shareholder of the Company. The balances of amounts due from related parties are unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short term employee benefits	3,450	3,510
Post-employment benefits	27	78
Equity-settled share option expense	340	620
Total	3,817	4,208

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of item (a)(i) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements

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33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Financial assets at amortised cost RMB'000
Trade and bills receivables	217,818
Financial assets included in prepayments, other receivables and other assets	12,640
Amounts due from related parties	2,149
Cash and bank	941,971
Restricted bank deposits	1,873
Total	1,176,451

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	97,346
Financial liabilities included in other payables and accruals	19,854
Total	117,200

Notes to Financial Statements

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33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2022

Financial assets

	Financial assets at amortised cost RMB'000
Trade and bills receivables	191,583
Financial assets included in prepayments, other receivables and other assets	13,041
Amounts due from related parties	11,098
Cash and bank	781,337
Restricted bank deposits	556
Total	997,615

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	84,888
Financial liabilities included in other payables and accruals	11,782
Total	96,670

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34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2022 and 2023, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents and bank deposits, restricted bank deposits, trade and bills receivables, financial assets included in prepayments, other receivables, amounts due from related parties, financial liabilities included in other payables and accruals and trade payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group invests in unlisted investments, which represent wealth management products issued by banks in Chinese Mainland and investment funds issued by the financial institution. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and Bank Deposits. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in HK\$ exchange rate, with all other variables held constant, of the Group's profit before tax and equity.

	Increase/ (decrease) in exchange rate (%)	Increase/ (decrease) in profit/(loss) before tax and equity RMB'000
2023		
If RMB weakens against HK\$	5	5,147
If RMB strengthens against HK\$	(5)	(5,147)
2022		
If RMB weakens against HK\$	5	5,851
If RMB strengthens against HK\$	(5)	(5,851)

Credit risk

The Group sells its products to end-customers via a chain of retail outlets or over third-party online retail platforms. It is the Group's policy that all sales channels who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and bank deposits, restricted bank deposits, deposits and other receivables, and amounts due from a director and related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2023. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month	Lifetime ECLs			
	ECLs				Total
	Stage 1	Stage 2	Stage 3	Simplified	
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Trade receivables*	–	–	–	215,877	215,877
Bills receivables	4,333	–	–	–	4,333
Financial assets included in prepayments, other receivables and other assets					
– Normal**	12,640	–	–	–	12,640
– Doubtful**	–	–	3,228	–	3,228
Amounts due from related parties					
– Normal**	2,133	–	–	–	2,133
– Doubtful**	–	–	10,098	–	10,098
Cash and bank					
– Not yet past due	941,971	–	–	–	941,971
Restricted bank deposits					
– Not yet past due	1,873	–	–	–	1,873
Total	962,950	–	13,326	215,877	1,192,153

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables*	–	–	–	200,868	200,868
Financial assets included in prepayments, other receivables and other assets					
– Normal**	13,041	–	–	–	13,041
– Doubtful**	–	–	3,229	–	3,229
Amounts due from related parties					
– Normal**	11,098	–	–	–	11,098
Cash and bank					
– Not yet past due	781,337	–	–	–	781,337
Restricted bank deposits					
– Not yet past due	556	–	–	–	556
Total	806,032	–	3,229	200,868	1,010,129

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, and amounts due from related parties is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

Since the Group trades only with the end-customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the sales channel bases of the Group's trade receivables are widely dispersed in a large number of diversified retail outlets or on third-party online retail platforms.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 19 and 20 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2023					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade payables	75,621	20,343	1,382	–	–	97,346
Lease liabilities	–	2,101	4,811	1,863	–	8,775
Financial liabilities included in other payables and accruals	9,577	5,949	4,115	213	–	19,854
Total	85,198	28,393	10,308	2,076	–	125,975

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2022					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade payables	62,223	21,284	1,381	–	–	84,888
Lease liabilities	–	2,557	5,119	5,307	–	12,983
Financial liabilities included in other payables and accruals	5,621	4,031	1,780	349	–	11,781
Total	67,844	27,872	8,280	5,656	–	109,652

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting periods.

Notes to Financial Statements

31 December 2023

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is interest-bearing debt divided by total assets. Total debt includes lease liabilities. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Lease liabilities	5,715	11,268
Total debts	5,715	11,268
Total assets	1,681,356	1,518,854
Gearing ratio	0.34%	0.74%

36. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant subsequent events after 31 December 2023 which are required to be disclosed as at the date of the financial statement.

Notes to Financial Statements

31 December 2023

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	104,488	102,995
Total non-current assets	104,488	102,995
CURRENT ASSETS		
Amounts due from subsidiaries	500,004	492,876
Amounts due from related party	16	–
Cash and bank	48,176	53,512
Total current assets	548,196	546,388
CURRENT LIABILITIES		
Amounts due to subsidiaries	15,939	13,755
Other payables	845	1,028
Total current liabilities	16,784	14,783
NET CURRENT ASSETS	531,412	531,605
TOTAL ASSETS LESS CURRENT LIABILITIES	635,900	634,600
NET ASSETS	635,900	634,600
EQUITY		
Share capital	147	147
Reserves (note)	635,753	634,453
Total equity	635,900	634,600

Notes to Financial Statements

31 December 2023

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Shares held for the share award scheme RMB'000	Share premium RMB'000	Share option reserve RMB'000	Share Award reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	-	1,102,722	28,080	-	(62,031)	(464,510)	604,261
Loss for the year	-	-	-	-	-	(12,206)	(12,206)
Translation from functional currency to presentation currency	-	-	-	-	55,610	-	55,610
Total comprehensive loss for the year	-	-	-	-	55,610	(12,206)	43,404
Shares purchased for the share award scheme	(17,804)	-	-	-	-	-	(17,804)
Equity-settled share option arrangements	-	-	910	-	-	-	910
Equity-settled share award expense	-	-	-	3,682	-	-	3,682
At 31 December 2022 and 1 January 2023	(17,804)	1,102,722	28,990	3,682	(6,421)	(476,716)	634,453
Loss for the year	-	-	-	-	-	(11,716)	(11,716)
Translation from functional currency to presentation currency	-	-	-	-	9,147	-	9,147
Total comprehensive loss for the year	-	-	-	-	9,147	(11,716)	(2,569)
Equity-settled share option arrangements	-	-	436	-	-	-	436
Equity-settled share award expense	-	-	-	3,433	-	-	3,433
Transfer of share option reserve upon the forfeiture or expiry of share options	-	-	(718)	-	-	718	-
Share award scheme	6,826	(1,340)	-	(5,486)	-	-	-
At 31 December 2023	(10,978)	1,101,382	28,708	1,629	2,726	(487,714)	635,753

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2024.

Financial Summary

CONSOLIDATED RESULTS

	Note	FY2023 RMB'000	FY2022 RMB'000	FY2021 RMB'000	FY2020 RMB'000	FY2019 RMB'000
Revenue		1,845,275	1,719,074	1,610,322	1,438,547	1,784,086
Cost of sales		(663,791)	(620,690)	(471,876)	(431,996)	(464,884)
Gross profit		1,181,484	1,098,384	1,138,446	1,006,551	1,319,202
Other income and gains		19,494	16,525	12,266	9,918	22,854
Selling and distribution expenses		(897,111)	(890,953)	(954,443)	(967,229)	(1,092,422)
Administrative expenses		(100,405)	(79,031)	(81,561)	(81,020)	(102,905)
Reversal of impairment/ (Impairment loss) on financial assets		(16,164)	(5,958)	3,497	(9,595)	(4,590)
Other expenses		(950)	(1,067)	(3,702)	(10,713)	(1,259)
Finance costs		(414)	(647)	(821)	(972)	(815)
Profit/(Loss) before tax		185,934	137,253	113,682	(53,060)	140,065
Income tax credit/(expenses)		(33,559)	(20,791)	(27,151)	38,608	(13,735)
Profit/(Loss) for the year		152,375	116,462	86,531	(14,452)	126,330
Attributable to:						
Owners of the parent		152,375	116,462	86,531	(14,452)	126,330
Adjusted net profit/(loss)	1	152,375	116,462	86,531	(14,452)	126,330

Note 1: Adjusted net profit/(loss) represents profit/(loss) for the year before loss on fair value changes of convertible and redeemable preferred shares and listing expenses. Adjusted net profit/(loss) is not a standard measure under HKFRSs. To supplement the Group's consolidated financial statements which are presented in accordance with HKFRSs, the Group has presented adjusted net profit/(loss) as an additional measure to evaluate the financial performance of the Group by considering the impact of certain items that the Group believes is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry that the Group operates and by eliminating the impact of certain unusual and non-recurring item that the Group does not consider indicative of the performance of the Group's business.

Financial Summary

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	1,681,356	1,518,854	1,398,043	1,318,116	1,355,402
Total liabilities	285,589	280,799	273,804	242,628	265,561
Total equity	1,395,767	1,238,055	1,124,239	1,075,488	1,089,841

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

“2024 AGM”	the annual general meeting of the Company to be held on 31 May 2024 for the year ended 31 December 2023
“AGM”	annual general meeting of the Company
“Articles” or “Articles of Association”	the articles of association of the Company as amended from time to time
“Audit Committee”	the audit committee of the Board
“Awarded Share(s)”	the awarded shares under the Share Award Scheme
“Board of Directors” or “Board”	our board of Directors
“China” or “PRC”	the People’s Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“CG Code”	the Corporate Governance Code as contained in Appendix C1 to the Listing Rules
“Company” or “our Company”	Natural Food International Holding Limited (五谷磨房食品國際控股有限公司) (formerly known as Roomy Development Holdings Limited), a limited liability company incorporated under the laws of the BVI on November 30, 2009 and registered by way of continuation to the Cayman Islands on May 11, 2018 as an exempted company with limited liability under the laws of the Cayman Islands
“Deed of Non-competition”	a deed of non-competition entered into by Mr. Zhang and Natural Capital and our Company dated 22 November 2018 regarding non-competition undertakings given by Mr. ZHANG Zejun and Natural Capital in favor of our Company
“Director(s)”	The director(s) of the Company or any one of them
“Global Offering”	the Hong Kong public offering and the international offering of Shares as described in the Prospectus

Definitions

“Group”	the Company and its subsidiaries
“Guangzhou Natural Food”	Natural Food (Guangzhou) Co., Ltd. (五谷磨房(廣州)食品有限責任公司), a company established under the laws of the PRC on March 16, 2016 and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars and cents, both are the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Date”	12 December 2018, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Model Code”	the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix C3 to the Listing Rules
“Natural Capital”	Natural Capital Holding Limited, a limited liability company incorporated under the laws of the BVI on June 3, 2011, which is wholly-owned by Paddy Aroma Investment Limited under the Zhang Family Trust (which Mr. ZHANG Zejun is the settlor) and is the controlling Shareholder of the Company
“Natural Food HK”	Natural Food International Group Limited 五谷磨房食品集團有限公司 (formerly known as Natural Food International Group Limited 香雅國際集團有限公司), a limited liability company incorporated under the laws of Hong Kong on January 14, 2009 and a direct wholly-owned subsidiary of the Company
“Prospectus”	the prospectus of the Company dated 29 November 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Reporting Period”	the year ended 31 December 2023
“SFO”	Securities and Futures Ordinance (Chapter 571 of The Laws of Hong Kong)
“Share Option”	the share options granted under the Share Option Scheme

Definitions

“Share Award Scheme”	the share award scheme that the Company adopted pursuant to a resolution passed by the Board on 28 March 2022
“Share Option Scheme”	the share option scheme that the Company conditionally adopted pursuant to a resolution passed by our Shareholders on 19 November 2018
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	common shares in the capital of our Company with nominal value of US\$0.00001 each
“Shenzhen Fuya”	Fuya Foods Technology (Shenzhen) Company Limited (馥雅食品科技(深圳)有限公司), a company established under the laws of the PRC on June 4, 2009 and an indirect wholly-owned subsidiary of the Company
“Shenzhen Xiangya”	Shenzhen Xiangya Foods Company Limited (深圳市香雅食品有限公司), a company established under the laws of the PRC on March 9, 2007 and an indirect wholly-owned subsidiary of our Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited