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HUABAO INTERNATIONAL HOLDINGS LIMITED
華寶國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00336)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2024

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change in percentage
	2024	2023	
	RMB'000	*RMB'000*	
Revenue	**3,373,265**	3,307,839	**+2.0%**
Gross profit	**1,441,444**	1,469,365	**-1.9%**
Gross profit margin	***42.7%***	*44.4%*	
EBITDA [1]	**(69,690)**	695,648	**N/A**
EBITDA margin [2]	***-2.1%***	*21.0%*	
Operating (loss)/profit	**(401,946)**	378,051	**N/A**
Operating profit margin [3]	***-11.9%***	*11.4%*	
(Loss)/profit for the year	**(458,857)**	290,483	**N/A**
(Loss)/profit attributable to the equity holders of the Company	**(385,509)**	233,633	**N/A**
	RMB cents	*RMB cents*	
Basic and diluted (loss)/earnings per share	**(11.94)**	7.23	
Paid final dividend per share *(note 8)*	**—**	HK0.8 cents	
Proposed/paid special dividend per share *(note 8)*	**HK5.0 cents**	HK4.2 cents	
Total dividend per share for the year *(note 8)*	**HK8.5 cents**	HK8.5 cents	
Dividend payout ratio for the year	**N/A**	106.9%	
Non-HKFRS Measures [4]			
Adjusted EBITDA	**624,126**	766,103	**-18.5%**
Adjusted EBITDA margin	***18.5%***	*23.2%*	
Adjusted operating profit	**291,870**	448,506	**-34.9%**
Adjusted operating profit margin	***8.7%***	*13.6%*	
Adjusted profit for the year	**284,078**	383,229	**-25.9%**

1. *"EBITDA" equals to "Operating profit before taxes, interest, depreciation, amortisation".*
2. *"EBITDA margin" equals to "Operating profit before taxes, interest, depreciation, amortisation" divided by "Revenue".*
3. *"Operating profit margin" equals to "Operating profit" divided by "Revenue".*
4. *For more information about the Non-HKFRS Measures, please refer to the section under "Reconciliation of HKFRS Measures to the Non-HKFRS Measures".*

* *For identification purpose only*

On 28 March 2025, the board of directors (the "Board") of Huabao International Holdings Limited (the "Company" or "Huabao") approved the audited annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2024 together with the comparative figures for the year ended 31 December 2023.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**3,373,265**	3,307,839
Cost of goods sold	*4*	**(1,931,821)**	(1,838,474)
Gross profit		**1,441,444**	1,469,365
Other income and other gains - net	*5*	**149,273**	146,608
Selling and marketing expenses	*4*	**(370,150)**	(326,809)
Administrative expenses	*4*	**(930,894)**	(830,866)
Impairment of goodwill		**(630,887)**	(56,502)
Net impairment losses on financial assets		**(60,732)**	(23,745)
Operating (loss)/profit		**(401,946)**	378,051
Finance income		**76,802**	84,952
Finance costs		**(21,018)**	(24,846)
Finance income– net		**55,784**	60,106
Share of results of associates and jointly controlled entities		**(7,144)**	59
Provision for impairment relating to the investment in an associate		**(49,119)**	(22,291)
(Loss)/profit before income tax		**(402,425)**	415,925
Income tax expense	*6*	**(56,432)**	(125,442)
(Loss)/profit for the year		**(458,857)**	290,483
Attributable to:			
Equity holders of the Company		**(385,509)**	233,633
Non-controlling interests		**(73,348)**	56,850
		(458,857)	290,483
(Loss)/earnings per share for (loss)/profit attributable to the Company's equity holders for the year		***RMB cents***	*RMB cents*
Basic and diluted	*7*	**(11.94)**	7.23

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2024	2023
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(458,857)**	290,483
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Fair value changes of equity investments at fair value through other comprehensive income, net of tax	**1,765**	(183,855)
Currency translation differences of the Company and its non-foreign operations	**43,611**	39,307
Items that may be reclassified to profit or loss		
Currency translation differences of foreign operations	**(10,139)**	39
Other comprehensive income/(loss) for the year, net of tax	**35,237**	(144,509)
Total comprehensive (loss)/income for the year, net of tax	**(423,620)**	145,974
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(357,656)**	77,810
Non-controlling interests	**(65,964)**	68,164
	(423,620)	145,974

CONSOLIDATED STATMENT OF FINANCIAL POSITION

		As at 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,228,802**	2,193,713
Right-of-use assets		**373,927**	374,411
Investment properties		**24,840**	27,382
Intangible assets		**3,462,208**	4,187,984
Investments in associates		**235,033**	432,442
Investments in jointly controlled entities		**26,820**	22,130
Financial assets at fair value through other comprehensive income		**12,455**	10,378
Financial assets at fair value through profit or loss		**145,030**	190,136
Deferred income tax assets		**273,086**	205,579
Other non-current assets		**56,348**	—
		6,838,549	7,644,155
Current assets			
Biological assets		**—**	210
Inventories		**893,330**	994,592
Trade and other receivables	*9*	**860,105**	930,782
Financial assets at fair value through other comprehensive income		**971**	23,168
Financial assets at fair value through profit or loss		**706,890**	3,869,711
Assets held for sale		**140,000**	—
Cash and bank balances		**5,562,231**	2,539,493
		8,163,527	8,357,956
Total assets		**15,002,076**	16,002,111

		As at 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,503,576**	4,248,159
Retained earnings		**7,246,313**	7,903,653
		12,078,508	12,480,431
Non-controlling interests		**1,641,848**	1,790,706
Total equity		**13,720,356**	14,271,137
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**—**	36,000
Financial liability for non-controlling interest put option		**—**	147,656
Lease liabilities		**26,003**	28,365
Deferred income tax liabilities		**115,602**	124,960
Other payables	*11*	**11,130**	11,446
		152,735	348,427
Current liabilities			
Borrowings	*10*	**194,000**	419,250
Lease liabilities		**17,747**	16,554
Trade and other payables	*11*	**689,749**	613,899
Current income tax liabilities		**101,782**	172,012
Contract liabilities		**125,707**	160,832
		1,128,985	1,382,547
Total liabilities		**1,281,720**	1,730,974
Total equity and liabilities		**15,002,076**	16,002,111

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap 622. The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss ("FVPL"), which are carried at fair value.

2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied for preparation of annual financial statements for the year are consistent with those of the annual financial statements for the year ended 31 December 2023, as described in those financial statements.

(a) New or amended standards adopted by the Group

The Group has applied the following new or amended standards for the first time for their annual reporting period commencing 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current liabilities with covenants – Amendments to HKAS 1
- Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause - Hong Kong Interpretation 5 (Revised)
- Lease Liability in Sale and Leaseback – Amendments to HKFRS 16
- Supplier Finance Arrangements – Amendments to HKAS 7 and HKFRS 7

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

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

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

		Effective for the financial year beginning on or after
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS Accouting Standards 9 and HKFRS Accouting Standards 7	Disclosures on classification and measurement of financial instruments	1 January 2026
Annual improvements to HKFRS Accounting Standards	Annual Improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
New Standards HKFRS Accouting Standards 18	Presentation and Disclosure in Financial Statements	1 January 2027

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

3. REVENUE AND SEGMENT INFORMATION

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

(1) Flavours and fragrances, and food ingredients ("F&F and Food ingredients");

(2) Tobacco raw materials;

(3) Aroma raw materials; and

(4) Condiment.

The chief operating decision-makers have been identified as the executive directors (the "Executive Directors"). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors consider the business from the operation's perspective and assess the performance of F&F and food ingredients, tobacco raw materials, aroma raw materials and condiment segments.

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

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

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

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

The segment information for the year ended 31 December 2024 is presented below:

	Year ended 31 December 2024					
	F&F and Food ingredients *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Total revenue	**1,356,794**	**486,634**	**799,312**	**774,576**	**509**	**3,417,825**
Inter-segment revenue	**(17,824)**	**(18,940)**	**(7,789)**	**(7)**	**—**	**(44,560)**
Segment revenue – net	**1,338,970**	**467,694**	**791,523**	**774,569**	**509**	**3,373,265**
Segment result	**(300,493)**	**(82,136)**	**22,803**	**97,592**	**(139,712)**	**(401,946)**
Finance income						**76,802**
Finance costs						**(21,018)**
Finance income – net						**55,784**
Share of results of associates and jointly controlled entities						**(7,144)**
Provision for impairment relating to the investment in an associate						**(49,119)**
Loss before income tax						**(402,425)**
Income tax expense						**(56,432)**
Loss for the year						**(458,857)**
Depreciation	**71,320**	**57,120**	**69,961**	**23,106**	**6,239**	**227,746**
Amortisation	**10,257**	**9,512**	**6,000**	**76,028**	**2,713**	**104,510**

	As at 31 December 2024					
	F&F and Food ingredients *RMB'000*	**Tobacco raw materials** *RMB'000*	**Aroma raw materials** *RMB'000*	**Condiment** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**7,424,174**	**2,076,846**	**1,472,867**	**3,161,184**	**867,005**	**15,002,076**

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

	Year ended 31 December 2023					
	F&F and Food ingredients *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total revenue	1,484,628	485,751	630,255	754,060	—	3,354,694
Inter-segment revenue	(20,195)	(21,091)	(5,569)	—	—	(46,855)
Segment revenue – net	1,464,433	464,660	624,686	754,060	—	3,307,839
Segment result	405,526	90,768	(83,412)	116,751	(151,582)	378,051
Finance income						84,952
Finance costs						(24,846)
Finance income – net						60,106
Share of results of associates and jointly controlled entities						59
Provision for impairment relating to the investment in an associate						(22,291)
Proft before income tax						415,925
Income tax expense						(125,442)
Profit for the year						290,483
Depreciation	66,679	57,861	64,112	16,890	5,456	210,998
Amortisation	12,367	8,688	9,105	74,793	1,646	106,599

	As at 31 December 2023					
	F&F and Food ingredients *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	8,214,006	2,137,936	1,450,550	3,325,617	874,002	16,002,111

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

4. EXPENSES BY NATURE

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

		Year ended 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Depreciation		**213,749**	195,292
Amortisation		**102,977**	101,446
Provision for impairment of property, plant and equipment		**15,463**	76,353
Provision for impairment of intangible assets		**14,380**	9,850
Provision for impairment of inventories		**112,605**	3,421
Changes in inventories of finished goods and work in progress		**(72,604)**	51,844
Raw materials and consumables used		**1,257,761**	1,142,332
Short-term lease rentals		**25,323**	30,830
Auditor's remuneration			
– Audit services		**10,091**	9,360
– Non-audit services		**125**	311
Consulting service fee		**38,478**	21,724
Travelling expenses		**37,127**	32,004
Employee benefit expenses		**778,305**	652,530
Research and development expenses	*(a)*	**245,242**	253,196
Delivery expenses		**50,367**	37,730
Utilities expenses		**104,922**	98,990
Motor vehicle expenses		**6,273**	7,119
Maintenance expenses		**20,026**	22,335
Advertising, promotion and agency service expenses		**95,738**	92,894
Office administrative and communication expenses		**7,215**	9,350
Other surcharges		**40,941**	39,025
Others		**128,361**	108,213
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**3,232,865**	2,996,149

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

	Year ended 31 December	
	2024	2023
	RMB'000	*RMB'000*
Depreciation	**13,997**	15,706
Amortisation	**1,533**	5,153
Employee benefit expenses	**155,538**	147,318
	171,068	168,177

5. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2024	2023
	RMB'000	*RMB'000*
Change in fair value of financial assets at FVPL	**60,004**	(8,810)
Dividend income from financial assets at FVPL	**4,550**	10,251
Loss on disposal of associates	**—**	(3,442)
Loss on disposal of subsidiaries	**(3,256)**	(3)
Gain on disposal of property, plant and equipment, and right-of-use assets	**647**	3,743
Government grants	**99,980**	151,051
Foreign exchange loss - net	**(20,215)**	(5,635)
Change in fair value of previously held interest in an associate upon acquisition as a subsidiary	**(902)**	—
Provision for impairment of prepayments	**(1,799)**	—
Written off of payables	**10,525**	195
Donations	**(281)**	(302)
Others	**20**	(440)
	149,273	146,608

6. INCOME TAX EXPENSE

		Year ended 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Current income tax			
– PRC corporate income tax	*(a)*	**133,239**	176,938
– Hong Kong profits tax	*(b)*	**(106)**	61
– Botswana company income tax	*(c)*	**—**	1
– Germany company income tax	*(d)*	**70**	58
– Indonesia company income tax	*(e)*	**406**	683
Deferred income tax		**(77,177)**	(52,299)
		56,432	125,442

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

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

(c) Botswana company income tax has been provided at the rate of 15.0% (2023:15.0%) on the estimated assessable profit for the year.

(d) Germany company income tax has been provided at the rate of 15.0% (2023:15.0%) on the estimated assessable profit for the year.

(e) Indonesia company income tax has been provided at the rate of 22.0% (2023:22.0%) on the estimated assessable profit for the year.

(f) No provision for income tax in other jurisdictions has been made as the Group had no assessable profit in other jurisdictions for the year ended 31 December 2024 and 2023.

7. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2024 and 2023.

	Year ended 31 December	
	2024	2023
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(385,509)**	233,633
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Basic (loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company *(RMB cents per share)*	**(11.94)**	7.23

(b) Diluted (loss)/earnings per share

	Year ended 31 December	
	2024	2023
(Loss)/profit attributable to equity holders of the Company:		
Used in calculating basic (loss)/earnings per share *(RMB'000)*	**(385,509)**	233,633
Less: profit adjusted for restricted shares granted by a subsidiary *(RMB'000)*	**(28)**	(15)
Used in calculating diluted (loss)/earnings per share *(RMB'000)*	**(385,537)**	233,618
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,229,927
Weighted average number of ordinary shares for diluted (loss)/earnings per share *('000)*	**3,229,927**	3,229,927
Diluted (loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company *(RMB cents per share)*	**(11.94)**	7.23

8. DIVIDENDS

	Year ended 31 December	
	2024	2023
	RMB'000	*RMB'000*
Paid interim dividend of HK0.3 cents per share for the six months ended 30 June 2024	**8,839**	—
Paid special dividend of HK3.2 cents per share for the six months ended 30 June 2024	**94,285**	—
Paid interim dividend of HK1.6 cents per share for the six months ended 30 June 2023	**—**	47,306
Paid special dividend of HK1.9 cents per share for the six months ended 30 June 2023	**—**	56,176
	103,124	103,482
Proposed special dividend of HK5.0 cents per share for the year ended 31 December 2024	**149,552**	—
Paid final dividend of HK0.8 cents per share for the year ended 31 December 2023	**—**	23,495
Paid special dividend of HK4.2 cents per share for the year ended 31 December 2023	**—**	123,349
	149,552	146,844
	252,676	250,326

On 28 March 2025, the Board proposed a special dividend of HK5.0 cents per share, totalling approximately RMB 149,552,000 for the year ended 31 December 2024. The proposed dividend in respect of the year ended 31 December 2024 is calculated based on the total number of shares in issue as at the date of this report. The proposed dividend is subject to the shareholder's approval at the Company's forthcoming Annual General Meeting. The financial statements do not reflect this dividend payable.

9. TRADE AND OTHER RECEIVABLES

		As at 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Trade receivables	*(a)*	**769,875**	739,537
Less: provision for impairment of trade receivables		**(127,652)**	(66,095)
Trade receivables - net		**642,223**	673,442
Notes receivable		**33,751**	46,182
Prepayments and other receivables		**161,448**	212,025
Advances to staff		**3,325**	2,469
Others		**23,135**	2,412
Less: provision for impairment of other receivables		**(3,777)**	(5,748)
		860,105	930,782

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 December 2024 and 2023, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice dates was as follows:

	As at 31 December	
	2024	2023
	RMB'000	*RMB'000*
0 - 1 year	**645,438**	625,220
1 – 2 years	**13,117**	16,580
2 – 3 years	**14,885**	64,924
Over 3 years	**96,435**	32,813
	769,875	739,537

10. BORROWINGS

	Note	As at 31 December 2024 RMB'000	2023 RMB'000
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**36,000**	36,000
Less: current portion		**(36,000)**	—
		—	36,000
Current			
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**18,000**	—
– Unsecured bank borrowings	*(b)*	**140,000**	419,250
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**36,000**	—
		194,000	419,250
Total borrowings		**194,000**	455,250

(a) As at 31 December 2024, the Group's short-term secured bank borrowings of RMB18,000,000 (31 December 2023: RMB Nil) were repayable within one year (31 December 2023: Nil). The Group's current portion of long-term secured bank borrowings of RMB36,000,000 (31 December 2023: RMB36,000,000) were repayable within one year (31 December 2023: repayable within two years). The secured bank borrowings are secured by certain buildings and right-of-use assets of Shanghai Yifang Rural Technology Holding Co. Ltd and its subsidiaries with total carrying amount of approximately RMB43,063,000 (31 December 2023: RMB39,245,000).

During the year, the average interest rate of the loan was 3.8% (2023: 4.2%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 2.2 % (2023: 2.9%) per annum.

(c) As at 31 December 2024 and 2023, the carrying amounts of the Group's borrowings were denominated in RMB.

11. TRADE AND OTHER PAYABLES

		As at 31 December	
		2024	2023
	Note	***RMB'000***	*RMB'000*
Trade payables	*(a)*	**266,504**	238,732
Note payables		**—**	18,530
Wages payable		**166,238**	115,466
Other taxes payable		**54,971**	59,300
Other payables		**202,036**	181,871
Deferred income from government grants		**11,130**	11,446
		700,879	625,345

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

	As at 31 December	
	2024	2023
	RMB'000	*RMB'000*
Non-current	**11,130**	11,446
Current	**689,749**	613,899
	700,879	625,345

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

(a) As at 31 December 2024 and 2023, the ageing analysis of the trade payables (including amounts due to related parties which are trade in nature) based on invoice dates was as follows:

	As at 31 December	
	2024	2023
	RMB'000	*RMB'000*
0 - 90 days	**232,100**	216,774
91 - 180 days	**21,997**	8,112
181- 360 days	**3,564**	3,704
Over 360 days	**8,843**	10,142
	266,504	238,732

RECONCILIATION OF HKFRS MEASURES TO THE NON-HKFRS MEASURES

For review of financial performance, the Group has provided non-HKFRS measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted operating profit, adjusted operating profit margin, adjusted profit for the year, which are supplementary to the Group's consolidated results in accordance with HKFRS. The Group believes that these additional figures provide our shareholders and investors with useful supplementary information to facilitate the analysis and assessment of the performance of the Group's core operations by excluding certain non-cash items, which consist of share-based compensation expenses, impairment of goodwill, impairment of intangible assets, and provision for impairment relating to the investment in an associate, recognised in the consolidated income statement. These non-HKFRS measures also allow the Group to evaluate its ongoing operations and are applied for internal planning and forecasting purposes. The use of these non-HKFRS measures may have certain limitations as a tool for analysis and comparison. Shareholders and investors are advised not to consider these non-HKFRS measures in isolation from, or as a substitute for analysis of, the Group's financial performance as reported under HKFRS. Also, please note that these non-HKFRS measures may be defined differently from similar terms used by other companies. The following table highlighted the reconciliations of the Group's financial measures prepared in accordance with HKFRS for the year ended 31 December 2024 and year ended 31 December 2023 to the non-HKFRS measures.

	For the year ended 31 December 2024					
		Non-HKFRS adjustments				
	As reported	**Share-based compensation expenses**	**Impairment of goodwill**	**Impairment of intangible assets**	**Provision for impairment of investment in an associate**	**Adjusted**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
		(a)	***(b)***	***(c)***	***(d)***	
EBITDA	**(69,690)**	**48,549**	**630,887**	**14,380**	**—**	**624,126**
EBITDA margin	**-2.1%**					**18.5%**
Operating (loss)/profit	**(401,946)**	**48,549**	**630,887**	**14,380**	**—**	**291,870**
Operating profit margin	**-11.9%**					**8.7%**
(Loss)/profit for the year	**(458,857)**	**48,549**	**630,887**	**14,380**	**49,119**	**284,078**

	For the year ended 31 December 2023					
		Non-HKFRS adjustments				
	As reported	Share-based compensation expenses	Impairment of goodwill	Impairment of intangible assets	Provision for impairment of investment in an associate	Adjusted
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(a)	*(b)*	*(c)*	*(d)*	
EBITDA	695,648	4,103	56,502	9,850	—	766,103
EBITDA margin	21.0%					23.2%
Operating profit	378,051	4,103	56,502	9,850	—	448,506
Operating profit margin	11.4%					13.6%
Profit for the year	290,483	4,103	56,502	9,850	22,291	383,229

Note:

(a) Including shares granted to the grantees according to Guangdong Jiahao Foodstuff Co. Ltd's Share Incentive Scheme and restricted shares granted to the incentive participants according to Huabao Flavours & Fragrances Co. Ltd's Share Incentive Scheme (if applicable)

(b) Including impairment provision for goodwill arising from acquisitions

(c) Including impairment provision for intangible assets arising from acquisitions

(d) Including impairment provision for investment in an associate

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2024 (the "Reporting Period"), overseas and Chinese macro-economy still faced great challenges and pressures. For overseas markets, consumers' purchasing power was subdued as affected by the problems including high interest rates, inflation and indebtedness, resulting in an increase in corporate operational costs. For domestic market, the increased savings and reduced consumption by consumers due to the structural adjustment have forced enterprises to cut prices for maintaining or increasing sales volume, which squeezed their profit margins. All the above factors depressed the sentiment of domestic and overseas consumers and brought challenges to enterprises' operation and market expansion.

To cope with these challenges, the Group has adopted a strategy of seeking progress while maintaining stable development with an aim to secure the stability and security of business and actively promote growth. In respect of market expansion, by leveraging the well-established domestic supply chain and manufacturing capabilities, comprehensively advancing "Lean Production (精益生產)" program and products innovation, and offering cost-effective products and integrated solutions, we have successively expanded the overseas markets and made great achievement. As to production and operations, we further promoted digital transformation, extensively applied digital technologies to effectively reduce costs and improve operational efficiency. Regarding risk management, we carefully analysed and addressed the risks brought by climate change, and formulated corresponding strategies to mitigate its impact on production and operation, thus enhancing sustainability capabilities. Overall, the Group achieved stable business growth in 2024.

INDUSTRY OVERVIEW

Overview of the tobacco industry

During the Reporting Period, according to the data from the National Bureau of Statistics, China's cigarette production volume reached 49.3092 million cases, representing an increase of 1.0% year-on-year ("YOY"). Domestically, traditional tobacco still dominated the market, but its growth slowed down in the second half of the year due to tobacco control policies and adjustments in consumption patterns. In the domestic market, China's cigarette market was undergoing structural changes, and the tobacco industry faced pressure to reduce costs. Industrial enterprises need to balance targets with brand development and focused on both short-term goals and long-term value, while commercial enterprises need to allocate planned resources appropriately. In overseas markets, demand for traditional tobacco continued to decline, but there was a significant growth in demand for tobacco harm reduction products, such as nicotine alternatives. Heat Not Burn ("HNB") tobacco products have become the core track in the innovative tobacco sector, with international tobacco companies dominating the global market and capturing market share by leveraging low-temperature heating technology and harm reduction certifications. Emerging markets have become the focus of expansion. Looking ahead, iterations in HNB technology and patent competition will define the industry landscape, and will continue to lead the innovative tobacco market in the short term. The growth in the e-cigarette market, affected by stricter regulations, will slow down in the short term and thus the market will shift toward compliance and technological innovation. Leading companies will focus on differentiated strategies and will complement HNB tobacco products in the long-term development.

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

During the Reporting Period, according to the data from the National Bureau of Statistics, of the industrial enterprises above the designated size, the value added for processing of food from agricultural and sideline products was up by 2.2% over the previous year; for food manufacturing industry up by 5.8% and for wine, beverage and refined tea manufacturing industry up by 4.8%. Due to the sluggish consumer market and uncertainty on demand side, the overall industry was under great pressure. With the rise in health awareness, consumers were increasingly favouring natural and organic products with high nutrition, making health-oriented and functional demands mainstream trends. To meet consumers' pursuit of purposeful consumption, emotional value, and high quality and cost-effective products, companies shall respond to their demands for health and quality through product innovation and upgrades, and strengthen channel development and market expansion to adapt to the diversified consumption scenarios. Digital transformation is key to enhancing competitiveness. Thus, corporations need to leverage big data analysis to accurately understand consumer needs, optimize product structures and marketing strategies to improve user experience and overall market competitiveness. The market size of the daily-use chemical industry continued to grow, and the consumption upgrades and online channels promoted the trends toward premiumization and personalization. Environmental requirements and technological innovations drove companies to develop green, healthy, and smart products. The rise of local brands intensified market competition.

Overview of the condiment industry

During the Reporting Period, according to the data from the National Bureau of Statistics, domestic catering industry reached a revenue of RMB5.5718 trillion, representing a YOY increase of 5.3%. However, the growth rate has been slowing down month by month. Consumers have become more rational and focused on the quality, leading to an increasingly fierce competition in the catering market. The market size of the condiment industry expanded steadily. From 2014 to 2024, the market size of China's condiment industry increased from RMB259.5 billion to RMB681.7 billion, with an average annual compound growth rate of 10.3%. The condiment industry gradually developed towards compound, convenient, and healthy products. This, coupled with the backdrop of regional penetration in domestic market and demand expansion in international market, posed significant potential for the market size of condiment companies to grow. At the enterprise client level, recent policies were positive. Since condiments accounted for a relatively high proportion of enterprise clients, the demand for condiments from enterprise clients increased as affected by the policies such as issuing consumption vouchers and promoting consumption. At the consumer client level, on one hand, changes in China's population structure and the extension of consumption scenarios drove the development of miniaturized condiment products, with increasingly diverse categories. On the other hand, products with zero additives and low salt are expected to become one of the future trends in the industry, thereby driving the optimization and upgrading of the product structure. To follow the health trend and enhance product market competitiveness, condiment companies need to continuously enrich their product matrix, develop new categories such as zero-additive, low-salt, and organic products, and optimize the product structure to meet the diverse needs of the downstream market.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB3,373 million (2023: approximately RMB3,308 million), representing a YOY increase of 2.0%; gross profit margin of 42.7% (2023: 44.4%), representing a YOY decrease of 1.7 percentage points; operating loss of approximately RMB402 million (2023: operating profit of approximately RMB378 million); loss attributable to the equity holders of the Company of approximately RMB386 million (2023: operating profit attributable to the equity holders of the Company of approximately RMB234 million); basic loss per share of approximately RMB11.94 cents (2023: basic earnings per share of approximately RMB7.23 cents).

The operating loss during the Reporting Period was primarily attributable to the recognition of goodwill impairment of approximately RMB630 million (2023: approximately RMB56.502 million), provision for impairment of intangible asset of approximately RMB14.38 million (2023: approximately RMB9.85 million), share-based compensation expenses of approximately RMB48.549 million (2023: approximately RMB4.103 million) during the year. Excluding the effect of these impairment and provision, the adjusted operating profit was approximately RMB292 million, representing a YOY decrease of 34.9% as compared to that of approximately RMB449 million for the corresponding period last year. The adjusted profit for the year was RMB284 million (2023: adjusted profit for the year was approximately RMB383 million), representing a YOY decrease of 25.9%.

BUSINESS REVIEW

Review of F&F and Food ingredients business

During the Reporting Period, revenue of the F&F and Food ingredients business of the Group amounted to approximately RMB1,339 million (2023: approximately RMB1,464 million), representing a YOY decrease of 8.6%, and accounting for approximately 39.6% (2023: 44.3%) of the Group's total revenue. The decrease in revenue of the segment was mainly due to major customers' change in demand, procurement policy adjustment and self-developed flavouring and other factors. Operating loss of the business segment was approximately RMB300 million (2023: operating profit of approximately RMB406 million), which was primarily due to the goodwill impairment recognised for the cash-generating unit ("CGU") of tobacco flavour of approximately RMB505 million and share-based compensation expenses of approximately RMB43.772 million.

(1) Flavours

In terms of tobacco flavours, the Group has achieved significant accomplishments in the research of unique flavour substances, technologies for reducing tar and harm in tobacco, as well as technologies for flavour enhancement and moisture retention. These achievements established the Company's unique advantages in the tobacco flavouring sector. However, due to factors such as changes in the demands of major clients, adjustments in procurement policies, and self-developed flavouring, the Company's revenue recorded a decrease. The Group continued to monitor the development trends and market opportunities of innovative tobacco products. Through self-developed modern extraction and refining technologies, the Group successfully produced tobacco essential oils, tobacco aroma concentrates, and tobacco dry distillates and other products. To boost sales, the Group actively reached out to international clients, promoting its products and services, and maintained good cooperative relationships with leading international clients.

In terms of food flavours, customers put an emphasis on the "healthy" and "delicious" characteristics of products, highlighting labels such as "additive-free", "low-burden", and "natural", which increased the demand for natural extract-based flavours. The Group kept abreast with customer requirements, and, by leveraging its strong research capabilities and deep industry expertise, has made a breakthrough in technological advancements in natural enzymolysis, natural plant extraction, thermal reaction, low-temperature belt drying, seamless encapsulation of popping boba, three-dimensional seasoning, and hot-melt extrusion technologies, which enabled the Group to provide customized products to customers, and enhanced the flavours and functionality of end-use products, making them more appealing to consumers. Through comprehensive research and in-depth interpretation of consumers' taste preferences, the Group developed a series of new flavouring products that align with market trends. The Group has established cooperative relationships with overseas customers in Europe, the Middle East, and Southeast Asia, successfully selling food flavours to these markets. Additionally, the Group has completed the design work for its Indonesian factory and has initiated the tendering process for its construction.

(2) Fragrances

The Group's fragrances primarily focus on air freshening and disinfection, while also include categories such as cleaning, personal care, and indoor fragrances. During the Reporting Period, the Group strengthened research and development ("R&D") and innovation in products related to personal care, oral care, and pet care, continued to explore new models and new market segments, vigorously expanded its reach to new cross-industry clients and actively catered to the product demands of online e-commerce brands. In terms of overseas market expansion, the Group successfully established business connections with several international clients, creating new growth points for the sustainable development of future business. In terms of technological innovation, the Group continued to upgrade and innovate in areas such as powdered daily-use chemical fragrances, new fragrance types of liquid microcapsules, and distinctive indoor fragrances, further enhancing its integrated solution capabilities for daily-use chemical fragrances.

(3) Food ingredients

The Group places high importance on the R&D of healthy food ingredient-related technologies, product innovation, and process optimization, giving full play to its professional expertise in both flavour and ingredient sectors. With the continued rapid development of the catering industry in China, there is a significant demand for jams, fruit granula and syrups, presenting development opportunities for the Group's food ingredient business. The Group is committed to providing flavour food ingredient solutions for catering clients such as freshly made tea drinks and coffee, and for food industry clients in beverages, dairy, and baking. The Group further delves into the fields of "natural ingredients, high-end food materials and nutritional health", launching a series of black garlic flavour products, bringing more nutritious and delicious high-end food materials into the lives of the general consumer. During the Reporting Period, the Group introduced natural plant extracts and natural syrups, and successfully promoted the application of its self-developed fourth-generation Popping Boba Ice Fire Magic Ball, meeting customers' pursuit of customized natural products and novel tastes. In addition, the Group sought opportunities in the baking industry and introduced various types of sauce products to enhance the flavour of products for customers.

Analysis of goodwill impairment of flavours-tobacco flavour CGU ("Tobacco Flavour CGU")

At the end of the Reporting Period, the Group engaged an independent valuer to conduct an impairment test on the goodwill of the Tobacco Flavour CGU as at 31 December 2024. Based on the assessment results, an impairment of goodwill of approximately RMB505 million was recognised.

Background of goodwill impairment for Tobacco Flavour CGU

Between 2007 and 2009, the Group acquired the equity shares of companies engaged in the production and sales of tobacco flavours from independent third parties, and achieved control over these companies through capital contribution, forming a tobacco flavour CGU with a total value of approximately RMB1.19 billion. In 2015 and 2016, the Group undertook a restructuring and incorporated its tobacco flavours business under the Flavours segment into its controlled subsidiary, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), with the corresponding goodwill allocated to the CGU of Huabao Flavours as a result of the restructuring or business combination. Tobacco flavour CGU primarily engaged in the R&D, production, sales and technical service provision for tobacco flavours. Over the course of more than a decade, tobacco flavour CGU companies developed robust relationships with major tobacco companies. Benefiting from the synergy in tobacco flavours business through acquisition, capital contribution and restructuring, the Group has expanded its customer base, obtained more formulations and enhanced its R&D capabilities, which increased its market share and strengthened its leading position.

The traditional tobacco flavour market has undergone changes after more than ten years of development. From the demand side, the major customers of the Group have shown a less demand for tobacco flavours due to adjustments in their demand patterns and purchasing policies, as well as the development of their in-house flavours. On the supply side, however, production capacity in the tobacco flavors industry remains high, far exceeding the annual market demand. In response to these changes, the Group has actively expanded its sales channels and ventured into overseas markets. In view of these factors, the Group's revenue and gross profit margin in the tobacco flavours have declined, falling short of expectations. As the decline was expected to persist for a considerable period, the management of the Group anticipated that the goodwill impairment for Tobacco Flavour CGU will be recognised.

Reasons for the recognition of goodwill impairment for Tobacco Flavour CGU

Based on the audited accounts of the Group for the year ended 31 December 2024, the revenue of Tobacco Flavour CGU decreased by 15.89% to approximately RMB604 million from approximately RMB719 million for the corresponding period last year. It is noted that the continued changes in customer demand, adjustments in purchasing policies and the trend toward in-house flavour development throughout 2024 have exerted pressure on the revenue and gross profit margin of the tobacco flavour CGU.

Consequently, in light of the prevailing market conditions and on a prudent basis, the Group revised its future earnings forecast for tobacco flavour CGU and expected that there would be an impairment loss on goodwill.

Goodwill impairment test

In accordance with HKAS 36, the Group performed a goodwill impairment test on the Tobacco Flavour CGU on 31 December 2024 (the valuation benchmark date), and conducted a value analysis to determine the recoverable amount of the tobacco flavour CGU. According to the standard, the recoverable amount of the CGU is the higher of its fair value less costs of disposal ("FVLCOD") and its value in use ("VIU"). In the goodwill impairment test carried out by the valuer, FVLCOD and VIU of the tobacco flavour CGU was assessed by using market approach and income approach respectively. Based on the assessment results, the VIU of the tobacco flavour CGU was higher than its FVLCOD and therefore was adopted as the recoverable amount of the tobacco flavour CGU, which was approximately RMB504,558,000 lower than its carrying amount. As a result, goodwill impairment loss of approximately RMB504,558,000 was recognised in the consolidated income statement of the Group for the year ended 31 December 2024.

Methodology, key assumptions and basis used in calculating the VIU of the Tobacco Flavour CGU

The Company has engaged an independent valuer to carry out an impairment test on goodwill of the tobacco flavour CGU as at 31 December 2024. The valuer used the income approach to assess the VIU of the tobacco flavour CGU, which was consistent with the valuation methodology used in its impairment test late last year. This calculation was based on a five-year forecast of net cash flow for the tobacco flavour CGU. Cash flow beyond the five-year period was estimated using a perpetual growth rate and was discounted to its present value using an appropriate rate.

The key assumptions and basis used in calculating the VIU of the Tobacco Flavour CGU were as follows:

1. Forecast growth rate – as determined by the management based on past performance, customer demand, the latest external economy and business environment, combined with their projections of market development;

2. Terminal growth rate – long-term average growth rate of the Tobacco Flavour CGU as estimated by the management;

3. Budgeted gross profit margin – as determined by the management based on the past performance, future market trends and positioning and expectations of customers;

4. Pre-tax discount rate –the applicable cost of equity and cost of debt are first calculated based on the actual circumstances of the Tobacco Flavour CGU, with reference to industry data and specific risk premiums. Then, the weighted average cost of capital ("WACC") is derived according to the Company's capital structure and serves as the after-tax discount rate for the impairment test. Finally, the pre-tax discount rate is determined through an iterative computation.

Changes in key assumptions

Comparing certain key assumptions used in determining the VIU of the tobacco flavour CGU as at 31 December 2024 against those used in assessing the VIU of the tobacco flavour CGU as at 31 December 2023, major changes are as follows:

1. Change in revenue forecast and reasons for the change
   The sales of the tobacco flavour CGU of the Group dropped by approximately 15.89% from approximately RMB719 million for the year ended 31 December 2023 to approximately RMB604 million for the year ended 31 December 2024, mainly due to the changes in the demand of the Group's major customers, their adjustment in purchasing policies and development of in-house flavours, resulting in a decline in the Company's operating revenue. The management of the Group re-evaluated the supply and demand in the traditional tobacco flavour industry and considered that the changes in customer demand, adjustments in purchasing policies and the trend toward in-house flavour development will persist for a considerable period. As a result, the management revised the revenue forecast for 2025 to 2029, adjusting the forecast growth rate to a range of -40% to 9%, while the forecast growth rate in last year was -5% to 0%.

2. Change in budgeted gross margin and reasons for the change
   The management expected a decline in the gross profit margin as a result of the changes in the sales model for the tobacco flavor segment. Consequently, the budgeted gross margins for 2025 to 2029 were revised downward by 6.33 to 7.72 percentage points.

3. Change in pre-tax discount rate and the reasons for the change
   The valuer determined the post-tax discount rate based on WACC. Due to a decline in both the risk-free interest rate and loan interest rate during the period, the post-tax discount rate was revised downward by 0.53 percentage points from 13.77% adopted at the end of 2023 to 13.24%, after taking into account other factors. Accordingly, the pre-tax discount rate was derived through an iterative computation based on the revised post-tax discount rate.

Review of the tobacco raw materials business

During the Reporting Period, revenue of the Group's tobacco raw materials business was approximately RMB468 million (2023: approximately RMB465 million), representing a YOY increase of 0.7%, and accounting for approximately 13.9% (2023: approximately 14.0%) of the Group's total revenue. The increase in revenue was attributable to growth in sales of tobacco new materials. The operating loss was approximately RMB82.14 million (2023: operating profit of approximately RMB90.77 million), mainly due to the recognition of goodwill impairment of Reconstituted Tobacco Leaves ("RTL") CGU of approximately RMB97.02 million.

(1) RTL

The domestic production capacity for RTL remained in surplus, and customers have not increased their purchase. Overseas, international tobacco companies have vigorously developed HNB cigarettes, which has boosted the demand for innovative RTL. The Group's factory in Indonesia, with three production lines and an annual capacity of 3,000 tonnes, could produce high-quality innovative RTL. In 2024, the factory has begun to supply innovative RTL to customers on a mass basis. The Group expects that its production capacity will be well utilised in the future, potentially boosting the business' revenue.

(2) Tobacco New materials

During the Reporting Period, the Group has made significant progress in the development of the tobacco new materials business. The new materials for cigarettes are mainly capsule products. Leveraging its R&D capacity and experience in flavours, the Group is able to quickly respond to the diverse needs of clients, offering a variety of capsule products with diversified flavours and pure tastes. The Group further practiced the "Lean Production" strategy in its production, strengthened the superiority of its capsules in terms of cost, quality and price. Coupled with excellent service, the Group has won the favor of overseas customers. Capsule products have been successfully sold to several overseas countries and regions, which reflects the Group has enhanced the internationalization level of this business and proved our competitiveness in products and services.

Analysis of goodwill impairment of RTL CGU

For the year ended 31 December 2024, the revenue of the Group's RTL CGU decreased by 12.1% to approximately RMB289 million, the gross profit decreased by 11.6% to RMB133 million, and the operating profit decreased by 29.9% to approximately RMB40.43 million YOY. Revenue, gross profit and operating profit fell below expectations. Based on the principles of prudence and conservatism, the Group engaged an independent valuer to conduct impairment test for the goodwill of RTL CGU as at 31 December 2024. Based on the assessment results, RTL CGU recognised an impairment of goodwill of RMB97.02 million in 2024.

The performance of RTL CGU for the year fell behind expectations, mainly due to the continued oversupply and fierce market competition in the traditional RTL industry in 2024. The revenue and gross profit of the traditional RTL for the year dropped sharply YOY. In addition, due to the changes in the commercialisation timeline of customers' new products, the demand for innovative RTL has not been fully materialized, resulting in a YOY decline in revenue and gross profit of innovative RTL. Considering that the oversupply and fierce competition in the traditional RTL industry were expected to persist and that the demand growth for innovative RTL would grow slower than expected, these factors are likely to continue exerting pressure on the RTL CGU's revenue and operating profit. Based on the principle of prudence and conservatism, the Group adjusted downward its sales forecast for the period between 2025 to 2028, which was 26.4% to 31.9% lower than the forecast at the end of 2023, with corresponding forecast growth rate down by approximately 1.6 to 18.4 percentage points. At the same time, the Group adjusted downward the forecast gross profit for the period between 2025 to 2028, which was approximately 2.3 to 3.1 percentage points lower than the forecast at the end of 2023, with corresponding forecast gross profit down by 30.0% to 35.8%. Considering the long-term average growth rate of RTL CGU, the Group adjusted downward the forecast terminal growth rate by one percentage point to 3%. Based on the actual circumstances of the RTL CGU and with reference to industry data and specific risk premiums, the valuer determined that the after-tax discount rate remains unchanged. According to the impairment test report from the independent valuer, an impairment loss of approximately RMB 97.02 million was recognised for the goodwill of the RTL CGU this year. Following the impairment recognition, the remaining goodwill balance of the RTL CGU is approximately RMB 259 million.

Review of the aroma raw materials business

During the Reporting Period, revenue of the aroma raw materials business of the Group was approximately RMB792 million (2023: approximately RMB625 million), representing a YOY increase of 26.7%, and accounting for approximately 23.5% (2023: approximately 18.9%) of the Group's total revenue. The increase was mainly attributable to destocking and normal purchasing by our customers, as well as scale production of the factory in Shandong. Operating profit of the business segment was approximately RMB22.80 million (2023: operating loss of approximately RMB83.41 million). Such a turnaround was mainly attributable to increased revenue, lower production costs and less impairment losses.

During the Reporting Period, purchase volume has resumed as downstream customers completed their destocking. In addition, the Group's factory in Shandong also commenced operation and production, which contributed the growth in sales volume and revenue. The Group strictly implemented the "Lean Production" strategy to optimise its supply chain management. The Group has established long-term partnerships with its suppliers to streamline processes and reduce procurement and production costs. The revenue growth and cost reduction has jointly strengthened the profitability of the business.

In 2024, the subsidiary in Guangdong relocated to a new factory. The new facility, with a clean environment and advanced equipment, not only improved the production efficiency, but also enhanced our brand image. The aroma raw materials business belongs to the fine chemical industry where safety and sustainable production are top priorities. For this segment, we regularly conduct safety and environmental inspections and have improved its pollutant treatment facilities and systems to reduce the environmental impact of production and operations. Through our dedicated efforts, two factories have been awarded the title of "Green Factory".

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

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

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

Review of the condiment business

During the Reporting Period, revenue of the Group's condiment business was approximately RMB775 million (2023: approximately RMB754 million), representing a YOY increase of 2.7%, and accounting for approximately 23.0% (2023: approximately 22.8%) of the Group's total revenue. The revenue growth of the segment was mainly due to the increase in sales of new products. The operating profit of the business segment was approximately RMB97.59 million (2023: approximately RMB117 million), representing a YOY decrease of 16.4%. Operating profit margin was 12.6% (2023: approximately 15.5%), representing a YOY decrease of 2.9 percentage points. The decline in operating profit and operating profit margin was mainly due to the changes in product mix and the increase in marketing expenses.

The condiment business segment has a complete product mix, and its core products include chicken bouillon, wasabi paste and fruit juice, which are the main source of income of this segment. Chicken essence and chicken powder help customers reduce costs and improve efficiency due to their cost-effective features. Innovative products such as sour and chilli sauce and seasoning sauce further enrich the product mix and make greater contribution to the revenue of the segment. The Group's new "65% fresh soy sauce (65度鮮醬油)" is welcomed by customers for its rich, pure and fresh flavour.

In terms of marketing strategy, the Group kept close contact with chefs through cooking contests and dinner parties, deeply understood their needs for condiments, and fed them back to the R&D team, so as to optimise the product formulation and manufacturing process. In addition, the Group promoted brand awareness through short videos and online dramas to enhance brand influence among young chefs.

In terms of sales channels, the number of Tier 1 distributors of the Group was increased to 905. The Group optimised the distribution management system and standardised the market order to ensure the quality and operational efficiency of distributors, and sell more categories of products. At the same time, the Group expanded the county-level markets, further exploring business opportunities and growth potential.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB245 million (2023: approximately RMB253 million). R&D costs accounted for 7.3% (2023: 7.7%) of revenue, representing a YOY decrease of 0.4 percentage point. All R&D costs (2023: 100%) were expensed, with no related costs capitalised (2023: Nil).

Human Resources and Corporate Culture Construction

As at 31 December 2024, the Group employed a total of 4,065 (as at 31 December 2023: 3,995) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other regions.

Digital Transformation

The Group's digital transformation program involves SAP ERP platform, decision-making management platform, funds management platform and product life cycle management platform, the infrastructure construction of which has been completed and officially put into use as of the year 2024. The SAP ERP platform optimizes the data visualisation of various business departments and makes public information of value and industrial chains, thus enabling management to specifically enhance management and operational efficiency. The decision-making management platform serves the finance department to realize the rapid digitalisation and systematisation of financial data, which improves the efficiency and accuracy of the preparation of financial statements by the Group and its subsidiaries, and helps the Group make more informed financial decisions. The funds management platform serves the funds management department to properly plan income and expenditures and timely control available funds, improving the effective management and utilisation of funds and maximising returns on funds. The product life cycle management platform mainly serves the R&D department to track and record products of every link from production to scrapping, helping the R&D department timely understand the product usage and optimise the product performance.

A key spotlight of digital transformation is the integration of the artificial intelligence (AI) system, which has been applied by the Group in the internal office platform, enabling employees to quickly search for and retrieve information and efficiently complete the production, summary and translation of documents, which greatly saved our time. In addition, the Group also applied AI technology in the R&D of flavouring and condiments, which provided reference for the formulation of different products for R&D and business teams based on the big data analysis and generation models, significantly enhancing the Group's capacity for R&D and product upgrade.

As at the end of 2024, the Group fully completed the infrastructure construction for the digital transformation program. In the future, the Group will continuously monitor the application effect of digital platforms and technologies on business management, and constantly improve and upgrade digital technologies to enhance the overall operation and management of the Group.

OUTLOOK

In 2025, the global economy is still full of high uncertainty, plus geopolitical conflicts and trade protectionism, the production, sales and market development costs of enterprises may increase, which will further squeeze corporate profit. However, with the rapid development and application of AI and Chinese government's efforts to constantly optimise economic policies, the Group is presented the opportunity to improve corporate operating efficiency and business environment. In response to the complicated situation, the management of the Group will, based on its own conditions, formulate the following strategic measures: first, strengthening R&D and innovation to play a leading role in innovation; second, achieving leapfrog development through AI empowering enterprises; third, constantly advancing the international development; fourth, strengthening supply chain management to provide a strong guarantee for business development; fifth, relying on lean production management to strengthen its core competence; sixth, building up the corporate culture and incentive mechanism with value creation as the orientation to achieve mutual benefits; seventh, achieving two-wheel drive through mergers and acquisitions to provide growth momentum; eighth, keeping abreast of the capital market to reinforce the capital market's confidence in the Group. The above measures involve R&D, production, supply chain, efficiency, management, culture, communication and other aspects, provide a clear direction for all employees to work hard, make improvement and cooperate with each other to practice the Group's vision of "Flavour your life" and consolidate its leading role in the industry, further promoting its business development.

In terms of F&F and Food ingredients, the Group will focus on developing daily chemical fragrance and food ingredient businesses, positioning them as the second growth driver for the F&F and Food ingredients business, aiming to achieve balanced development between fragrances and food flavours. By comprehensively enhancing its integrated solution capabilities, the Group will unlock future growth potential. In the field of tobacco raw materials, the Group will align with the harm reduction direction of the tobacco industry, prioritizing the development of innovative tobacco products and focusing on HNB and smokeless product solutions. We will seize the opportunities in the overseas market for tobacco capsules in the coming years to rapidly increase market share. Regarding aroma raw materials, adhering to the "green and healthy" development philosophy, the Group will vigorously develop high-quality, cost-effective biosynthetic fragrances and large-scale daily chemical fragrances, further optimizing the product mix and unleashing existing production capacity. In the condiment sector, the Group will focus on developing compound condiments to further meet the growing demand for industrial applications in the catering industry and the convenience and personalization of individual consumption. Meanwhile, the Group will expand into developing fermented products to further enrich its product line, and, by leveraging its channel advantages, to enhance its market share.

FINANCIAL REVIEW

Analysis of results for the year ended 31 December 2024

Revenue

The Group's revenue amounted to RMB3,373,265,000 for the year ended 31 December 2024, representing an increase of 2.0% as compared with RMB3,307,839,000 for the corresponding period last year. The increase in the revenue is mainly attributable to an increase in revenue of the aroma raw materials segment by 26.7% year-on-year to RMB791,523,000 as a result of the increase in demand in both domestic and overseas markets, and a 2.7% year-on-year increase in revenue of the condiment segment to RMB774,569,000 due to increased demand in the upstream market as a result of the recovery of the catering industry. However, the increase was partially offset by a 8.6% year-on-year decrease in revenue of the F&F and Food ingredients segment to RMB1,338,970,000 due to the changes in market demand and keen competition.

Cost of goods sold

The Group's cost of goods sold amounted to RMB1,931,821,000 for the year ended 31 December 2024, representing an increase of 5.1% as compared with RMB1,838,474,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit amounted to RMB1,441,444,000 for the year ended 31 December 2024, representing a decrease of RMB27,921,000 or approximately 1.9% as compared with RMB1,469,365,000 for the corresponding period last year. The decrease in gross profit was mainly attributable to the decline in gross profit margin for the year. The gross profit margin for the year was approximately 42.7%, representing a decrease of 1.7 percentage points as compared to 44.4% for the corresponding period last year. It was mainly attributable to the keen competition in the market, changes in the overall downstream market demand and the changes in the Group's product mix.

Other income and other gains – net

For the year ended 31 December 2024, other income and other gains (net) of the Group was RMB149,273,000, representing an increase of RMB2,665,000 as compared with RMB146,608,000 for the corresponding period last year. The increase in other income and other gains was mainly attributable to: (1) the gain from changes in fair value of financial assets at fair value through profit or loss ("FVPL") for the year amounting to RMB60,004,000 (2023: loss of RMB8,810,000), representing a year-on-year increase of RMB68,814,000, mainly due to the loss from changes in fair value of listed equity investments held in the year amounting to RMB12,326,000 (2023: RMB39,249,000), representing a year-on-year decrease of RMB26,923,000; the loss from changes in fair value of contingent consideration regarding the acquisition of Shanghai Yifang for the year amounting to RMB5,660,000 (2023: RMB29,200,000), representing a year-on-year decrease of RMB23,540,000, as well as the gain from changes in fair value of listed equity investments held in the year amounting to RMB6,221,000 (2023: loss of RMB21,824,000), representing a year-on-year increase of RMB28,045,000; (2) government grants reaching RMB99,980,000 (2023: RMB151,051,000) for the year, representing a year-on-year decrease of RMB51,071,000; (3) an exchange loss of RMB20,215,000 (2023: RMB5,635,000) was recorded for the year, representing a year-on-year increase of RMB14,580,000, mainly due to the depreciation of IDR against USD and RMB for the year.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, business and markets promotion expenses, agency services expenses, salaries and office expenses, etc. The selling and marketing expenses of the Group for the year ended 31 December 2024 amounted to RMB370,150,000, representing an increase of 13.3% as compared with RMB326,809,000 for the corresponding period last year. Selling and marketing expenses for the year accounted for approximately 11.0% of the total revenue, representing an increase of 1.1 percentage point as compared with approximately 9.9% for last year. The increase in such ratio and selling and marketing expenses was mainly attributable to the Group's increase in employee benefit expenses and the increase in business and marketing expenses in response to the fierce market competition in the current year.

Administrative expenses

For the year ended 31 December 2024, the Group's administrative expenses amounted to RMB930,894,000, representing an increase of RMB100,028,000 or 12.0% as compared with RMB830,866,000 for the corresponding period last year. Administrative expenses for the current year accounted for approximately 27.6% of the total revenue, representing an increase of 2.5 percentage points as compared with approximately 25.1% for the year ended 31 December 2023. The increase in such ratio and administrative expense was mainly attributable to the increase in employee benefit expenses for the year, of which the provision of share-based compensation expenses of approximately RMB43,772,000 due to the grant of restricted shares by Huabao Flavours, a subsidiary of the Company, and a provision for impairment of intangible assets of RMB14,380,000 provided for the year as a result of the gross profit and operating profit of Yancheng Chunzhu CGU failing to meet the expectations as assessed by an independent valuer.

Operating (loss)/profit

For the year ended 31 December 2024, the Group's operating loss was RMB401,946,000, representing a decrease of RMB779,997,000 as compared with the operating profit of RMB378,051,000 for the year ended 31 December 2023. The decrease in operating profit was mainly due to the recognition for the year of goodwill impairment of RMB630,887,000 (2023: RMB56,502,000), representing a year-on-year increase of RMB574,385,000; intangible asset impairment provision of RMB14,380,000 (2023: RMB9,850,000), representing a year-on-year increase of RMB4,530,000; share-based compensation expenses accrued at the subsidiary level of RMB48,549,000 (2023: RMB4,103,000), representing a year-on-year increase of RMB44,446,000; and provisions for impairment of receivables (presented as "Net impairment losses on financial assets" in the consolidated income statement) of approximately RMB60,732,000 (2023: RMB23,745,000), representing a year-on-year increase of RMB36,987,000.

If the effects of goodwill impairment for the year and last year of RMB630,887,000 and RMB56,502,000, respectively, the share-based compensation expenses for the year and last year of RMB48,549,000 and RMB4,103,000, respectively, and the provision for impairment of intangible assets for the year and last year of RMB14,380,000 and RMB9,850,000, respectively, were all excluded, the adjusted operating profit for the year would be approximately RMB291,870,000, representing a decrease of approximately RMB156,636,000 or 34.9% as compared with the adjusted operating profit of RMB448,506,000 (excluding goodwill impairment, share-based compensation expenses and provision for impairment of intangible assets) for last year, mainly due to the decrease in gross profit for the year, as well as the increase in selling and marketing expenses and administrative expenses and provisions for impairment of receivables. The adjusted operating profit margin for the year amounted to approximately 8.7%, representing a decrease of 4.9 percentage points from approximately 13.6% for last year, mainly due to the drop in gross profit margin and the increase in selling and marketing expenses and administrative expenses as a percentage of revenue for the year.

(Loss)/Profit before income tax

For the year ended 31 December 2024, the Group's loss before income tax was RMB402,425,000 (2023: profit of RMB415,925,000), representing a year-on-year decrease of RMB818,350,000. The year-on-year change was mainly due to the recognition for the year of goodwill impairment of RMB630,887,000 (2023: RMB56,502,000); intangible asset impairment provision of RMB14,380,000 (2023: RMB9,850,000); share-based compensation expenses accrued at the subsidiary level of RMB48,549,000 (2023: RMB4,103,000); and provisions for impairment of receivables (net) of approximately RMB60,732,000 (2023: RMB23,745,000); coupled with the provision for impairment of approximately RMB49,119,000 arising from the reclassification of investment in an associate to assets held for sale during the year, as well as the year-on-year increase in selling and marketing expenses and administrative expenses for the year.

Income tax expenses

The income tax expenses of the Group for the year ended 31 December 2024 amounted to RMB56,432,000, representing a decrease of RMB69,010,000 as compared with RMB125,442,000 for last year. If the effects of goodwill impairment, intangible asset impairment and provision for impairment on the investment in an associate for the year and last year were excluded, the adjusted income tax rate of the year would be approximately 19.3%, representing a decrease of 5.6 percentage points as compared with the adjusted income tax rate of approximately 24.9% for last year, mainly due to the tax refunds for prior year of RMB13,631,000 received by the Group during the year as a result of favorable tax policies.

(Loss)/Profit for the year

For the year ended 31 December 2024, the Group's loss was RMB458,857,000, representing a decrease of RMB749,340,000 as compared with the profit of RMB290,483,000 for last year. The year-on-year change was mainly due to the recognition for the year of goodwill impairment of RMB630,887,000 (2023: RMB56,502,000); intangible asset impairment provision of RMB14,380,000 (2023: RMB9,850,000); share-based compensation expenses accrued at the subsidiary level of RMB48,549,000 (2023: RMB4,103,000); provisions for impairment of receivables (net) of approximately RMB60,732,000 (2023: RMB23,745,000); coupled with the provision for impairment of approximately RMB49,119,000 arising from the reclassification of investment in an associate to assets held for sale during the year and the year-on-year increase in selling and marketing expenses and administrative expenses for the year.

If the effects of goodwill impairment for the year and last year of RMB630,887,000 and RMB56,502,000, respectively, the share-based compensation expenses for the year and last year of RMB48,549,000 and RMB4,103,000, respectively, the provision for impairment of intangible assets for the year and last year of RMB14,380,000 and RMB9,850,000, respectively, and the provision for impairment on the investment in an associate for the year and last year of RMB49,119,000 and RMB22,291,000, respectively, were all excluded, the adjusted profit for the year would be RMB284,078,000, representing a decrease of RMB99,151,000 or 25.9% as compared with the adjusted profit of RMB383,229,000 (excluding goodwill impairment, share-based compensation expenses, intangible assets impairment provision and provision for impairment on the investment in an associate) for last year.

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

For the year ended 31 December 2024, the loss attributable to the equity holders of the Company was RMB385,509,000, representing a decrease of RMB619,142,000 as compared with the profit attributable to the equity holders of the Company of RMB233,633,000 in the last year. The year-on-year change was mainly due to the recognition of goodwill impairment of RMB630,887,000 (2023: RMB56,502,000); provision for impairment of intangible assets of RMB14,380,000 (2023: RMB9,850,000); share-based compensation expenses accrued at the subsidiary level of RMB48,549,000 (2023: RMB4,103,000); provisions for impairment of receivables (net) of approximately RMB60,732,000 (2023: RMB23,745,000); the provision for impairment of approximately RMB49,119,000 arising from the reclassification of investment in an associate to assets held for sale during the year, as well as the year-on-year increase in selling and marketing expenses and administrative expenses for the year.

Net current asset value and financial resources

As at 31 December 2024, the net current asset value of the Group was RMB7,034,542,000 (31 December 2023: RMB6,975,409,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 December 2024, the Group's cash and bank balances amounted to RMB5,562,231,000 (31 December 2023: RMB2,539,493,000), over 80% of which were held in RMB. In addition, the fair value of outstanding bank wealth management products held by the Group as at 31 December 2024 amounted to RMB649,498,000 (31 December 2023: RMB3,847,748,000), which was presented as financial assets at FVPL.

Bank borrowings and gearing ratio

As at 31 December 2024, the total bank borrowings of the Group amounted to RMB194,000,000 (31 December 2023: RMB455,250,000), all of which were RMB loans, including secured loans due within one year amounting to RMB54,000,000 (31 December 2023: RMB36,000,000 due within two years) and unsecured loans amounting to RMB140,000,000 (31 December 2023: RMB419,250,000) due within one year. During the year, the average annual interest rate for secured loans was 3.8% (year ended 31 December 2023: 4.2%), while the average annual interest rate for unsecured loans was 2.2% (year ended 31 December 2023: 2.9%). As at 31 December 2024, the Group's debt ratio (total borrowings (including current and non-current borrowings) divided by total equity, excluding non-controlling interests) was 1.6%, representing a decrease of 2.0 percentage points from 3.6% as at 31 December 2023.

Investing activities

The Group's investing activities included the purchase of property, plant and equipment, financial assets investment and merger & acquisition activities related to the strategical development strategies. For the year ended 31 December 2024, the net cash generated from investing activities amounted to RMB1,009,127,000, mainly the proceeds from bank wealth management products upon expiry. For the year ended 31 December 2023, the net cash used in investing activities amounted to RMB2,604,686,000.

Financing activities

For the year ended 31 December 2024, the net cash used in the Group's financing activities amounted to RMB646,390,000, mainly comprising repayment of bank borrowings of RMB558,250,000, payment of cash dividends of RMB249,968,000 to shareholders of the Company, payment of cash dividends of RMB68,818,000 to non-controlling interests, and addition of bank borrowings of RMB297,000,000. For the year ended 31 December 2023, the net cash used in financing activities amounted to RMB674,196,000.

Trade receivables turnover period

The trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning of and at the end of a relevant financial period divided by the total revenue for the corresponding period and multiplied by 360 days. The Group generally offers its customers a credit period of approximately 0-180 days, depending on the business volume of, and the length of business relationship with the customers. For the year ended 31 December 2024, the Group's average trade receivables turnover period was 81 days, representing a decrease of 16 days as compared with 97 days for the corresponding period last year. The decrease was mainly due to the decrease in the Group's average trade receivables for the year as compared to the last year, while the sales revenue for the year recorded a year-on-year increase.

Trade payables turnover period

The trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning of and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 December 2024, the Group's average trade payables turnover period was 47 days, decreased by 4 days as compared with 51 days for the corresponding period last year. The decrease was mainly due to the decrease in the average trade payables for the year, while the cost of goods sold for the year recorded a year-on-year increase.

Inventory and inventory turnover period

As at 31 December 2024, the Group's inventory balance amounted to RMB893,330,000, representing a decrease of RMB101,262,000 as compared with the balance of RMB994,592,000 as at 31 December 2023, mainly due to an increase in the Group's provision for impairment of obsolete inventory or inventory depreciation for the year. As at 31 December 2024, the balance of the provision for impairment of inventories amounted to RMB110,598,000 (31 December 2023: RMB4,386,000). For the year ended 31 December 2024, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning of and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 360 days) was 176 days, decreased by 21 days as compared with 197 days for the corresponding period last year. The decrease was mainly due to the decrease in the average inventory balance as compared to last year, while the cost of goods sold for the year recorded a year-on-year increase.

Foreign exchange and exchange rate risk

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

Pledge of assets

As at 31 December 2024, the properties and right-of-use assets of Shanghai Yifang Rual Technology Co. Ltd. and its subsidiaries with total carrying values of RMB43,063,000 (31 December 2023: RMB39,245,000) were used as collateral for the Group's secured bank borrowings with total amount of RMB54,000,000 (31 December 2023: RMB36,000,000). Apart from the above-mentioned, the Group had no pledged assets as at 31 December 2024.

Capital Commitments

As at 31 December 2024, the Group had capital commitments in respect of the purchase of property, plant and equipment, right-of-use assets, intangible assets and investments in a jointly controlled entity and financial assets at FVPL, contracted for but not provided in the financial statements amounting to approximately RMB97,854,000 (31 December 2023: RMB140,455,000).

Contingent liabilities

According to the information available to the Board, the Group had no significant contingent liabilities as at 31 December 2024 and 2023.

EVENT AFTER THE REPORTING PERIOD

Termination of Share Incentive Scheme of a Subsidiary

On 28 March 2025, the board of directors of Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), an indirect non-wholly owned subsidiary as well as a principal subsidiary of the Company approved the termination of the share incentive scheme (the "Huabao Flavours Share Incentive Scheme"), subject to the shareholders' approval of Huabao Flavours at its shareholders' meeting to be held on 18 April 2025 in accordance with the terms of Huabao Flavours Share Incentive Scheme and the applicable laws of The People's Republic of China (the "Termination"). Upon Termination, all unvested restricted shares shall not be vested.

The Termination does not relate to nor have any impact on the share structure of the Company.

In accordance with relevant regulations of the Hong Kong Financial Reporting Standards, the Termination requires accelerated vesting, and the expected share-based compensation expenses of approximately RMB70 million will be recognised in 2025. The impact of share-based compensation expenses on the net profit of the Company and Huabao Flavours shall be subject to the final audit results by the auditors.

Except for the disclosed above and elsewhere in this announcement, there were no significant events after the reporting period.

SIGNIFICANT EVENTS OR TRANSACTIONS

Use of Proceeds of a Subsidiary

In 2018, Huabao Flavours completed its initial public offering ("IPO"), raising gross proceeds of approximately RMB2,377 million. After deducting issuance expenses, the net proceeds amounted to approximately RMB2,312 million. Huabao Flavours was successfully listed on the ChiNext Market of Shenzhen Stock Exchange (Stock Code: 300741).

As of 31 December 2023, the balance of unutilised net proceeds, amounting to approximately RMB1,368.62 million, and the accumulated interest and cash management income, amounting to approximately RMB291.74 million, were brought forward to the financial year of 2024. As of 31 December 2024, Huabao Flavours had utilised approximately RMB951.27 million, representing approximately 41.15% of the net proceeds.

The table below sets forth the allocation and status of utilisation of the net proceeds as of 31 December 2024 and the expected timeline of the use of the unutilised net proceeds:

Use of IPO proceeds	Proceeds allocated at the IPO (RMB millions)	Proceeds allocated after the previous change (RMB millions)	Unutilised proceeds as of 31 December 2023 (RMB millions)	Actual proceeds utilised during the year ended 31 December 2024 (RMB millions)	Unutilised proceeds as of 31 December 2024 (RMB millions)
Huabao Technology Innovation Center and Supporting Facilities Project ("Huabao TechInno Project") (2)	–	449.9742	440.55	(0.73)	439.82
Huabao Digital Transformation Project ("Huabao Digital Project") (3)	–	60.00	38.51	(7.32)	31.19
Special account for the unutilised proceeds ("Special Account") (4)	N/A	889.56	889.56	–	889.56
Total (1)			1,368.62	(8.05)	1,360.57

(1) Accumulated interest and cash management incomes in the amounts of RMB291.74 million and RMB331.39 million for the years ended 31 December 2023 and 2024 respectively were excluded.

(2) The Huabao TechInno Project aims to build a new science and technology innovation center for research on food flavours, tobacco flavours and new tobacco materials, etc, as well as a talent apartment building to provide residential support for recruited talent. The expected investment amount for the project was RMB449.9742 million, with proceeds transferred from the Lhasa Pure Land Healthy Food Project ("Huabao Lhasa Project") and Huabao H&K Food Flavours and Food Technology Development Project, initially expected to be fully utilised on or before 31 December 2022, with the timeline postponed to 31 December 2025 in 2022. At the board meeting of Huabao Flavours held on 30 March 2023, the expected date for full utilisation of the proceeds was further delayed to 31 December 2026. At the board meeting of Huabao Flavours held on 26 March 2024, the expected date was once again postponed to 31 December 2027.

(3) The Huabao Digital Project aims to build an integrated service platform through digital transformation, which includes three parts: application front-end, capability middle-end, and basic backend, to realize the digital transformation of enterprises and improve operational efficiency. The expected investment amount for the project was RMB60.00 million, which was transferred from the Huabao Lhasa Project in 2022, with full utilisation expected on or before 31 December 2023. At the board meeting of Huabao Flavours held on 25 March 2022, the expected date for full utilisation of the proceeds was delayed to 31 December 2024. At the board meeting of Huabao Flavours held on 26 March 2024, the expected date for full utilisation of the proceeds was further delayed to 31 December 2026. As of the date of this announcement, the remaining unutilised proceeds allocated to this project are proposed to be fully utilised in accordance with the intentions and expected timelines disclosed in this announcement.

(4) According to Article 5 of the Regulatory Guidelines for Listed Companies No.2 – Regulatory Requirements in Respect of Management and Use of Proceeds Raised by Listed Companies (《上市公司監管指引第2號-上市公司募集資金管理和使用的監管要求》), the special account is designated solely for the deposition of proceeds and shall not be used for funds other than proceeds or for any other purposes. Pursuant to Article 6, the proceeds shall be utilised in accordance with the use of proceeds set out in the prospectus or other public offering documents. Any changes in the intended use set out in the prospectus or other public offering documents by public companies shall be subject to a resolution of the general meeting. Article 8 stipulates that the proceeds which are temporarily idle may be subject to cash management. As of 31 December 2024, the balance of Special Account was mainly consists of special funds that have not yet been allocated following the termination certain projects. Huabao Flavours would, in accordance with the Regulatory Guidelines for Listed Companies No.2 – Regulatory Requirements in Respect of Management and Use of Proceeds Raised by Listed Companies (《上市公司監管指引第2號-上市公司募集資金管理和使用的監管要求》), submit new projects to the shareholders' meeting of Huabao Flavours for approval including, but not limited to, the investment amount of the projects and the timeline for the use of the funds thereof, after a decision has been made by the board of directors of Huabao Flavours.

Investment Plan Progress Adjustment of a Project Related to the use of Proceeds - Huabao Techinno Project

Huabao Flavours held the 16th meeting of the 3rd session of its board of directors and the 11th meeting of the 3rd supervisory board respectively on 28 March 2025. During these meetings, Huabao Flavours reviewed and approved the "Proposal for Adjusting the Investment Plan Progress of a Project Related to the Use of Proceeds" and agreed to revise the investment plan progress for Huabao TechInno Project. This proposal does not involve any changes to the intended use of proceeds and does not require submission to Huabao Flavours' shareholders' meeting for approval.

The original expected investment amount for the Huabao TechInno Project was RMB449.9742 million. The required land designation will be changed from industrial land to research and development land. The conversion of the owned land and the relevant land acquisition has been completed, and the relevant government departments are handling the land use procedures and subsequent matters. Therefore, based on the actual progress of the project's land construction, Huabao Flavours, after comprehensive evaluation, proposes to adjust the annual investment plan for the Huabao TechInno Project, with date for the project to meet the conditions for its intended use being moved from the original scheduled date of 31 December 2027 to 30 June 2029.

The Board considers that adjusting the investment plan progress of a project related to the use of proceeds will not have any material adverse impact on the existing business and operations of the Group and is in the best interest of the Company and its shareholders as a whole. Save as disclosed in this announcement, the Board confirms that there are no other changes to the intended use of the unutilised proceeds.

The Company, though Huabao Flavours will continuously assess the plans for the use of unutilised proceeds and may revise or amend such plans where necessary to adopt to the changing market conditions to strive for a better business performance of the Group.

Significant Investment

During the Year, in order to maximise the utilisation of the surplus cash balances in the capital account without affecting the operational liquidity, the Group's subsidiaries utilised part of their bank balances to subscribe for the financial products offered by the banks in China with a view to achieving higher interest yields whilst maintaining high liquidity and relatively low risk exposure.

Considering the capital-protected nature of the financial products, the relatively low risk exposure, the better rate of return than normal bank deposits generally offered by commercial banks in the PRC, the relatively shorter terms to maturity, and the financial products were funded by the surplus cash balances of the Group and are highly liquid, the Company considered that the financial products would provide the Group with better earnings in the long term than making normal bank deposits with terms offered by licensed commercial banks in the PRC and the investment in the financial products would not affect the working capital or the operation of the Group.

As of 31 December 2024, the aggregate of the outstanding investment amount of the financial products subscribed by members of the Group from the banks in China amounted to approximately RMB 645 million (31 December 2023: approximately RMB 3,818 million), with a fair value of approximately RMB649 million (31 December 2023: approximately RMB 3,848 million), accounting for 4.3% of the Company's total assets at year-end (31 December 2023: 24.0%).

As of 31 December 2024, the outstanding investment amount of the financial products subscribed by the Group in a single bank as of the end of the Year did not exceed 5% of the Group's total assets. During the Year, announcements regarding individual financial products (if applicable) have been made. The Company will continue to monitor market conditions and assess investment opportunities to optimize its investment portfolio. The Company will remain focused on maintaining a balance between risk and return to achieve sustainable growth and financial stability.

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

References are made to the Company's announcements dated 8 March 2022, 9 August 2023, 11 March 2024, 8 October 2024, 4 November 2024 and 26 February 2025 (collectively, the "Announcements") respectively.

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

Pursuant to the Share Transfer Agreement, among others, Huabao Flavours, Qian Rong and Wong Kam Wing are obligated to fulfill their respective capital increase commitments as scheduled in proportion to their respective shareholdings in Shanghai Yifang. Additionally, Qian Rong and Wong Kam Wing have agreed to undertake the performance undertaking and compensation obligations in favor of Huabao Flavours. The performance undertaking period is a three-year period, commencing from 1 January 2022 to 31 December 2024 (the "Performance Undertaking Period"). During the Performance Undertaking Period, Shanghai Yifang is required to achieve the following consolidated net profits: (i) at least RMB 41.00 million for 2022, (ii) at least RMB 55.00 million for 2023, and (iii) at least RMB 74.00 million for 2024. In the event that Shanghai Yifang fails to fulfill the performance undertaking by the expiry of the Performance Undertaking Period, Qian Rong and Wong Kam Wing shall compensate Huabao Flavours in cash within 15 days following the issuance of Shanghai Yifang's 2024 annual audit report.

Based on the financial information of Shanghai Yifang, the actual net loss for the years ended 31 December 2022, 2023 and 2024 amounted to approximately RMB42,195,600, RMB65,755,900 and RMB 70,036,000 respectively. The performance shortfall for the years ended 31 December 2022, 2023 and 2024 amounted to approximately RMB83,195,600, RMB120,755,900 and RMB144,036,000 respectively.

The actual performance of Shanghai Yifang for the years 2022, 2023 and 2024 did not meet the guaranteed profit targets set by Qian Rong and Wong Kam Wing.

The Share Transfer Agreement did not provide any option for Huabao Flavours to sell the equity interests in Shanghai Yifang or any part thereof back to Qian Rong and Wong Kam Wing. However, the consideration will be adjusted after the expiry of the Performance Undertaking Period in accordance with the Share Transfer Agreement, should Shanghai Yifang fail to meet the Performance Undertaking. In addition, Qian Rong and Wong Kam Wing previously failed to fulfil the obligations on paying the agreed additional capital, constituting a material breach of their undertakings under the Share Transfer Agreement. At the same time, considering that Shanghai Yifang has sustained a loss during the Performance Undertaking Period, Huabao Flavours initiated arbitration proceedings against Qian Rong and Wong Kam Wing as respondents (the "Arbitration") at the Shanghai International Arbitration Center (the "Arbitration Center") in 2023. Please refer to the Announcements for details of the Arbitration and its results.

Given the material breach of Qian Rong and Wong Kam Wing for failure to fulfill their capital increase obligations, and to safeguard the benefits of Huabao Flavours as well as the legitimate rights and interests of investors, Huabao Flavours separately submitted relevant materials and documents to the Arbitration Center for an arbitration application and preservation of assets. In accordance with the relevant provisions of the Civil Code of the People's Republic of China and the undertakings set forth in the Share Transfer Agreement, Huabao Flavours requested Qian Rong and Wong Kam Wing fulfil the capital increase obligations specified in the Share Transfer Agreement through Keli Enterprise, compensate for a loss totaling RMB28,410,400 and bear the corresponding arbitration fees, legal fees, assets preservation fees, preservation guarantee fees and other associated costs. In November 2024, Huabao Flavours received the "Notice of Acceptance for Arbitration" issued by the Arbitration Center.

Based on the fact that Shanghai Yifang's Performance Undertaking Period has expired and it has continued to suffer losses during the Performance Undertaking Period, Huabao Flavours submitted an application to the Arbitration Center to modify the Arbitration claims. According to the performance compensation calculation formula stipulated in the Share Transfer Agreement, Huabao Flavours requested a ruling that Qian Rong and Wong Kam Wing should pay RMB606 million in performance compensation to Huabao Flavour and also bear the corresponding legal fees, property preservation fees, security fees, and other costs for the realization of creditor's rights. The total amount of claim relating to the Arbitration is approximately RMB636 million. On 25 February 2025, Huabao Flavours received a letter from the Arbitration Center agreeing to the modification of the Arbitration claims.

According to Shanghai Yifang's 2024 annual audit report and the performance compensation calculation formula stipulated in the Share Transfer Agreement, Qian Rong and Wong Kam Wing should compensate RMB617.1661 million to Huabao Flavours. Huabao Flavours will submit an application to the Arbitration Center to modify the Arbitration claims.

As of the date of this announcement, as the Arbitration has not yet begun, the Group is unable to preciously predict the final outcome or evaluate the impact of the Arbitration on the Group's financial position. Should there be any further developments regarding the Arbitration, the Company will make further announcements to inform the shareholders and the public as and when appropriate in accordance with relevant requirements.

Based on the current situation of Shanghai Yifang and its available actions to be considered, the Board is of the view that the claimed amount submitted to the Arbitration is fair and reasonable and in the best interest of the Company and shareholders as a whole.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Save and except as disclosed below, the Company had complied with the code provisions in the Corporate Governance Code (the "CG Code") contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and, where appropriate, adopted the recommended best practices as set out in the CG Code throughout the financial year ended 31 December 2024 (the "Year").

The Company has not fully complied with the code provisions C.2.1 in Part 2 of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. CHU Lam Yiu, chairlady (the "Chairlady") of the Board and executive director of the Company (the "Director"), took up the position of chief executive officer on 9 April 2013. While the Board acknowledges this deviation from the CG Code, it is of the view that the current leadership structure has not, and will not, impair the balance of power and authority of the Board and the executive management for the following reasons: (i) despite holding both positions, Ms. CHU Lam Yiu does not have sole authority over the Company's strategic direction or decision-making processes. The Company has established clear distinctions between the roles and responsibilities of the Board and the executive management. While Ms. CHU Lam Yiu, as chief executive officer, oversees the day-to-day operations of the Company, the Board retains ultimate responsibility for strategic oversight, governance, and long-term decision-making. This division ensures that operational decisions are managed by the executive team while strategic decisions remain the domain of the Board; (ii) the Board meets on a regular basis to discuss key issues pertaining to the Group's business operations. The presence of independent non-executive Directors of the Company ("INEDs") at these meetings ensures that the views of the executive management, including those of Ms. CHU Lam Yiu as both Chairlady and chief executive officer, are appropriately balanced by the perspectives of non-executive directors; and (iii) since Ms. CHU Lam Yiu assumed the dual roles of Chairlady and chief executive officer in 2013, the Company has continued to operate effectively, with stable corporate governance, sound decision-making, and positive business performance. There has been no evidence to suggest that the holding of both positions has resulted in any undue concentration of power or compromised the Company's governance structure. As such, the Board is confident that the effectiveness of corporate planning and implementation of corporate strategies and decisions will not adversely be affected by the current leadership arrangement.

Model Code for Securities Transactions by Directors of Listed Issuers

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

Proposed Special Dividend

The Board does not recommend the payment of a final dividend for the Year (2023: HK0.8 cent per Share, approximately RMB23.495 million). However, having considered the financial resources and the strategy of the Group, including but not limited to the Group's adjusted operating profit for the Year, working capital, cash flow and balance sheet strength, the Board proposes to declare a special dividend of HK5.0 cents per Share (2023: HK4.2 cents per Share) in cash, amounting to approximately RMB149.552 million (2023: approximately RMB123.349 million) for the Year to reward Shareholders for their support for the Company. The special dividend is expected to be paid on 27 June 2025 to Shareholders whose names appear on the register of members of the Company on 10 June 2025. The payment of the special dividend is subject to Shareholders' approval at the AGM which is scheduled to be held on 15 May 2025.

CLOSE OF REGISTER OF MEMBERS FOR AGM

In order to determine the entitlement of Shareholders to attend and vote at the AGM which is scheduled to be held on 15 May 2025, the register of members of the Company will be closed from 12 May 2025 to 15 May 2025, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 9 May 2025. Shareholders whose names are recorded in the register of members of the Company on 15 May 2025 are entitled to attend and vote at the 2025 AGM.

CLOSE OF REGISTER OF MEMBERS FOR PAYMENT OF SPECIAL DIVIDEND

In order to determine Shareholders who qualify for the proposed special dividend, the register of members of the Company will be closed from 9 June 2025 to 10 June 2025, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 6 June 2025. Shareholders whose names are recorded in the register of members of the Company on 10 June 2025 are entitled to receive the special dividend in cash for the Financial Year.

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares as defined under the Listing Rules). The Company did not hold any treasury shares as at 31 December 2024.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

AUDIT COMMITTEE

The Board has formed an audit committee (the "Audit Committee") in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the accounting, financial reporting procedure and internal control of the Group. The Audit Committee members currently comprise all of the independent non-executive Directors of the Company, namely, Mr. LEE Luk Shiu, Mr. Jonathan Jun YAN and Mr. HOU Haitao. The Audit Committee of the Company has reviewed the Group's audited final results for the Year.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of the financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2024 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of HKEXnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com). The Company's 2024 annual report will be dispatched to Shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong, 28 March 2025

As at the date of this announcement, the Board comprises six executive directors, namely Ms. CHU Lam Yiu, Messrs. LAM Ka Yu, XIA Liqun, POON Chiu Kwok, Ms. LAM Ka Yan, and Ms. CHOY Man Har, and three independent non-executive directors, namely Mr. LEE Luk Shiu, Mr. Jonathan Jun YAN and HOU Haitao.

* *For identification purposes only*