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 2022

TABLE OF FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change in percentage
	2022	2021	
	RMB'000	*RMB'000*	
Revenue	**3,828,984**	3,882,683	-1.4%
Gross profit	**1,877,563**	2,296,662	-18.2%
Gross profit margin	***49.0%***	*59.2%*	
Operating (loss)/ profit	**(607,975)**	1,114,477	N/A
EBITDA margin ≠	***32.2%***	*43.5%*	
EBIT margin ≠≠	**-15.9%**	28.7%	
Adjusted EBIT margin#	**23.5%**	36.3%	
(Loss)/profit for the year	**(901,050)**	895,784	N/A
Adjusted profit for the year#	**606,660**	1,189,054	-49.0%
(Loss)/profit attributable to the equity holders of the Company	**(1,054,547)**	675,131	N/A
Adjusted profit attributable to the equity holders of the Company#	**453,163**	968,401	-53.2%
	RMB cents	*RMB cents*	
Basic and diluted (loss)/earnings per share	**(32.65)**	21.70	N/A
Adjusted basic and diluted earnings per share#	**13.77**	31.12	-55.8%
Proposed/paid special/final dividend per share *(note 9)*	**HK5.1 cents**	HK2.0 cents	
Total dividend per share for the year *(note 9)*	**HK8.48 cents**	HK8.4 cents	
Dividend payout ratio for the year	**52.9%**	32.3%	

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

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

\# *Excluding impairment of goodwill of RMB1,507,710,000 for the year ended 31 December 2022 and RMB293,270,000 for the year ended 31 December 2021. Regarding the analysis of the goodwill impairment for the current year, please refer to the section of "Management Discussion and Analysis" of this announcement.*

* *For identification purpose only*

On 30 March 2023, 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 2022 together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**3,828,984**	3,882,683
Cost of goods sold	*5*	**(1,951,421)**	(1,586,021)
Gross profit		**1,877,563**	2,296,662
Other income and other gains - net	*6*	**212,812**	248,519
Selling and marketing expenses	*5*	**(344,405)**	(292,244)
Administrative expenses	*5*	**(825,959)**	(841,663)
Impairment of goodwill		**(1,507,710)**	(293,270)
Net impairment losses on financial assets		**(20,276)**	(3,527)
Operating (loss)/profit		**(607,975)**	1,114,477
Finance income		**71,791**	101,784
Finance costs		**(37,970)**	(81,468)
Finance income– net		**33,821**	20,316
Share of results of associates and jointly controlled entities		**(7,056)**	12,584
Provision for impairment relating to the investment in an associate		**(139,000)**	–
(Loss)/profit before income tax		**(720,210)**	1,147,377
Income tax expense	*7*	**(180,840)**	(251,593)
(Loss)/profit for the year		**(901,050)**	895,784
Attributable to:			
Equity holders of the Company		**(1,054,547)**	675,131
Non-controlling interests		**153,497**	220,653
		(901,050)	895,784
(Loss)/earnings per share for (loss)/profit attributable to the Company's equity holders for the year		***RMB cents***	*RMB cents*
Basic and diluted	*8*	**(32.65)**	21.70

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(901,050)**	895,784
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	**(1,583)**	(53,428)
Currency translation differences of the Company and its non-foreign operations	**107,178**	8,039
Items that may be reclassified to profit or loss		
Currency translation differences of foreign operations	**(2,762)**	7,320
Other comprehensive income/(loss) for the year, net of tax	**102,833**	(38,069)
Total comprehensive (loss)/income for the year, net of tax	**(798,217)**	857,715
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(958,614)**	638,306
Non-controlling interests	**160,397**	219,409
	(798,217)	857,715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**2,042,644**	1,642,566
Right-of-use assets		**385,498**	251,963
Investment properties		**27,332**	–
Intangible assets		**4,322,720**	5,847,307
Investments in associates		**691,748**	806,407
Investments in jointly controlled entities		**19,802**	202,831
Financial assets at fair value through other comprehensive income		**16,006**	17,870
Financial assets at fair value through profit or loss		**253,058**	215,679
Deferred income tax assets		**152,524**	167,542
Other non-current assets		**8,634**	133
		7,919,966	9,152,298
Current assets			
Biological assets		**1,470**	–
Inventories		**1,020,023**	897,226
Trade and other receivables	*10*	**1,242,178**	1,081,046
Financial assets at fair value through other comprehensive income		**49,794**	48,785
Financial assets at fair value through profit or loss		**1,637,613**	3,292,365
Cash and bank balances		**4,747,978**	3,553,409
		8,699,056	8,872,831
Total assets		**16,619,022**	18,025,129

	Note	As at 31 December 2022 RMB'000	2021 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**328,619**	328,619
Reserves		**4,380,460**	4,387,519
Retained earnings		**7,941,787**	9,168,518
		12,650,866	13,884,656
Non-controlling interests		**1,906,572**	1,834,163
Total equity		**14,557,438**	15,718,819
LIABILITIES			
Non-current liabilities			
Put option liability		**131,836**	–
Lease liabilities		**37,290**	22,176
Deferred income tax liabilities		**125,368**	149,450
Trade and other payables	*12*	**12,163**	800
		306,657	172,426
Current liabilities			
Borrowings	*11*	**677,700**	962,774
Lease liabilities		**23,480**	18,751
Trade and other payables	*12*	**722,135**	748,245
Current income tax liabilities		**215,650**	237,169
Contract liabilities		**115,962**	166,945
		1,754,927	2,133,884
Total liabilities		**2,061,584**	2,306,310
Total equity and liabilities		**16,619,022**	18,025,129

Notes:

1. **BASIS OF PREPARATION**

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

2. **ACQUISITION DURING THE YEAR**

On 9 August 2021, Huabao Flavours & Fragrances Co., Ltd. ("Huabao Flavours"), a non-wholly owned subsidiary of the Group acquired 40% equity interests in Shanghai Yifang Rural Technology Holdings Co., Ltd. and its subsidiaries ("Shanghai Yifang") for a total consideration of RMB180,000,000 in cash. On 8 March 2022, Huabao Flavours further acquired 27% equity interests in Shanghai Yifang for a total consideration of RMB121,500,000 in cash. After the completion of the Acquisition, Huabao Flavours' shareholding in Shanghai Yifang in aggregate reaches 67% and Shanghai Yifang becomes a subsidiary of Huabao Flavours.

Shanghai Yifang is primarily engaged in the promotion and consulting services of agricultural technology, cultivation of fruits and vegetables, research and development of food additives and food production, etc.

3. **ACCOUNTING POLICIES**

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those financial statements, except for the adoption of new and amendments to HKFRSs listed in note (a) to (d) as follows.

(a) **Initial application of HKAS 41 "Agriculture"**

In March 2022, Shanghai Yifang became a subsidiary of Huabao Flavours.

- *Property, plant and equipment*

  Shanghai Yifang holds lemon trees, grapefruit trees, mulberry trees, orange trees and blueberry trees (collectively the "fruit trees") with aggregate carrying amounts of approximately RMB128,179,000 as at 31 December 2022. Shanghai Yifang's fruit trees qualify as bearer plants under the definition in HKAS 41 "Agriculture" and are therefore accounted for under the rules for plant and equipment. Fruit trees are classified as immature until the fruits can be commercially harvested. At that point they are reclassified as mature and depreciation commences. Immature fruit trees are measured at accumulated cost less impairment.

  All property, plant and equipment, including fruit trees is recognised at historical cost less depreciation. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, with no residual values, over the shorter of their estimated useful lives or lease term as follows:

Bearer plants	21.5-25 years

  The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

- *Biological assets*

  Biological assets consist of the growing produce before harvest on fruit trees. Harvested fruits are transferred to inventory raw materials when harvested. Fruit trees are bearer plants and are accounted for as property, plant and equipment.

  Biological assets are measured at fair value less cost to sell on initial recognition and at the end of each reporting period, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are carried at cost less impairment loss. Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in profit or loss.

  The agricultural produce harvested from fruit trees is measured at fair value less costs to sell at the time of harvest, which is determined based on market prices of similar agricultural produce prevailing in the market as at or close to the harvest dates in the local market. The fair value less costs to sell at the time of harvest is deemed as the cost of the inventories for sales. Costs to sell are the incremental costs directly attributable to sell the assets but excludes finance costs and income taxes. Biological assets that are expected to be realised in the next harvest within the next twelve months are classified under current assets.

(b) Put option liability

Put option is the financial instrument granted by the Group that the counterparty may have the right to request the Group to purchase the equity instrument that held by the counterparty for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or another financial assets under the put option, it is reclassified from equity and has to recognise a financial liability with a reduction of parent equity at the present value of the estimated future cash outflows under the put option. Subsequently, if the Group revises its estimates of payments, the Group will adjust the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. The Group will recalculate the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and the adjustments will be recognised as changes in financial cost in the consolidated income statement. If the put option expires without delivery, the carrying amount of the liability is reclassified to equity. The put option liabilities are classified as current liabilities unless the put option can only be exercised 12 months after the end of the reporting period.

(c) Investment properties

Investment properties are held for long-term rental yields or for capital appreciation or both and are not occupied by the Group. Commercial properties held under leases held for rental yields and are not occupied by the Group are recognised as investment properties.

The Group measured its investment properties at cost, including related transaction costs and where applicable borrowing costs. Depreciation is calculated using the straight-line method to allocate their cost over their useful life at about 15 years.

If an item of owner-occupied property becomes an investment property because its use has changed, the carrying amount of the item at the date of transfer is equal to the carrying amount of the investment property measured by the cost model.

(d) New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- Amendments to Accounting Guideline 5 – Merger Accounting for Common Control Combinations
- Narrow scope amendments (amendments) – Amendments to HKFRS 3, HKAS 16 and HKAS 37

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards or annual improvements.

(e) New standards and interpretations not yet adopted

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

		Effective for the financial year beginning on or after
HKFRS 17	Insurance contract	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements - classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with covenants	1 January 2024
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

4. 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 2022 is presented below:

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

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

The segment information for the year ended 31 December 2021 is presented below:

	Year ended 31 December 2021					
	Flavours and fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Total revenue	1,941,375	586,072	720,649	676,481	22	3,924,599
Inter-segment revenue	(14,626)	(20,667)	(6,623)	–	–	(41,916)
Segment revenue – net	1,926,749	565,405	714,026	676,481	22	3,882,683
Segment result	1,104,081	(80,091)	59,096	136,864	(105,473)	1,114,477
Finance income						101,784
Finance costs						(81,468)
Finance income – net						20,316
Share of results of associates and jointly controlled entities						12,584
Profit before income tax						1,147,377
Income tax expense						(251,593)
Profit for the year						895,784
Depreciation	40,583	84,652	33,401	11,836	6,357	176,829
Amortisation	1,828	8,994	15,444	73,919	139	100,324

	As at 31 December 2021					
	Flavours and Fragrances *RMB'000*	Tobacco raw materials *RMB'000*	Aroma raw materials *RMB'000*	Condiment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	8,389,135	2,314,894	1,344,664	4,586,505	1,389,931	18,025,129

Segment result represents the 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. This is the measure reported to chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

5. EXPENSES BY NATURE

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

		Year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Depreciation		**207,173**	162,052
Amortisation		**98,253**	98,266
Provision for impairment of property, plant and equipment		**31,774**	–
Provision for impairment of inventories		**1,760**	1,220
Changes in inventories of finished goods and work in progress		**(8,106)**	(149,570)
Raw materials and consumables used		**1,385,390**	1,343,231
Short-term lease rentals		**29,669**	19,691
Auditor's remuneration			
– Audit services		**10,418**	9,565
– Non-audit services		**–**	2,876
Consulting service fee		**18,229**	15,577
Travelling expenses		**17,307**	30,876
Employee benefit expenses		**608,149**	557,962
Research and development expenses	*(a)*	**266,233**	250,788
Delivery expenses		**38,064**	36,120
Utilities expenses		**92,055**	71,636
Motor vehicle expenses		**6,163**	7,931
Maintenance expenses		**16,123**	20,695
Advertising, promotion and agency service expenses		**124,624**	45,463
Office administrative and communication expenses		**9,370**	9,760
Other surcharges		**44,738**	47,562
Others		**124,399**	138,227
Total of cost of goods sold, selling and marketing expenses and administrative expenses		**3,121,785**	2,719,928

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Depreciation	**18,165**	14,777
Amortisation	**6,650**	2,058
Employee benefit expenses	**137,114**	124,374

6. OTHER INCOME AND OTHER GAINS – NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Changes in fair value of financial assets at FVPL	**106,052**	104,568
Dividend income from financial assets at FVPL	**3,444**	889
Gains on disposal of financial assets at FVPL	**–**	5,246
Gain on disposal of an associate	**–**	16,720
Gain on disposal of a joint controlled entity	**–**	1,876
Loss on disposal of a subsidiary	**(1,184)**	–
Gain on disposal of property, plant and equipment	**5,085**	5,726
Government grants	**126,085**	146,542
Foreign exchange losses - net	**(17,871)**	(27,510)
Change in fair value of previously held interest in a jointly controlled entity upon acquisition as a subsidiary	**(24,083)**	–
Gains on fair value change of biological assets	**2,094**	–
Written off of payables	**12,234**	–
Donations	**(839)**	(3,979)
Others	**1,795**	(1,559)
	212,812	248,519

7. INCOME TAX EXPENSE

		Year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Current income tax			
– Hong Kong profits tax	*(a)*	**2,955**	6,833
– PRC corporate income tax	*(b)*	**196,512**	271,822
– Germany company income tax	*(c)*	**54**	116
– Botswana company income tax	*(d)*	**142**	1,003
– Indonesia company income tax	*(e)*	**77**	–
Deferred income tax		**(18,900)**	(28,181)
		180,840	251,593

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2021:16.5%) 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.

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

(c) Germany company income tax has been provided at the rate of 15.0% (2021:15.0%) on the estimated assessable profit for the year.

(d) Botswana company income tax has been provided at the rate of 15.0% (2021:15.0%) on the estimated assessable profit for the year.

(e) Indonesia company income tax has been provided at the rate of 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 2022 and 2021.

8. (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 year ended 31 December 2022 and 2021.

	Year ended 31 December	
	2022	2021
(Loss)/profit attributable to equity holders of the Company *(RMB'000)*	**(1,054,547)**	675,131
Weighted average number of ordinary shares in issue *('000)*	**3,229,927**	3,111,851
Basic (loss)/earnings per share attributable to the equity holders of the Company ***(RMB cents per share)***	**(32.65)**	21.70

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the year ended 31 December 2022 and 2021 was the same as basic (loss)/earnings per share, since the Company did not have any potential ordinary share outstanding that has dilution effect.

9. DIVIDENDS

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Paid interim dividend of HK6.4 cents per share for the six months ended 30 June 2021	**–**	165,226
Paid special dividend of HK3.38 cents per share for the six months ended 30 June 2022	**95,840**	–
	95,840	165,226
Proposed special dividend of HK5.1 cents per share	**147,145**	–
Paid final dividend of HK 2.0 cents per share	**–**	54,821
	242,985	220,047

On 30 March 2023, the Board proposed a special dividend of HK5.1 cents per share, totalling approximately RMB147,145,000 for the year ended 31 December 2022. The proposed dividend in respect of the year ended 31 December 2022 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.

10. TRADE AND OTHER RECEIVABLES

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Trade receivables	*(a)*	**1,038,189**	863,357
Less: provision for impairment of trade receivables		**(27,704)**	(13,237)
Trade receivables - net		**1,010,485**	850,120
Notes receivable		**27,574**	27,493
Prepayments and other receivables		**228,234**	204,893
Advances to staff		**2,532**	9,865
Others		**1,318**	18,240
Less: provision for impairment of other receivables		**(27,965)**	(29,565)
		1,242,178	1,081,046

Except for prepayments of RMB62,427,000 (31 December 2021: RMB51,480,000), trade and other receivables balances are financial assets categorised as those to be measured at amortised cost. All trade and other receivables are either recoverable within one year or on demand.

(a) The credit period generally granted to customers ranges from 0 to 180 days. At 31 December 2022 and 2021, the ageing analysis of the trade receivables (including amounts due from related parties which are trade in nature) based on invoice date was as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
0 - 90 days	**764,775**	756,502
91 - 180 days	**112,752**	75,511
181- 360 days	**59,268**	15,097
Over 360 days	**101,394**	16,247
	1,038,189	863,357

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2022, a provision for impairment of RMB27,704,000 (31 December 2021: RMB13,237,000) was made against the gross amount of trade receivables.

11. BORROWINGS

	Note	As at 31 December **2022** ***RMB'000***	 2021 *RMB'000*
Non-current			
Long-term bank borrowings			
– Secured bank borrowings	*(a)*	**15,000**	–
Less: current portion		**(15,000)**	–
		–	–
Current			
Short-term bank borrowings			
– Secured bank borrowings	*(a)*	**50,000**	–
– Unsecured bank borrowings	*(b)*	**612,700**	962,774
Current portion of non-current liabilities			
– Secured bank borrowings	*(a)*	**15,000**	–
		677,700	962,774
Total borrowings		**677,700**	962,774

(a) As at 31 December 2022, the Group's secured bank borrowings of RMB65,000,000 (31 December 2021: the Group's secured bank borrowings were fully repaid) are repayable within one year and secured by certain buildings, right-of-use assets of Shanghai Yifang with total carrying values of approximately RMB17,662,000. During the year, the average interest rate of the loan was 4.2% (2021: 5.7%) per annum.

(b) The Group's unsecured bank borrowings are repayable within one year. During the year, the average interest rate was 2.8% (2021: 2.9%) per annum. Borrowings are financial liabilities categorised under "financial liabilities measured at amortised cost".

Interest expense on bank borrowings for the year ended 31 December 2022 amounted to approximately RMB20,269,000 (2021: RMB78,871,000). No interest expense was capitalised for the year ended 31 December 2022 and 2021.

12. TRADE AND OTHER PAYABLES

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Trade payables	*(a)*	**277,249**	302,330
Wages payable		**97,021**	112,220
Other taxes payable		**98,107**	134,206
Accruals for expenses		**9,677**	9,985
Other payables		**240,481**	191,304
Deferred income from government grants		**11,763**	–
		734,298	749,045

Except for other taxes payable of RMB98,107,000 (31 December 2021: RMB134,206,000) and wages payable of RMB97,021,000 (31 December 2021: RMB112,220,000), trade and other payables balances are financial liabilities categorised under "financial liabilities measured at amortised cost".

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current	**12,163**	800
Current	**722,135**	748,245
	734,298	749,045

(a) As at 31 December 2022 and 2021, 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	
	2022	2021
	RMB'000	*RMB'000*
0 - 90 days	**245,146**	271,535
91 - 180 days	**9,721**	15,326
181 - 360 days	**5,113**	3,589
Over 360 days	**17,269**	11,880
	277,249	302,330

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, due to the impact of energy crisis, inflation, Novel Coronavirus Pneumonia Pandemic (the "Pandemic"), disordered supply chain and tight monetary policy, consumer spending decreased and companies were prudent and conservative on investment, the global and Chinese economic growth further slowed down. Facing the business environment that was full of pressure, challenges and uncertainties, the Group formulated and implemented strategies based on the development progress and characteristics of each business segment to maintain stable and healthy business development. By adhering to the development philosophy of "Green, Healthy and Nutritious", the Group has constantly improved its capability in technology and product innovation, and proactively explored overseas markets to provide high-quality products and services for consumers around the world as a leader in providing a delicious life.

INDUSTRY OVERVIEW

Overview of the tobacco industry

According to the data from the National Bureau of Statistics, the cigarette production volume in China reached 48.64 million cases in 2022, representing an increase of 0.6% year-on-year. The industrial and commerce tax paid in the tobacco industry amounted to RMB1,441.3 billion, representing a year-on-year increase of 6.1%; realized a fiscal income of RMB1,441.6 billion, representing a year-on-year increase of 15.9%. The tobacco industry has developed steadily and played a positive role in ensuring people's livelihood, alleviating poverty and promoting economic development.

In terms of e-cigarettes, the State Tobacco Monopoly Administration officially issued the National Standards for Electronic Cigarettes and the Administrative Measures for Electronic Cigarettes, which specified the policies on taxation plan, carrying and delivery of e-cigarette products. As a result of the introduction and implementation of such policies, the e-cigarette industry has stepped into a new stage of compliant and healthy development, with higher requirements for the products, technology and management of e-cigarette manufacturers. In the future, those e-cigarette manufacturers owning products, technologies, brands and financial strength will have stronger bargaining and pricing power and occupy more advantages in supply chain and value chain, thus gaining larger market share. The concentration ratio of the e-cigarette industry is expected to increase in the future.

In regard to heat-not-burn ("HNB") cigarettes, international tobacco companies continued to increase their investment in research and development, marketing and branding of such product, driving the demand for smoking sets, tobacco tar, tobacco leaves and other product components, and bringing business opportunities to suppliers in the tobacco industry chain. Since international tobacco companies have high requirements for suppliers in respect of their technologies, production and operation capabilities, those suppliers with comprehensive competitiveness and an international perspective are likely to secure more cooperation opportunities. In general, the traditional tobacco market is developing steadily, while the innovative tobacco market is broad with great growth potential but the competition is fierce. It is necessary for companies in the tobacco industry chain to enhance and strengthen their comprehensive competitiveness to promote their business development.

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

During the year ended 31 December 2022 (the "Reporting Period"), the resurgence of Pandemic and the macroeconomic recession weakened consumer sentiment, and consumers became more cautious and prudent. However, the demand for food and beverage, being an essential consumer product, remained growth. According to the National Bureau of Statistics, in 2022, the industrial added value of the agricultural product processing industry with enterprises of designated size or above grew by 0.7% year-on-year, the industrial added value of the food processing industry grew by 2.3% year-on-year and the industrial added value of the alcohol, beverage and refined tea processing industry grew by 6.3% year-on-year.

In the food and beverage industry, as the lockdown measures prohibited people from dining out, the demand for prepared foods that could be cooked at home increased. Since consumers required prepared foods to restore its freshness and flavour to the greatest extent, they had demanding requirements on the quality, nutrition, and safety of food ingredients. Consumers prefer to buy prepared foods that use natural ingredients and expect them to have few or no additives at all. In terms of beverages, dairy products, tea drinks and coffee are popular among investors and consumers, bringing challenges to beverage manufacturers and flavour suppliers due to their diversified flavours, fast update, and short life cycle.

For the daily-use chemical industry, it was the third year since the Pandemic and the consumers attached great importance to personal hygiene and health, and more favoured personal care, washing products and space fragrance products functioned by sterilization and nature. The daily-use chemical market is large in China but with numerous brands and fierce competition. Domestic and foreign brands have been promoting their product functions and advantages to consumers through both online and offline channels, and expanding their customer bases and enhancing brand recognition by offering discounts and other means.

Overview of the condiment industry

In 2022, the catering industry and the condiment industry experienced a tough business environment. To prevent the spread of the Pandemic, many cities in Mainland China adopted stringent lockdown measures successively, including dine-in bans, mobility restriction and business suspension. Such measures resulted in fewer business hours, decreased customer traffic and a drop in revenue of catering enterprises. According to the National Bureau of Statistics, the revenue of the catering industry was RMB4,394.1 billion in 2022, representing a decrease of 6.3% year-on-year. From the view of the demand side, the recession in the catering industry led to a decline in the demand for and purchase of condiments. From the view of the supply side, the increase in the price of bulk commodities resulted in higher prices of condiment raw materials. Therefore, condiment enterprises recorded a drop in revenue and an increase in cost, which squeezed their profit margin.

RESULTS

During the Reporting Period, the Group achieved a revenue of approximately RMB3,829 million (2021: approximately RMB3,883 million), representing a year-on-year decrease of 1.4%; gross profit margin of 49.0% (2021: 59.2%), representing a year-on-year decrease of 10.2 percentage points; operating loss of approximately RMB608 million (2021: operating profit of approximately RMB1,114 million); loss attributable to the equity holders of the Company of approximately RMB1,055 million (2021: profit attributable to the equity holders of the Company of approximately RMB675 million), basic loss per share was approximately RMB32.65 cents (2021: basic earnings per share RMB21.70 cents).

During the Reporting Period, based on the applicable accounting principles on a prudent basis, the management recognised total goodwill impairment of approximately RMB1,508 million (2021: approximately RMB293 million), which comprised of goodwill impairment of approximately RMB293 million for the cash-generating unit ("CGU") of the Reconstituted Tobacco Leaves ("RTL") (2021: approximately RMB293 million), goodwill impairment of approximately RMB1,171 million for the CGU of Jiahao (2021: nil) and goodwill impairment of approximately RMB44 million for the CGU of Shanghai Yifang Agricultural Technology Co., Ltd. ("Shanghai Yifang CGU"). For details of the goodwill impairment of the above-mentioned CGUs, please refer to the sections headed "Analysis of the Goodwill Impairment". The Board considers that the valuation methodology and key assumptions used in the impairment tests on goodwill have been consistently adopted by the Company and are fair and reasonable. Meanwhile, the basis of the calculation and the key assumptions used have been projected and determined by the management based on the past performance of RTL CGU, Jiahao CGU and Shanghai Yifang CGU, and in conjunction with the management's knowledge and experience of the market and the actual situation, which are fair and reasonable.

Excluding the goodwill impairment of approximately RMB1,508 million and RMB293 million for the Reporting Period and 2021 respectively, the Group recorded an operating profit of approximately RMB900 million (2021: approximately RMB1,408 million), representing a year-on-year decrease of 36.1%; profit attributable to the equity holders of the Company of approximately RMB445 million (2021: approximately RMB968 million), representing a year-on-year decrease of 54.1%; basic earnings per share of approximately RMB13.77 cents (2021: approximately RMB31.12 cents), representing a year-on-year decrease of 55.8%.

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 RMB1,877 million (2021: approximately RMB1,927 million), representing a year-on-year decrease of 2.6%, and accounting for 49.0% (2021: 49.6%) of the Group's total revenue. The decrease in revenue from the business segment was mainly due to the decreased demand of downstream customers and the changes in product mix. The operating profit of the segment amounted to approximately RMB824 million (2021: approximately RMB1,104 million), representing a year-on-year decrease of 25.4%; and operating profit margin was 43.9% (2021: 57.3%), representing a year-on-year decrease of 13.4 percentage points. The decline in operating profit margin was primarily attributable to higher proportion of sales of the products with lower gross margin as a result of the changes in product mix.

1. **Flavours**

In terms of tobacco flavours, focusing on the research and development of new tobacco flavour products, the Group developed a variety of HNB tobacco flavours. After testing, such flavour products can steadily release aroma in HNB cigarettes, which could be able to improve users' experience. In terms of food flavours, with fast product development and short production cycle of downstream customers, the Group's R&D and marketing team has closely followed market changes and adjusted the formula more quickly to launch products that cater for the needs of customers. The Group has also worked with its customers to develop products, so as to improve the flavour of their products leveraging on our industry expertise.

In order to better develop international business, the Group has established the 'Huabao Asia Pacific' R&D center in Singapore. The R&D center engaged outstanding personnel in R&D, technology and market analysis in the industry to study and analyze beverage, baking and savoury products in the Southeast Asian market. The Group believes that Asia will be the market with the greatest growth potential in the future. Starting from the Southeast Asian market, the Group will gradually develop more overseas businesses and enhance its business internationalization, thus diversifying its revenue sources.

2. **Fragrances**

The Group's fragrances mainly include insect-repelling incense, detergent and personal care products. Consumers have attached great importance to personal hygiene and the cleanliness and comfort of living space as the Pandemic has normalized. The Group has developed more products of different types by improving the R&D of personal care and space fragrance products and introduced the products to more customers so that their products are able to bring more pleasant experience to consumers. During the Reporting Period, the proportion of revenue from personal care and space fragrance products further increased.

3. **Food Ingredients**

On 8 March 2022, the Group further acquired 27% of the equity interests in Shanghai Yifang Rural Technology Holdings Co., Ltd. ("Shanghai Yifang"), resulting in holding 67% of the equity interests in Shanghai Yifang in aggregation. Shanghai Yifang is mainly engaged in the promotion and consulting of agricultural technology, cultivation of fruits including lemon, blueberry and grapefruit, processing such fruits into jam and particles and selling them to various food and beverage manufacturers as well as restaurants and tea shops. These fruit particles and jam products are able to add flavours and improve taste of customers' products, which are popular with customers and consumers.

Leveraging on its expertise and accumulation in the flavours and fragrances field, the Group made R&D suggestions on product flavours to Shanghai Yifang to enhance its product competitiveness. The Group also actively introduced a number of customers to Shanghai Yifang through its sales network to help Shanghai Yifang increase its revenue.

Through the acquisition of Shanghai Yifang, which is the main production unit of the Group in the food ingredients segment, the Group has expanded its business to the downstream market, enhancing its layout and competitiveness in the whole food industry chain, and diversifying its sources of income.

4. Investment progress of the proceeds raised by Huabao Flavours

In April 2021, the Group adjusted the use of the proceeds raised from the initial public offering of Huabao Flavours & Fragrances Company Limited (“Huabao Flavours”) in 2018 and the implementation plans for the investment projects in order to better respond to the industry changes and the Company’s development. The Group will continue the construction of “Huabao Yingtan Flavours and Ingredients Production Base Project” (“Huabao Yingtan Project”), cease the “Lhasa Pure Land Healthy Food Project” and transform the “Huabao H&K Food Flavours and Food Technology Development Project” into the “Huabao Technology Innovation Center and Supporting Facilities Project” (“Huabao TechInno Project”), as well as launch the new “Huabao Digital Transformation Project” (“Huabao Digital Project”).

As of 31 December 2022, the cumulative amount dedicated for the Huabao Yingtan Project was approximately RMB210 million (31 December 2021: approximately RMB158 million), representing an investment progress of 20.3% (31 December 2021: 15.3%). The cumulative amount dedicated for the Huabao TechInno Project was approximately RMB5.03 million (31 December 2021: approximately RMB1.68 million), representing an investment progress of 1.1% (31 December 2021: 0.4%). The cumulative amount dedicated for the Huabao Digital Project was approximately RMB17.59 million (31 December 2021: approximately RMB3.53 million), representing an investment progress of 29.3% (31 December 2021: 5.9%). As of 31 December 2022, the balance of unused IPO Proceeds (including accumulated interest income received) amounted to approximately RMB1,668 million (31 December 2021: approximately RMB1,685 million). As of 31 December 2022, the IPO Proceeds utilized amounted to approximately RMB901 million (31 December 2021: approximately RMB832 million), accounting for 39.0% of the total proceeds from the initial public offering in 2018 of approximately RMB2,310 million.

There were no major changes in Huabao Digital Project and the project is expected to be completed by 31 December 2024. Huabao Flavours has planned to cease Huabao Yingtan Project and rescheduled the completion time of Huabao TechInno Project from 31 December 2025 to 31 December 2026.

Review of the tobacco raw materials business

During the Reporting Period, revenue of the Group's tobacco raw materials business was approximately RMB454 million (2021: approximately RMB565 million), representing a year-on-year decrease of 19.7%, and accounting for 11.9% of the Group's total revenue (2021: 14.6%). The decrease was mainly due to the decline in market demand for traditional RTL and lower price of cigarette capsules. Operating loss of the business segment was approximately RMB238 million (2021: operating loss of approximately RMB80.09 million), which was mainly due to goodwill impairment of RTL CGU. Excluding the goodwill impairment of RTL CGU, the adjusted operating profit of the segment was approximately RMB55.68 million (2021: adjusted operating profit of approximately RMB213 million), representing a year-on-year decrease of 73.9%, and the adjusted operating profit margin was 12.3% (2021: adjusted operating profit margin of 37.7%), representing a year-on-year decrease of 25.4 percentage points. The decrease in adjusted operating profit and operating profit margin were mainly due to the decline in the price of cigarette capsules and lower profit margin as a result of the inadequate dilution of fixed cost caused by insufficient production volume of traditional RTL.

1. RTL

During the Reporting Period, the tobacco industry continued to proceed the de-stocking of tobacco leaves. On the one hand, customers increased the use of tobacco leaves and reduced the use of traditional RTL, resulting in a decrease in the demand for traditional RTL. On the other hand, since there were numerous suppliers in the traditional RTL industry, the total production capacity exceeded the demand, resulting in fierce competition and lower product prices. The decline in both quantity and price of traditional RTL led to a decrease in revenue. In addition, due to the high fixed cost of RTL production, the insufficient production volume has caused the failure to effectively dilute the fixed cost, resulting in a decrease in the gross profit margin of RTL.

In order to turn the performance of the RTL business, the Group has shifted its focus onto the production of HNB RTL and the expansion of overseas markets. In 2022, the Group completed the construction of a factory in Indonesia, which mainly produces HNB RTL and supplies the products to international tobacco companies. The factory has a complete organizational structure and has obtained the quality system certification and ESG standard certification, indicating that it could provide high-quality products and services for global customers. As international tobacco companies focus on HNB cigarettes for future development, the demand for HNB RTL will be increasingly higher. With its extensive experience and strong technical capabilities in the RTL sector, the Group will strive to maintain its competitiveness in the industry and capture more customers. Meanwhile, the Group will closely monitor the demand of overseas customers, development progress of customers and the production efficiency of factories before deciding whether to increase additional capacity abroad.

2. **Tobacco new materials**

Tobacco new materials mainly include cigarette capsules and filters. For cigarette capsules, there were many market players and the price competition was fierce. The inflation resulted in an increase in the price of capsule raw materials, and the declined sales price and higher cost led to a decrease in profit margin for the capsules. In order to further business growth, the Group has developed and manufactured different types of food capsules, and successfully marketed and sold them to customers. Leveraging on its technology and experience in capsule production, the Group has successfully produced crystogen and capsule products for probiotic customers, and it is expected to be one of the growth point of Group's business.

In terms of cigarette filters, the Group has strengthened the R&D and application of special filter rods, and improved the production efficiency. The Group has been improving the innovation and technology reserves in HNB cigarettes filter and improved the performance and quality based on the customers' feedback on a small number of products sold for testing. As a filter rod is a key material to conduct thermal and transmit gas in cigarettes, the investment in filter rods will enhance the overall service capability of the Group in cigarettes.

Due to the market demand and industry competition, the performance of the tobacco raw materials segment has been declining in the past three years. To turn the performance of the business segment, the Group has taken measures and successfully found new growth points. As such, the Group is actively advancing the development of new projects and products to facilitate its business growth.

Review of the aroma raw materials business

During the Reporting Period, the Group's aroma raw materials business recorded a revenue of approximately RMB924 million (2021: approximately RMB714 million), representing a year-on-year increase of 29.5%, and accounting for 24.1% (2021: 18.4%) of the Group's total revenue. The growth in segment revenue was mainly attributable to the mass production in Jiangxi Xianghai Biological Technology Co., Ltd ("Jiangxi Xianghai") during the Reporting Period. Operating profit of the segment was approximately RMB79.53 million (2021: approximately RMB59.10 million), representing a year-on-year increase of 34.6%; and the operating profit margin was 8.6% (2021: 8.3%), representing a year-on-year increase of 0.3 percentage point. The increase in operating profit margin of the business segment was primarily due to the economies of scales as a result of the mass production of Jiangxi Xianghai.

During the Reporting Period, due to the war and the prevention and control of the Pandemic, the macroeconomic environment both at home and abroad was depressed, and the declining consumer demand led to a decrease in purchase demand in the downstream market. The inflation resulted in a rise in the prices of bulk commodities, thereby increasing the production cost of aroma raw materials. Facing those unfavourable external headwinds, the management of the segment optimized production and management, strived to reduce cost and improve efficiency, so that the profit of the segment achieved a year-on-year growth. Affected by these factors, the aroma raw materials segment saw a decrease in profit margin. As the main production base of aroma raw materials, Jiangxi Xianghai has advanced production and environmental facilities and established management process, and is able to achieve standardized, fast and large-scale production. Jiangxi Xianghai also attaches great importance to production safety by conducting several safety drills and education, so as to ensure that the production and operation meet the safety requirements imposed by regulators, and thus to protect the life safety of employees.

Review of the condiment business

During the Reporting Period, the revenue of the Group's condiment business was approximately RMB573 million (2021: approximately RMB676 million), representing a year-on-year decrease of 15.3%, and accounting for 15.0% (2021: 17.4%) of the Group's total revenue. The decrease in revenue from the segment was mainly due to the decrease in demand of the downstream catering industry because of the Pandemic. The operating loss of the segment was approximately RMB1,117 million (2021: operating profit of approximately RMB137 million), which was mainly attributable to the recognised goodwill impairment of Jiahao CGU of approximately RMB1,171 million for the Reporting Period. Excluding the goodwill impairment of Jiahao CGU, the adjusted operating profit of the condiment segment would be approximately RMB53.73 million (2021: operating profit of approximately RMB137 million), representing a year-on-year decrease of 60.7%; and the adjusted operating profit margin would be 9.4% (2021: operating profit margin of 20.2%), representing a year-on-year decrease of 10.8 percentage points. The decreases in adjusted operating profit and operating profit margin were mainly due to lower gross profit margin resulted from rising raw material costs and higher channel marketing expenses.

In 2022, the Pandemic has spread in many provinces and regions across the country. To prevent and control the spread of the Pandemic, several catering enterprises have suspended operation and banned dine-in, and the demand for condiments has declined accordingly. As the Pandemic has disordered the normal needs and operations of customers, the management of Jiahao has adjusted business development strategy based on its analysis on the Pandemic, striving to minimize the adverse impact of the Pandemic on business operation.

In terms of product mix, due to weak market demand, the Group adopted a conservative product strategy. The Group considered that in the depressed business environment, the customers needed to reduce costs and increase efficiency in priority. As such, the Group has launched some highly cost-effective products, such as "soup chicken sauce", and "Jinba Jinbiao Sanfan mustard", which are of high quality and priced reasonably, and are able to effectively help customers reduce costs.

In terms of sales channel, due to the weakness in the downstream market demand, distributors maintained a high level of inventories, and their willingness to purchase inventories was weak. The Group actively maintained cooperation and communication with distributors, and helped them in market analysis and customer management. As of 31 December 2022, the Group had approximately 400 Tier 1 distributors. In order to further improve the distribution system and expand customer coverage, the Group has also invested in building sales channels at lower levels and tried to develop more sales points in counties and townships.

In terms of marketing strategy, the Group reduced its investment in brand promotion and marketing activities considering the weak market demand. Nevertheless, it also invested money in specific marketing activities according to its actual needs to maintain the brand awareness among users. By cooperating with well-known chefs in the industry, the Group has launched an influential marketing activity themed by "Chinese Stir-fry (小炒中國)", which introduces to cooks the classic dishes in various provinces and cities around the country and teaches them how to enhance flavours of these dishes by using Jiahao's products, so that they learn more methods and application scenarios to use Jiahao's products, thereby enhancing their understanding of Jiahao's products.

Review of R&D

During the Reporting Period, the Group's investment in R&D was approximately RMB266 million (2021: approximately RMB251 million). R&D expenses accounted for 7.0% (2021: 6.5%) of revenue, representing an increase of 0.5 percentage points as compared to that for the corresponding period last year. All (2021: 100%) of the R&D expenses were expensed, with no R&D cost capitalised (2021: Nil).

Human Resources and Corporate Culture Construction

As at 31 December 2022, the Group employed a total of 3,875 (as at 31 December 2021: 3,583) employees in Mainland China, Hong Kong, Germany, Indonesia, Singapore and other places.

Digital Transformation

Digital transformation is an important means for the Group to improve its management and operational efficiency and promote its business development. In 2021, the Group planned the digital transformation, including the construction of an enterprise resource management platform SAP ERP, a decision-making management platform, a fund management platform, and a product lifecycle management (PLM) system. It will take 5 years for the work to be carried out within the Group and in all business segments step by step. The year 2022 is the first year of our digital transformation.

During the Reporting Period, the Group has launched the SAP ERP system at the headquarters and in all business segments, which connects the operation and financial information between the headquarters and each business segment, so that the management is able to understand the operation situation and results of each segment in a timely and accurate manner. The system enables the Group to collect sales data, settle and manage funds and prepare financial statements more systematically to improve the efficiency and scientificity of decision-making. All business segments of the Group adopt a uniform business process to manage and track procurement, production, inventory, storage, and transportation, allowing each section to cooperate more efficiently, and thus to maximize the use of materials and resources. Through the operation of digital systems, the Group has greatly improved the level of integration of business and finance, so that finance can better support business development.

By using the product lifecycle management system, the Group is able to systematically track the production cycle of a single product, i.e., "Concept – Development – Production – Sales - After-sales Service - Retirement". By recording and sharing the lifecycle of each product, employees from various departments of the Group can better understand the conditions of each product from section to section, so as to improve the quality and speed of product development, and the Group is also able to better master the advantages and disadvantages of a single product, so as to design products that can better cater for the needs of consumers and improve consumer experience.

Finally, in order to better implement the digital transformation, the digital transformation team has trained more than 100 key users for all business segments of the Group. These key users will consistently give feedbacks to the digital transformation team on the problems arising from the application process of digital transformation, so that the digital transformation team will constantly improve the system and the user experience.

OUTLOOK

In 2023, the Group will facilitate its development in three aspects: business, market, and digitalization. In respect of business, the Group will continue to develop innovative tobacco related projects and food, beverage, daily-use chemical, and food ingredient products. In terms of market, it will consolidate its domestic market share and expand overseas markets focusing on Southeast Asia. In terms of digitalization, the Group will continue to advance digital transformation and increase the efficiency of internal and external communication and cooperation, to reduce operating costs and improve operating efficiency.

In terms of F&F and food ingredients, the Group will invest more resources in the development and product reserves of HNB tobacco flavours, and will invest resources to develop customers of food flavours and fragrances to increase the proportion of revenue from food flavours and fragrances. Leveraging on its experience and technology in the field of flavours, the Group will help the food ingredients segment to improve its capabilities in flavour R&D and formula, develop more customers and promote sales growth of the food ingredients.

In terms of tobacco raw materials business, the Group will improve its R&D and technology reserve in innovative tobacco products, enhance its capacity in functionality, quality, and competence. The Group will carefully assess the demand and business development opportunities in the overseas market, and increase its production capacity in good time, strengthen its overseas services capability, provide quality products and solutions to enhance its overseas market share and boost sales of the segment. The Group will further optimize the flavouring techniques and product quality of food capsules, and develop more food capsule customers to increase the sales proportion of food capsules.

As for aroma raw materials, the Group will closely monitor the raw materials prices, plan well in procurement, and try its best to reduce the cost of raw materials. Considering the uncertainties in the macroeconomy, the demand of the market is likely to be volatile. The Group will consistently re-examine its product mix and pricing, optimize its product mix, improve its price competence, and further the sales and profit growth of the segment.

In respect of condiments, the Group will seize the opportunity arising from the recovery of the catering industry to boost the sales of the core products and sales; the Group will optimize the network of distributors, dig the consumption potential of the down market, grow the quantity and quality of end clients; the Group will launch more theme marketing activities, provide customers with comprehensive foods solutions, communicate Jiahao's brands power and influence to customers. The Group believe that the demand of the catering industry is to bounce back in 2023, which has set a good external environment for the development of the condiment business. The Group will seize the opportunity to improve the performance of the condiment business.

Looking into 2023, the Pandemic in China has ended generally, and the economic activities have started to normalize gradually. The central and local governments have introduced measures to encourage and promote consumption. The Group believes that the domestic consumer market and demand will gradually rebound. The Group will duly implement the development strategies of its business segments and improve the quality of its products and services, with an aim to improve its performance.

ANALYSIS OF THE GOODWILL IMPAIRMENT

1. Analysis of Shanghai Yifang CGU's goodwill impairment

As at the end of the Reporting Period, the Company engaged a valuer to conduct an impairment test on goodwill of Shanghai Yifang CGU as at 31 December 2022. According to the test results, an impairment of goodwill of approximately RMB43.84 million was recognized for the Shanghai Yifang CGU.

The background of Shanghai Yifang CGU's goodwill impairment

On 9 August 2021, the Group acquired 40% equity interests in Shanghai Yifang from independent third parties with a total consideration of RMB180 million in cash. On 8 March 2022, the Group further acquired 27% equity interests in Shanghai Yifang with a total consideration of RMB121.5 million in cash. The Group's shareholding in Shanghai Yifang, in aggregate, reaches 67% and Shanghai Yifang becomes a subsidiary of the Group. The goodwill arising from the acquisition of Shanghai Yifang by the Group amounted to approximately RMB49.42 million.

Reasons for the recognition of goodwill impairment of Shanghai Yifang

Shanghai Yifang officially became a subsidiary of the Group on 8 March 2022. Upon completion of the acquisition, the Group expected to be able to integrate the competitive advantages of the Group and Shanghai Yifang in the future, to exert synergistic effects, and to increase the revenue and profit of Shanghai Yifang. However, after the completion of the acquisition, a series of unexpected events had a great negative impact on Shanghai Yifang's operation and performance. First of all, the products of Shanghai Yifang are mainly jams and fruit pieces, which are mainly sold to downstream catering and tea shops to make drinks. Since the Pandemic has occurred repeatedly across the country since April and May, many restaurants and tea shops could not operate normally, which led to the decline in demand for Shanghai Yifang's products. Secondly, starting from July 2022, Jiangxi Province experienced several months of drought, which affected the quantity and quality of fruit harvested by Shanghai Yifang and increased its production cost. At the same time, the drought also required the Group to invest more funds in drought and heatstroke prevention, which indirectly led to an increase in operating costs. The above factors led to Shanghai Yifang's performance failing to meet the Group's expectations at the time of acquisition. Based on the applicable accounting principles on a prudent basis, the Group lowered the profit forecast of Shanghai Yifang in the future, and recognized the impairment of goodwill of approximately RMB43.84 million for Shanghai Yifang CGU. After the recognition of the impairment, the remaining balance of Shanghai Yifang CGU's goodwill is approximately RMB5.58 million.

2. Analysis of RTL CGU's goodwill impairment

As at the end of the Reporting Period, the Company engaged a valuer to conduct an impairment test on goodwill of RTL CGU as at 31 December 2022. According to the test results, an impairment of goodwill of approximately RMB293 million was recognized for the RTL CGU.

Background of the goodwill impairment of RTL CGU

In November 2010, the Group acquired 100% equity interest in Guangdong Jinye Group, which was principally engaged in the R&D, production and sales of RTL in the PRC, from independent third parties at a consideration of approximately RMB1.147 billion. Guangdong Jinye Group has become the RTL CGU of the Group since then. Guangdong Jinye Group is one of the few designated production bases authorized by the STMA specializing in the manufacturing of RTL and is also one of the largest RTL manufacturers in the PRC. The completion of acquisition marked that the Group had strategically entered the sector of traditional RTL with broad development prospects.

Changes had taken place in the traditional RTL industry after 10 years of development. On the demand side, the market demand for traditional RTL continued to decline whereas on the supply side, the production capacity of the traditional RTL industry remained high which exceeds the annual demand of the traditional RTL industry, resulting in an oversupply in the industry. For the year ended 31 December 2021, the revenue of the Group's RTL CGU decreased by approximately 20% to approximately RMB351 million, the impact of the oversupply in the traditional RTL industry has gradually emerged over the past few years, which resulted in indications of impairment of RTL CGU's goodwill. Accordingly, the Group has engaged a valuer to conduct an impairment test on the goodwill of RTL CGU as at 31 December 2021 and recognised an impairment of goodwill of approximately RMB293 million. After the impairment, the remaining balance of RTL CGU's goodwill is approximately RMB649 million. For details, please refer to the section headed "Analysis of RTL CGU's goodwill impairment" in the "Management Discussion and Analysis" of the Group's 2021 annual report.

Reasons for the recognition of goodwill impairment of RTL CGU

Based on the audited accounts of the Group for the year ended 31 December 2022, the revenue of the Group's RTL CGU decreased by approximately 7.3% to approximately RMB326 million from approximately RMB351 million for the corresponding period last year. It was aware that the oversupply in the traditional RTL industry was still continued in 2022 which created pressure on the sales and gross profit margin of the RTL CGU for the year, as a result, the operating profit of the RTL CGU dropped by 34.9% year-on-year. The management of the Group considered that the oversupply in the traditional RTL would remain for a relatively longer period of time, while based on the principle of prudence and conservatism, a conservative forecast on the future sales of the traditional RTL was made with the expectation that the RTL CGU would incur an impairment loss on goodwill.

Goodwill Impairment Test

In accordance with HKAS 36, the Company performed a goodwill impairment test on RTL CGU on 31 December 2022 (the valuation benchmark date), and conducted a value analysis to determine the recoverable amount of RTL CGU. According to the standard, the recoverable amount of the CGU is determined on the higher of the fair value less the costs of disposal ("FVLCOD") and value in use ("VIU"). In the goodwill impairment test carried out by the valuer, FVLCOD and VIU of RTL CGU was assessed by using market approach and income approach respectively. According to the result of the test, VIU was higher than that FVLCOD and therefore VIU was adopted to be the recoverable amount of RTL CGU, which was RMB293,195,000 lower than the carrying amount of RTL CGU. As a result, goodwill impairment loss of RMB293,195,000 was recognised in the consolidated income statement of the Group for the year ended 31 December 2022.

The methodology, key assumptions and basis used in calculating the VIU of RTL CGU

The Company has engaged the valuer to carry out an impairment test on goodwill of RTL CGU as at 31 December 2022. The valuer used the income approach to access the VIU in the goodwill impairment test, which was consistent with the valuation methodology used in the impairment test of RTL CGU for end of the last year. It was based on a five-year net cash-flow projection of RTL CGU and cash flows beyond the five-year period were calculated using the terminal growth rate, and the present value of such net cash-flows were calculated using an appropriate discount rate.

The key assumptions and basis used in calculating RTL CGU's VIU were as follows:

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

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

3. Budgeted gross profit margin – as determined by the management based on the past performance and the expected development of the market;

4. Pre-tax discount rate – the discount rate for impairment test, with reference to the actual situation of RTL CGU, the market condition of the same industry and its specific risk premium, calculated with the applicable cost of equity capital and cost of debt capital to come up with weighted average cost of capital ("WACC") based on the company's capital structure.

Changes in key assumptions

Comparing certain key assumptions used in determining the VIU of RTL CGU as at 31 December 2022 against those used in assessing the VIU of RTL CGU as at 31 December 2021, major changes are as follows:

Key assumptions	VIU assessment as at 31 December	
	2022	2021
Forecast five-year sales growth rate	**-6.0% – 20.1%**	3.9% – 20.6%

Reasons for change

The sales of the RTL CGU of the Group dropped approximately 7.3% from approximately RMB351 million for the year ended 31 December 2021 to approximately RMB326 million for the year ended 31 December 2022, which was mainly due to the significant decline in sales of traditional RTL of about 48.3% as compared with the corresponding period last year. The management of the Group re-evaluated the supply and demand situation of the traditional RTL industry and considered that the oversupply situation in the traditional RTL industry would remain for a relatively longer period of time. As a result, the management downward adjusted the forecast sales for the period between 2023 to 2026 by 14.7% to 32.1% from the forecast for the same period made at the end of 2021, the corresponding forecast sales growth was adjusted to -6.0% to 20.1%.

Key assumptions	VIU assessment as at 31 December	
	2022	2021
Budgeted gross profit margin	**51.9% – 54.9%**	49.1% – 54.3%

Reasons for change

The management's forecast gross profit margin for the period between 2023 to 2026 was similar with that for the same period made at the end of 2021. It was mainly due to the proportion of the forecast sales of products with higher gross profit margin in the CGU will be decreased which caused the composite gross profit margin of the CGU decreased in the forecast period. However, it will be offset by the lower production cost resulted from the fully depreciation of the production plants of traditional RTL at the end of 2022 and the streamlining of labour. Therefore, the management adjusted the budgeted gross profit margin for the forecast period between 2023 to 2026 from 52.2% to 54.3% of the forecast made at the end of 2021 to 51.9% to 54.9% of the forecast made at the end of 2022.

Key assumptions	VIU assessment as at 31 December	
	2022	2021
Pre-tax discount rate	**Pre-tax discount rate of 19.0% (approximately equivalent to post-tax discount rate of 16.0%)**	Pre-tax discount rate of 16.5% (approximately equivalent to post-tax discount rate of 14.5%)

Reasons for change

The valuer determined the post-tax discount rate based on WACC. The equity risk premium and size premium increased during the period, after considering these factors and the combined effect of other factors, the post-tax discount rate was calculated as 16.0%, which was increased by 1.5 percentage points as compared with the post-tax discount rate of 14.5% adopted at the end of 2021. With reference to the post-tax discount rate, the valuer calculated the corresponding pre-tax discount rate according to pre-tax cash flows through an iterative process.

3. Analysis of Jiahao CGU's goodwill impairment

The background of Jiahao CGU's goodwill impairment

In September 2018, the Group completed the acquisition of 100% interest in Jiahao from an independent third party for approximately RMB4,745 million and Jiahao has since become a CGU of the Group. Jiahao is principally engaged in the production, sale, marketing and distribution of condiment products in China. Upon completion of the acquisition, the Group will focus on the ancillary products of taste-based FMCG products, including F&F products, additives, ingredients and packaging materials, condiments and other products in the market segments, which are expected to create synergies. The goodwill arising from the acquisition of approximately RMB3,635 million is attributable to the synergies and operating benefits expected to arise from the integration of the operations of the Group and Jiahao.

During early 2020, the outbreak of the Pandemic in China and its subsequent national outbreaks, the Chinese government took various contingency measures such as extending the Chinese New Year holidays, imposing travel and work restrictions and suspending various daily consumption activities (including retail and catering), which resulted in a significant decline in the revenue of Jiahao for the six months ended 30 June 2020 and indications of impairment of Jiahao's goodwill. Accordingly, the Group has engaged a valuer to conduct an impairment test on the goodwill of Jiahao CGU as at 30 June 2020 and recognised an impairment of goodwill of approximately RMB495 million. After the impairment, the remaining balance of Jiahao CGU's goodwill is approximately RMB3,140 million. For details, please refer to the section headed "Analysis of Jiahao CGU's goodwill impairment in the Interim Period" in the "Management Discussion and Analysis" of the Group's 2020 annual report.

Jiahao CGU's goodwill impairment (for the six months ended 30 June 2022)

During mid-2022, the Pandemic resurfaced in many cities and regions in Mainland China. The Chinese government adopted strict lockdown measures, resulting in a significant drop in revenue for catering enterprises. In addition, the first half of 2022 saw the increase in raw material costs due to inflation, which increased production and operating costs for enterprises and increased downward pressure on profits. On 30 June 2022, the Group considered that the recovery and subsequent development of the catering industry would be below the Group's expectation as made at the beginning of 2022 and would affect the subsequent performance of the condiment business. Accordingly, the Group engaged a valuer to conduct an impairment test on the goodwill of Jiahao CGU as at 30 June 2022 and recognised an impairment of goodwill of approximately RMB614 million. After the impairment, the remaining balance of Jiahao CGU's goodwill was approximately RMB2,526 million. For details, please refer to the section headed "Analysis of Jiahao CGU's goodwill impairment" in the "Management Discussion and Analysis" of the Company 2022 interim report.

Jiahao CGU's goodwill impairment (for the year ended 31 December 2022)

Reasons for the recognition of goodwill impairment of Jiahao CGU
In the second half of 2022, the Pandemic further spread in many provinces and regions in China. In order to prevent the spread of the Pandemic, restaurants had to suspend or stop operations, and the pace of recovery in the catering industry was once again disrupted. In the second half of the year, the revenue of China's catering industry was RMB2,390.1 billion, representing a year-on-year decrease of 5%. Although the Chinese government began to relax the Pandemic prevention and control measures in early December 2022, due to the slowdown of the macro economy, the speed of recovery in consumption desire and capability is uncertain. In addition, the demand for cost reduction of small and medium-sized catering shops that have suffered heavy losses in the past few years will not decrease, resulting in great operational challenges and pressure for the condiment business; finally, whether the novel coronavirus would further mutate and affect the catering industry's recovery remains unknown. Taking these factors into consideration, the Group believes that the performance and development of the condiment business will be below the Group's expectation as at 30 June 2022. Based on prudent and appropriate accounting principles, the management conducted an impairment test on Jiahao CGU and finally confirmed the impairment.

Impairment test of goodwill
In accordance with HKAS 36, the Company performed a goodwill impairment test and conducted a value analysis on Jiahao CGU as at 31 December 2022, the valuation benchmark date, to determine the recoverable amount of Jiahao CGU. According to the standard, the recoverable amount of the CGU is determined on the higher of the FVLCOD and VIU. In the goodwill impairment test conducted by the valuer, market approach and income approach were used to assess the FVLCOD and VIU of the Jiahao CGU respectively. Based on the results of the tests, the VIU amount was higher than the FVLCOD amount and the VIU amount was therefore adopted as the recoverable amount of Jiahao CGU, which was approximately RMB556,344,000 lower than the carrying value of Jiahao CGU. For this purpose, an impairment loss of approximately RMB556,344,000 on goodwill was recognised in the Group's consolidated income statement for the year ended 31 December 2022.

The methodology, key assumptions and basis used in calculating Jiahao CGU's VIU

The Company has engaged a valuer to conduct an impairment test on goodwill of Jiahao CGU as at 31 December 2022. The Valuer used the income approach to assess the VIU of Jiahao CGU, which is consistent with the valuation methodology used for the impairment test of Jiahao CGU as at 30 June 2022. It is based on a five-year net cash-flow projection of Jiahao CGU. Cash flows beyond the five-year period were calculated using the terminal growth rate, and the present value of such net cash-flows were calculated using an appropriate discount rate.

The key assumptions and basis used in calculating Jiahao CGU's VIU are as follows:

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

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

3. Budgeted gross profit margin – as determined by the management based on the past performance and the expected development of the market;

4. Pre-tax discount rate – the discount rate for impairment test, with reference to the actual situation of Jiahao CGU, the market condition of the same industry and its specific risk premium, calculated with the applicable cost of equity capital and cost of debt capital to come up with WACC based on the company's capital structure.

Changes in major key assumptions
Comparing certain major key assumptions used in determining the VIU of Jiahao CGU as at 31 December 2022 against those used in assessing the VIU of Jiahao CGU as at 30 June 2022, major changes are as follows:

Key assumptions	**VIU assessment**	
	As at 31 December 2022	As at 30 June 2022
Forecast five-year sales growth rate	**7.8% – 22.7%**	3.5% – 26.8%

Reasons for change
Revenue of Jiahao CGU for the year ended 31 December 2022 was approximately RMB573 million, representing a year-on-year decrease of approximately 15.3%. In the second half of 2022, the Pandemic further spread in many provinces and regions in China. In order to prevent the spread of the Pandemic, restaurants had to suspend or cease operations, the revenue of China's catering industry dropped sharply. In the second half of the year, the revenue of China's catering industry decreased by 5% year-on-year. Although the Chinese government began to relax the Pandemic prevention and control measures in early December 2022, the recovery speed of the catering industry is unpredictable. At the same time, it is not certain whether the Pandemic will further mutate and affect the recovery of the catering industry. As a result, the Group's management re-evaluated the development and growth of the condiment business and revised downward its revenue for the forecast period between 2023 to 2026 by 7.8% to 21.1% as compared to the forecast revenue for the same period made at 30 June 2022.

Key assumptions	**VIU assessment**	
	As at 31 December 2022	As at 30 June 2022
Budgeted gross profit margin	**53.7% – 55.6%**	56.5% – 57.2%

Reasons for change
Production costs increased due to the higher raw material prices as a result of inflation in 2022. The gross profit margin of Jiahao CGU decreased to 56.1% for the year ended 31 December 2022. The management estimated that the raw material prices may continue to rise, the gross profit margin will be subject to certain downward pressure. As a result, the management has adjusted the budgeted gross profit margin for years 2023 to 2026 downwards by approximately 0.9 to 1.9 percentage points from a forecast of 56.5% to 56.6% for the forecast period made at the mid-2022 to a forecast of 54.7% to 55.6% for the forecast period made at the end of 2022.

Key assumptions	**VIU assessment**	
	As at 31 December 2022	As at 30 June 2022
Pre-tax discount rate	**Pre-tax discount rate of 15.9% (approximately equivalent to post-tax discount rate of 14.0%)**	Pre-tax discount rate of 14.6% (approximately equivalent to post-tax discount rate of 13.0%)

Reasons for change
The Valuer determined the post-tax discount rate based on WACC. The equity risk premium increased during the period, after taking into account the combined effect of other factors, the post-tax discount rate was calculated as 14.0%, which was increased by 1.0 percentage point as compared with the post-tax discount rate of 13.0% adopted at 30 June 2022. With reference to the post-tax discount rate, the valuer calculated the corresponding pre-tax discount rate according to pre-tax cash flows through an iterative process.

FINANCIAL REVIEW

Analysis of annual results for the year ended 31 December 2022

Revenue

The Group's revenue amounted to RMB3,828,984,000 for the year ended 31 December 2022, representing a decrease of 1.4% as compared with RMB3,882,683,000 for the corresponding period last year. The decrease in the revenue was due to lower sales volume as a result of increased competition in the market, the revenue of F&F & food ingredient segment declined by 2.6% year-on-year to RMB1,877,336,000. Also, due to the lower demand for the traditional RTL products and intense competition in the cigarette capsule industry that resulted in a declining sales volume and price of capsule, revenue of tobacco raw materials segment declined by 19.7% year-on-year to RMB454,257,000. In addition, due to the decrease in customer demand as a result of the Pandemic's impacts on the catering industry, revenue of condiment segment decreased significantly by 15.3% year-on-year to RMB573,069,000. However, the revenue of aroma raw materials segment increased by 29.5% year-on-year to RMB924,322,000 resulted from the mass production in Jiangxi Xianghai during the current year. As a result, the decrease in revenue was offset largely.

Cost of goods sold

The Group's cost of goods sold amounted to RMB1,951,421,000 for the year ended 31 December 2022, representing an increase of 23.0% as compared with RMB1,586,021,000 for the corresponding period last year.

Gross profit and gross profit margin

The Group's gross profit decreased from RMB2,296,662,000 for the year ended 31 December 2021 to RMB1,877,563,000 for the year ended 31 December 2022, representing a decrease of approximately 18.2%. The decrease in gross profit was mainly attributable to the decrease in gross profit margin of the current year. The Group's gross profit margin for the current year was approximately 49.0%, representing a decrease of approximately 10.2 percentage points as compared with 59.2% for the same period last year. It was mainly attributable to the increase in production cost as a result of inflation and prices increase of major commodities, expenses related to unutilized production capacity being accounted for in the cost of goods sold, and the changes in products' mix of the Group.

Other income and other gains – net

For the year ended 31 December 2022, other income and other gains (net) of the Group was RMB212,812,000, representing a decrease of RMB35,707,000 as compared with RMB248,519,000 for the corresponding period last year. The decrease in other income and other gains was mainly due to the government grants reached approximately RMB126,085,000 in the current year, representing a decrease of RMB20,457,000 as compared with RMB146,542,000 of the corresponding period last year. Also, a loss of RMB24,083,000 for the changes in fair value of previously held interests in a jointly controlled entity upon acquisition as a subsidiary was recorded in the current year.

Selling and marketing expenses

The selling and marketing expenses of the Group comprised mainly travelling expenses, business and markets promotion expenses, agency service expenses, salaries and office expenses, etc. For the year ended 31 December 2022, the selling and marketing expenses of the Group was RMB344,405,000, representing an increase of 17.8% as compared with RMB292,244,000 for the corresponding period last year. Selling and marketing expenses for the current year accounted for approximately 9.0% of the total revenue, representing an increase of 1.5 percentage points as compared with approximately 7.5% for last year. The increase in such ratio and the increase in the selling and marketing expenses were mainly attributable to the Group's increase in business and markets promotion expenses in response to the fierce market competition and the newly acquired food ingredient business.

Administrative expenses

For the year ended 31 December 2022, the Group's administrative expenses amounted to RMB825,959,000, representing a decrease of 1.9% as compared with RMB841,663,000 for the corresponding period last year. The decrease was mainly attributable to the expenses related to unutilized production capacity being accounted for in cost of goods sold, but largely offset by the provision of impairment loss on construction in progress provided in the current year. Administrative expenses for the current year accounted for approximately 21.6% of the total revenue, which was basically the same as approximately 21.7% for the year ended 31 December 2021.

Operating (loss)/profit

For the year ended 31 December 2022, the Group's operating loss was RMB607,975,000, representing a decrease of RMB1,722,452,000 as compared with the operating profit of RMB1,114,477,000 for the year ended 31 December 2021. It was mainly due to goodwill impairment increased by RMB1,214,440,000 year-on-year. Also, other income and other gains (net) decreased by RMB35,707,000 year-on-year, and the decline in gross profit.

If goodwill impairment of RMB1,507,710,000 and RMB293,270,000 for the current year and last year were excluded respectively, the operating profit for the current year would be RMB899,735,000, representing a decrease of 36.1% as compared with the corresponding period last year of RMB1,407,747,000 (goodwill impairment were excluded); the operating profit margin for the current year would be approximately 23.5%, representing a decrease of 12.8 percentage points as compared with approximately 36.3% (goodwill impairment were excluded) for the corresponding period last year, which was mainly due to the decrease in gross profit margin of the current year.

Income tax expenses

For the year ended 31 December 2022, income tax expenses of the Group was RMB180,840,000, representing a decrease of RMB70,753,000 as compared with RMB251,593,000 for the last year. If the goodwill impairment of the current year and last year were both excluded respectively, and the provision for impairment on the investment in an associate were excluded, income tax rate of the current year would be approximately 19.5%, representing an increase of approximately 2.0 percentage points as compared with approximately 17.5% for the last year, which was mainly attributable to the increase in the current year's amount of tax losses for which no deferred income tax assets were recognized.

(Loss)/profit for the year

For the year ended 31 December 2022, the Group's loss for the year was RMB901,050,000, representing a decrease of RMB1,796,834,000 as compared with the profit of RMB895,784,000 of last year. It was mainly due to current year's goodwill impairment increased by RMB1,214,440,000 year-on-year, the provision of impairment loss on the investment in an associate of RMB139,000,000 and the decline in gross profit. During the current year, due to the impacts of prevention and control policies of Pandemic and the closure of many cities in the Mainland, revenue of Junjieshang Network Technology Co., Ltd ("Junjieshang"), which is principally engaged in technology development and promotion in the field of internet technology, advertisement design and production, has not reached the expectation in the current year and therefore impairment indicator has arisen. The Group has engaged independent valuer to make an impairment test on Junjieshang and finally recognised an impairment loss of RMB139,000,000.

If goodwill impairment for the current year and last year were both excluded respectively, and the impairment loss on the investment in an associate were excluded for the current year, the profit for the year would be RMB745,660,000, representing a decrease of 37.3% as compared with the corresponding period last year of RMB1,189,054,000 (goodwill impairment were excluded).

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

For the year ended 31 December 2022, the loss attributable to the equity holders of the Company was RMB1,054,547,000, representing a decrease of RMB1,729,678,000 as compared with the profit attributable to equity holders of the Company of RMB675,131,000 of last year. It was mainly due to current year's goodwill impairment increased by RMB1,214,440,000 year-on-year, the provision of impairment loss on the investment in an associate of RMB139,000,000 and the decline in gross profit.

Net current asset value and financial resources

As at 31 December 2022, the net current asset value of the Group was RMB6,944,129,000 (31 December 2021: RMB6,738,947,000). The Group generates its working capital mainly through its operating activities to maintain a sound financial position. As at 31 December 2022, the Group's cash and bank balances amounted to RMB4,747,978,000 (31 December 2021: RMB3,553,409,000), over 83.5% of which was held in RMB. In addition, the fair value of the Group's investment in bank wealth management products that remain outstanding as at 31 December 2022 amounted to RMB1,594,315,000 (31 December 2021: RMB3,256,499,000) which was classified as financial assets at fair value through profit or loss.

Bank borrowings and gearing ratio

As at 31 December 2022, the Group had bank borrowings of RMB677,700,000 (31 December 2021: RMB962,774,000), of which secured loans amounted to RMB65,000,000 (31 December 2021: nil) and the unsecured loans amounted to RMB612,700,000 (31 December 2012: RMB962,774,000), all of which were denominated in RMB and due within one year. For the current year, the average annual interest rate of the secured loan was 4.2% (year ended 31 December 2021: 5.7%), and the average annual interest rate of the unsecured loans were 2.8% (year ended 31 December 2021: 2.9%). As at 31 December 2022, the Group's gearing ratio (total borrowings, include current and non-current borrowings, divided by total equity (excludes non-controlling interests)) was 5.4%, which was decreased significantly by 1.5 percentage points from 6.9% as of 31 December 2021.

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 2022, the net cash generated from investing activities amounted to RMB1,244,039,000, mainly the proceeds from wealth management products upon expiry. For the year ended 31 December 2021, the net cash generated from investing activities amounted to RMB2,095,235,000.

Financing activities

For the year ended 31 December 2022, the net cash used in financing activities amounted to RMB997,635,000, mainly comprised of repayment of bank loans of RMB1,179,178,000, payment of cash dividends of approximately RMB150,661,000 paid to shareholders of the Company, cash dividends of RMB194,454,000 paid to non-controlling interests and addition of bank loans of RMB750,590,000. For the year ended 31 December 2021, the net cash used in financing activities amounted to RMB672,724,000.

Trade receivables turnover period

Trade receivables turnover period is calculated on the basis of the average amount of trade receivables as at the beginning and at the end of a relevant financial period divided by the total revenue for the corresponding period and multiplied by 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 2022, the Group's average trade receivables turnover period was 89 days, which basically remained the same as 87 days for the corresponding period last year.

Trade payables turnover period

Trade payables turnover period is calculated on the basis of the average amount of trade payables as at the beginning and at the end of a relevant financial period divided by the cost of goods sold for the corresponding period and multiplied by 360 days. Credit periods granted by suppliers to the Group ranged from 0-180 days. For the year ended 31 December 2022, the Group's average trade payables turnover period was 53 days, representing a decrease of 12 days as compared with 65 days of the corresponding period last year. It was mainly due to the spread of Pandemic in the fourth quarter of 2022 in the mainland which affected the purchase and logistic of raw materials, the balance of trade payables as at 31 December 2022 declined.

Inventory and inventory turnover period

As at 31 December 2022, the Group's inventory balance amounted to RMB1,020,023,000, representing an increase of RMB122,797,000 as compared with the balance of RMB897,226,000 as at 31 December 2021. For the year ended 31 December 2022, the Group's inventory turnover period (calculated on the basis of the average amount of inventory balances as at the beginning and at the end of a relevant financial period divided by the total cost of goods sold for the corresponding period and multiplied by 360 days) was 177 days, decreased by 22 days as compared with 199 days of the corresponding period last year. The decrease of such ratio was mainly due to the effective management of inventory and the spread of the Pandemic in the fourth quarter of 2022, which affects the procurement and logistic of raw materials.

Foreign exchange and exchange rate risk

The principal businesses of the Group are located in Mainland China and the majority of the sales 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, etc.. The Group's bank deposits are mainly denominated in RMB, USD and HKD. Management concurs with the views of the People's Bank of China on the RMB exchange rate, that is, the RMB exchange rate has the capability to continuously remain basically stable within reasonable range of equilibrium.

Pledge of assets

During the year ended 31 December 2022, certain buildings and right-of-use assets of Shanghai Yifang Group with total carrying values of RMB17,662,000 were used as collateral for bank loans of RMB65,000,000 (31 December 2021: nil). Apart from the above-mentioned, the Group had no pledged assets as at 31 December 2022.

Capital Commitments

As at 31 December 2022, the Group had capital commitments in respect of the purchase of property, plant and equipment, intangible assets, investments in a jointly controlled entity and financial assets at fair value through profit or loss, contracted for but not provided in the financial statements amounted to approximately RMB215,563,000 (31 December 2021: RMB251,181,000).

Contingent liabilities

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

SIGNIFICANT EVENTS OR TRANSACTIONS

USE OF THE PROCEEDS FROM SHARE PLACEMENT

The Group completed the top-up placing and subscription on 13 December 2021 and 20 December 2021, respectively, and the Company received net proceeds (i.e. after deducting the commission payable to the placing agents, professional fee and other related costs and expenses in relation to the top-up placing and subscription) from the top-up subscription of approximately HK$2.16 billion and the number of issued shares of the Company was increased to 3,229,926,876. The net price for each top-up placing share was HK$17.67. On 31 January 2022, the Company changed its unutilized use of proceeds of approximately HK$886 million. For details, please refer to the section headed "Change in Use of the Unutilised Net Proceeds" on page 41 of this announcement.

As at 31 December 2022, the Group utilised approximately HK$2,110 million of the proceeds representing approximately 98% of the net proceeds, and the unutilised proceeds amounted to approximately HK$50 million. As at 31 December 2022, all of the unutilised proceeds were deposited in licensed banks in Hong Kong. Taking into consideration the Group's operations and the market conditions then, the Group expects that the unutilised net proceeds will be fully utilised by 31 December 2023, details of which are set out in the table below.

Use of proceeds (in HK$ million)

Intended use of proceeds	**As at 31 December 2021**	**Change of use of unutilised net proceeds**	**Actual use of proceeds**	**As at 31 December 2022**	**Expected timeline of use**
Repayment of bank loans ("Bank Loans Repayment")	257	358	615	–	N/A
Acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise ("Acquisition and/or Investments")	300	(158)	92	50	Before December 2023
General working capital requirements and expansion of existing businesses ("General Working Capital")	329	(200)	129	–	N/A
Total	886	–	836	50	

CHANGE IN USE OF THE UNUTILISED NET PROCEEDS

Reference is made to the Company's announcement dated 31 January 2022 in relation change in use of the unutilized net proceeds of approximately HK$886 million. Having considered, among others, Federal Reserve of the US would likely finish its bond buying in March 2022 and expect three rate hikes in 2022 and the recent development of the Group, the Board considers to adopt a more prudent approach regarding the cash resources management to maintain the financial stability of the Group by early repayment of part of its bank borrowings.

As such, the Board resolved to reallocate the remaining unutilised net proceeds from Acquisition and/or Investments and General Working Capital to Bank Loans Repayment in manner as set out in the table above. The Board is also of the view that the reallocation would allow the Group to utilise its financial resources in a more flexible, beneficial and effective way and to meet its operational needs and provide more buffer to cope with the economic uncertainties in the future. For details, please refer to the Company's announcement dated 31 January 2022.

In HK$ million

Intended use of proceeds	**Intended use of unutilised proceeds**	**Reallocation of unutilised proceeds for intended use**	**Revised use of unutilised proceeds**
Bank Loans Repayment	257	358	615
Acquisition and/or Investments	300	(158)	142
General Working Capital	329	(200)	129
Total	886	–	886

Investigation Against Directors

During late January 2022, the Company has been informed by the Huabao Flavours, that Ms. Chu (defined below) and Mr. Lam (defined below) were under investigation for suspected disciplinary violations and were placed under residential surveillance at designated locations (指定居所監視居住). Ms. CHU Lam Yiu ("Ms. Chu") is the mother of Mr. LAM Ka Yu and Ms. LAM Ka Yan, the controlling shareholder of the Company, the Chairlady of the Board, the CEO and an executive Director of the Company, and Mr. LAM Ka Yu ("Mr. Lam") is the son of Ms. Chu, the brother of Ms. LAM Ka Yan, an executive Director and Co-Chairman of the Company and a director of Huabao Flavours.

On 21 July 2022, the Group was informed by Mr. Lam that he had been notified by Changsha County Police Bureau (長沙縣公安局) that they had lifted his residential surveillance and that he was on bail pending further investigation.

On 26 July 2022, the Group learned from Ms. Chu's family that Changsha County Police Bureau (長沙縣公安局) had lifted Ms. Chu's residential surveillance and that she was on bail pending further investigation. Concurrently, the Company had received a Case Filing Notice from Xinfeng County Supervisory Committee (信豐縣監察委員會立案通知書) that Xinfeng County Supervisory Committee had decided to file an investigation against Ms. Chu (進行立案調查) and the Company also had been informed by Ms. Chu's family that Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住) by Anyuan County Police Bureau (安遠縣公安局).

On 20 January 2023, the Group was advised by Ms. Chu's family member that Anyuan County Police Bureau (安遠縣公安局) had lifted Ms. Chu's residential surveillance and that she was on bail pending further investigation. Concurrently, Ms. Chu is placed under residential surveillance at a designated location (指定居所監視居住) by Chongqing Yongchuan District Police Bureau (重慶市永川區公安局).

For details, please refer to the Company's announcements dated 24 January 2022, 26 January 2022, 27 January 2022, 21 July 2022, 26 July 2022 and 20 January 2023 respectively.

Up to the date of this announcement, the Company has not been provided with any details of the nature of the suspected violations of Ms. Chu and/or Mr. Lam that were being investigated. The business operation of the Group remains normal.

Acquisition of Part of the Equity Interests in Shanghai Yifang by Huabao Flavours

Reference is made to the Company's announcement dated 8 March 2022 in relation to acquisition of part of the equity interests in Shanghai Yifang Rural Technology Holdings Co., Ltd. ("Shanghai Yifang") by Huabao Flavours.

On 9 August 2021, Huabao Flavours acquired 40% equity interests in Shanghai Yifang from independent third parties for a total consideration of RMB180 million in cash (the "Previous Transaction"). Shanghai Yifang was established in the PRC on 7 January 1999 and is primarily engaged in the promotion and consulting services of agricultural technology, cultivation of fruits and vegetables; research and development of food additives; food production, etc.

Huabao Flavours on 8 March 2022 further acquired 27% equity interests in Shanghai Yifang from independent third parties for a total consideration of RMB121.5 million in cash (the "Acquisition"). After the completion of the Acquisition, Huabao Flavours' shareholding in Shanghai Yifang would, in aggregate, reach 67% and Shanghai Yifang would become a controlling subsidiary of Huabao Flavours and the accounts of Shanghai Yifang would be included in the scope of Huabao Flavours' consolidated statements and as such Shanghai Yifang would indirectly be included in the scope of the Company's consolidated financial statements.

The Acquisition also included a performance undertaking provided by the vendors in favour of Huabao Flavours, the capital increase and the put option. Please refer to the Company's announcement dated 8 March 2022 for further details.

As one or more than one of the applicable percentage ratios for the transaction, when aggregated with the Previous Transaction, the capital increase and the put option as a whole, is more than 5% and below 25%, the transaction, when aggregated with the Previous Transaction, the capital increase and the put option as a whole, constitute a discloseable transaction of the Company, and is therefore subject to the notification and announcement requirements but exempt from the shareholders' approval requirement pursuant to Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

Save and except as disclosed below, the Company had complied with the code provisions and, where appropriate, adopted the recommended best practices in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2022 (the "Financial Year").

The Company has not fully complied with the code provisions C.1.4, C.2 and F.2.2 as the performance of the chairman's duties by the Chairlady of the Board, Ms. Chu, has been affected to a certain extent since late January 2022 as Ms. Chu was placed under residential surveillance at a designated location (指定居所監視居住). For details, please refer to the section headed "Investigation Against Directors" of this announcement. The responsibilities of code provisions C.2 during the Financial Year were shared and undertaken by the Vice Chairman & President, the Vice President & Company Secretary, and other directors. In addition, due to the reason discussed above, Ms. Chu did not participate in continuous professional development during the Financial Year in accordance with code provision C.1.4 and Ms. Chu and Mr. Lam did not attend the annual general meeting of the Company held on 20 May 2022 in accordance with code provision F.2.2. Notwithstanding the above, the Company has adopted the alternative actions and steps during the Financial Year to redress the deficiencies in the relevant code provisions. For details, please refer to interim report dated 26 August 2022.

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 10 to the Listing Rules as the code of conduct regarding dealing in the securities of the Company by the directors of the Company. Based on the information that was available and having received Directors' written confirmations, the Company considered that Directors have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2022.

Proposed special dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: HK2.0 cents). However, to reward Shareholders for their support for the Company, the Board proposes to declare a special dividend of HK5.1 cents per Share (2021: nil) in cash, amounting to approximately RMB147.1 million in aggregate (2021: final dividend of approximately RMB52.8 million) for the Financial Year, which is expected to be paid on or about 26 June 2023 to Shareholders whose names appear on the register of members of the Company on 13 June 2023. The payment of the special dividend is subject to Shareholders' approval at the AGM which is scheduled to be held on 15 May 2023.

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 2023, the register of members of the Company will be closed from 10 May 2023 to 15 May 2023, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 9 May 2023. Shareholders whose names are recorded in the register of members of the Company on 15 May 2023 are entitled to attend and vote at the 2023 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 12 June 2023 to 13 June 2023, both days inclusive, during which no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 9 June 2023. Shareholders whose names are recorded in the register of members of the Company on 13 June 2023 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 ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprises all of the INEDs of the Company, namely, Mr. LEE Luk Shiu, Mr. Jonathan Jun YAN and Mr. HOU Haitao.

REVIEW OF FINAL RESULTS

The Audit Committee of the Company has reviewed the Group's audited final results for the year ended 31 December 2022. 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 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of HKEXnews (www.hkexnews.hk) as well as the website of the Company (www.huabao.com.hk). The Company's 2022 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
LAM Ka Yu
Co-Chairman

Hong Kong, 30 March 2023

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.